

# IRAN LOOKING EAST

## AN ALTERNATIVE TO THE EU?

edited by **Annalisa Perteghella**

introduction by **Paolo Magri**



ISPI



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# Introduction

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While reports of the death of the West are (for the time being) greatly exaggerated, it is certainly true that the world is witnessing a global power shift. As the current economic, financial, and demographic trends are shaping the “Asian century”, Western powers strike a pose of denial, indulging in navel-gazing and re-trenching in nationalist policies that are ultimately aggravating the erosion of the Western block’s global primacy.

In the meantime, the shift in global economic power towards Asia away from North America and Western Europe is likely to continue. Financial flows and investment opportunities are following the same course, and this has strategic implications: China is a crystal-clear example of a country using financial resources to bolster its strategic position, extend its global influence and tighten its grip on neighbouring regions. Likewise, the US’s reluctant exercise of hegemony is bringing about a transformation in the geopolitical power balance. Nowhere else this is more visible than in the Middle East, as gradual US disengagement paved the way for Russia’s prominent return to the “warm waters”.

And yet, this is hardly news: these dynamics have been in place since the early 2000s, thus raising the question of the relative decline of the West for global governance and, on this side of the Atlantic, for the EU’s role in the world. What has changed today, however, is that the US and the EU no longer appear so close together in facing these global challenges. The 2016 US election marked a turning point, both in accelerating

these global power shifts, and in weakening the transatlantic bond.

Iran offers a good case in point to grasp beneath the surface of these dynamics. It took ten years of painful negotiations to bring together the diverging interests of Iran, the US, China, Russia, and the EU. So it comes as no surprise that Trump administration's withdrawal from the JCPOA in May 2018 opened a serious rift in transatlantic relations. Since then, both the EU as a whole – in the person of HR/VP Federica Mogherini – and individual Member States have been voicing a vocal opposition to Trump's decision to trash the nuclear deal and to impose adamant measures against Iran. The re-imposition of US secondary sanctions, in particular, has seriously damaged the EU's economic interests. At the same time, the *de facto* Western economic embargo on Iran has prompted Tehran to look for alternatives and strengthen its already burgeoning relations with countries like China, Russia, and India.

In some ways, Iran's current approach is reminiscent of Iran's "Look East" policy under Mahmoud Ahmadinejad (2005-2013), when crippling Western sanctions led Iran to seek a partner in the East. This time, however, Tehran's approach seems to be different: in turning to China, Russia, and India, Iran does not only aim to escape isolation by looking for "all-weather partners". Rather, it seems prone to foster the creation of a multilateral framework for collective security alternative to the US-led one. This is the case of the Regional Security Dialogue framework, inaugurated in Tehran in September 2018, and of Iran's bid for full membership in the Shanghai Cooperation Organization (SCO). What brings all these actors together is a revisionist approach to international relations, which is putting the Western-led international order to the test.

Indeed, Iran's "Look East" policy is a perfect litmus test for both the global power shifts and the resilience of transatlantic relations. Against this backdrop, this Report analyses Iranian relations with China, Russia, and India, with a view to highlighting what brings these countries together but also what

potentially can split them up: are these marriages of convenience or, rather, strategic partnerships set to stay? To what extent can they give rise to an alternative and compact power bloc? Which role is left for the EU in these new East-East power dynamics?

Iran's Look East strategy is outlined in the first chapter. As Anoushiravan Ehteshami and Gawdat Bahgat put it, Tehran is trying hard to carve out a new place for itself in the post-JCPOA scenario. While the Iranian aspiration to climb the ladder of economic and military success in Asia is anything but new, in recent years this course has had a sudden acceleration. This latest enhancement of the Iranian "Asianisation" has been driven by the huge increase in energy demand from wealthy Asian economies and by the ambitious transnational infrastructural projects promoted in the region, but most of all by the West's pushback against Iran endorsed by the Trump administration. Indeed, the decision to engage with the East is more a necessity than a deliberate choice: Tehran would be eager to engage with the West, especially European states, which are still perceived as the best for growth and technological development. The Iranian population, likewise, draws its cultural habits from Western countries, despite the aggressive US posture and the European indecisiveness that are slowly eroding the West's soft power.

China plays a key role within the Iranian Look East strategy. As described by Jacopo Scita, over the last two decades Beijing has played an important role in toning down the international isolation imposed on Iran. It has grown as the country's most important trade partner after the imposition of nuclear-related international sanctions in the early 2000s. The author notes that the Belt and Road Initiative (BRI) might be a turning point in the traditionally asymmetric Sino-Iranian relations. The BRI may lead to a more balanced relationship between China and Iran, as the latter is strategically located at the crossroads of China's interests in Central Asia, the Middle East and Europe.

The third chapter shifts the spotlight to Tehran's relations with Russia. Today, Moscow is trying to restore the influence it

used to have in the Middle East before the 1990s and its political status as “great power”; to this end, it is trying to establish a dialogue with all the players in the chessboard. Iran thus becomes a crucial partner in Russian foreign policy. Indeed, the two countries worked together closely in Syria, and are looking to expand this intensive military cooperation. In spite of these forms of mutual support, the Iran-Russia relationship remains a “pendulum swinging depending on contingent challenges”. Max Suchkov and Polina Vasilenko claim that the mutual suspicion and distrust which originated in the 1990s between the two countries still affects their relationship today. While Moscow fears the risk of regional destabilisation brought about by some of Iran’s current regional policies, the latter still harbours a suspicion that Russia sooner or later will manipulatively use Tehran as a bargaining chip to reconcile its relationship with Washington.

In Chapter 4, Rakesh Sood explores the relationship between Iran and India. The latter is increasingly important in the Iranian Look East strategy: as the author claims, recent regional and global developments have strengthened the ties between Tehran and New Delhi. With the 2003 New Delhi Declaration, Iran and India boosted their bilateral cooperation in the trade and knowledge sectors, and committed to long-term infrastructural projects and energy cooperation efforts that remain in force today. Iran plays a strategic role for New Delhi’s connectivity projects in the region, as demonstrated by Indian investments in the development of the Iranian port of Chabahar and the crucial role that Tehran plays in the International North-South Transit Corridor (INSTC) initiative. However, the bulk of Tehran-New Delhi cooperation lies in the energy sector: over the years, Tehran has risen to become one of the most important suppliers for India’s energy-hungry economy. In light of the strain imposed by US sanctions on energy ties, the two countries are currently exploring alternatives to the US-led, dollar-dominated international system, engaging in barter-like exchanges based on local currencies.

The last chapter by Annalisa Perteghella examines the role of the European Union *vis-à-vis* Iran in such a complex, rapidly-evolving international context. While the European Union did play a crucial role in the P5+1 negotiations that led to the JCPOA in 2015, its success arguably stemmed from its ability to bring the US on board. Without the Washington's will to pursue engagement with Iran, Brussels would simply have lacked the leverage to commit Tehran to a deal. This dynamic has been laid bare with Trump's decision to withdraw from the JCPOA, which evidenced the limits of European foreign policy. And yet, as Annalisa Perteghella maintains, continuing to engage with Iran would help the EU achieve its goals in the non-proliferation, security, economy and energy realms. Brussels' inability to resist the US pressure to cease economic and trade activities with Tehran is what recently re-awakened the longstanding debate on Europe's role in the world. As the author contends, it is the lack of a unified approach to foreign policy that undermines the EU's ability to have the same weight on the global stage as major players like the US, China and Russia.

The world balance is shifting towards East, giving rise to new experiments in terms of regional integration, and consolidation of economic and security ties. The creation of an "Eastern bloc" is fostered by these countries' common stance against the US-led, Western-dominated global order. And yet, several fissures exist within this bloc too, raising questions over the long-term sustainability of such partnerships. Ironically, however, one of the main enablers of the "Asian century" will be the West. As the Iranian case powerfully demonstrates, it is the weakening of the transatlantic bond and the EU's inability to play a leading role in safeguarding engagement with Tehran that ultimately made Tehran look east for alternatives.

*Paolo Magri*  
*ISPI Executive Vice President and Director*

# 1. Iran's Asianisation Strategy

Anoushiravan Ehteshami, Gawdat Bahgat

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This chapter argues that geopolitics, energy, role conception and latterly ideology have been the pull factors in Iran's eastward orientation, with the push factors being Western pressure since 1979 and imposition of intrusive sanctions on the country in several waves in the 1980s, 1990s, and in the 2010s. Ironically, it was arguably the orientation of Iran as a regional power by the United States in the 1970s which kindled in the Shah Mohammad Reza Pahlavi the ambition of becoming an Asian economic and military power. The Shah's departure in 1979 did not extinguish this ambition and, since the 1980s, Iran has become much more committed in developing energy, military and investment and trade partnerships with Asian countries. These, however, have often been a reaction to isolation from the West, as well as a consequence of a growing perception at the élite level of the role Iran can play in Asia. The emergence of increasingly prosperous and energy-hungry Asian economies has propelled the relationship since the early 1990s.

## Geopolitical Dilemmas

In May 2017, American and Sunni Muslim leaders from over 40 countries gathered in Saudi Arabia for a series of bilateral and multilateral summits which not only excluded the Islamic Republic, but actually targeted the country in terms unheard since the early days of Iran's revolution. King Salman of Saudi

Arabia said that “the Iranian regime represents the tip of the spear of global terrorism”<sup>1</sup>, and American leaders spoke of a new American-Saudi partnership, cemented by a new \$110 billion arms deal to counter “Iran’s malign influence”<sup>2</sup>. Given these developments, compounding the already tense relations between Iran and Saudi Arabia, the nuclear agreement (JCPOA)<sup>3</sup> arguably had failed to produce a “peace dividend”. With the echoes of the ongoing regional cold war between Iran and Arab states being heard in Riyadh in May 2017, images of Arab states coalescing around an emboldened, more active and assertive Saudi Arabia were juxtaposed by the American president’s words chastising Iran for its regional policies. For Trump, “until the Iranian regime is willing to be a partner for peace, all nations of conscience must work together to isolate it [...] Iran is responsible for so much instability in the region; it funds arms, trains militias that spread destruction and chaos”<sup>4</sup>.

From the Trump administration’s vantage point, the nuclear deal lifted international pressures on Iran, emboldened it and extended its regional reach. This line of reasoning chimed with the assessment of the United States’ closest regional allies who had coalesced around Saudi Arabia, and also Israel. The tense regional conditions have badly dented Tehran’s message of détente, and the more Iranian military forces have advanced Iran’s regional policies (in Syria, Iraq, Lebanon, Yemen, and in a dialogue with Hamas) the harder it has been for President Rouhani to capitalise on the 2015 nuclear deal to turn a new and more positive leaf in Iran’s relations with its Arab neighbours. Following Saudi Arabia’s severing of its diplomatic ties

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<sup>1</sup> “Saudi king agrees in call with Trump to support Syria, Yemen safe zones: White House”, “Saudi king says Iran at forefront of global terrorism”, *Reuters*, 21 May 2017.

<sup>2</sup> In the words of Secretary Rex Tillerson, the arms will be necessary “in particular in the face of malign Iranian influence and Iranian-related threats which exist on Saudi Arabia’s borders on all sides”. “US and Saudi Arabia sign arms deals worth almost \$110bn”, *Al Jazeera*, 20 May 2017.

<sup>3</sup> The Joint Comprehensive Plan of Action (JCPOA) was signed on 14 July 2015.

<sup>4</sup> “Transcript of Trump’s speech in Saudi Arabia”, *CNN*, 21 May 2017.

with Tehran in response to the sacking of its diplomatic mission in Iran, relations between Iran and its Arab Sunni hinterland have reached a new low. This has resulted in open hostility toward the Islamic Republic and fresh efforts to roll back what Saudis and others have referred to as its occupation of Arab lands – a term thus far used only in reference to Israel.

Iran, however, continues to position itself as a revolutionary state with a unique set of internationalist values, chief amongst which are its championing of the “downtrodden”, a robust opposition to “world-devouring powers”, a demonstrated hatred of the “Zionist entity”, and freeing the Muslim world from foreign interference while bringing back its dignity and control over its affairs. Articulating its worldview in these terms has certainly set Iran apart from the rest of the Muslim, if not the wider, world. These values have become embedded in a broad counter-hegemonic narrative that identifies the United States as the primary source of evil-doing in the Muslim world and places Iran at the forefront of the struggle for liberation of Muslim peoples from the economic and cultural clutches of this “evil empire”. As Tehran strives to fulfil its destiny as the vanguard of all Muslims, it is instructive to conceive of Iran’s role perception in terms of the interplay of ideology and geopolitics/national interests in the conduct of its international relations. This has come to shape the country’s course of action at critical junctures but, as we will argue, is now shaping inter-élite dialogue about Iran’s international orientation and its future economic priorities.

In this dialogue, issues relating to Tehran’s eastward shift have come to take centre stage<sup>5</sup>, coinciding as it does with wider international discussions about the changing global balance of power and Asia’s emergence as the hub of the global economy<sup>6</sup>. For many in Iran, the prevailing order now is a

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<sup>5</sup> Contrasting views of “the look to the east” policy can be gleaned from the series of interviews conducted by [Persian Digest](#) on this topic with prominent experts, Iranian diplomats and policy analysts.

<sup>6</sup> A. Narlikar, *New Powers: How to Become One and How to Manage Them*, London,

“post-Western world”, in which neither West nor East is any longer supreme, but in which China occupies centre stage and from which Iran can profit<sup>7</sup>. Despite mounting pressures from the American side, therefore, Iran is arguably aiming to occupy a critical place in the reshaping of the Eurasian order and in the interaction with forces now forging the “post-Western world”<sup>8</sup>. The post-Western world is a concept related to the steady internationalisation (Asianisation) of economic activity<sup>9</sup> and the rapid shift in the world’s economic centre of gravity eastwards<sup>10</sup>. While it is true that the BRICS countries, and in particular Brazil, China, India and Russia, have profound structural problems and governance issues to overcome before being able to stake a claim to global supremacy<sup>11</sup>, it is also true that the profound changes in the global economy’s centre of gravity have brought with them, for observers of international relations, a recognition of the relative decline in role, voice and influence of today’s dominant Western powers in favour of the emerging powers (and regions)<sup>12</sup>.

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Hurst, 2010.

<sup>7</sup> This is a view strongly held by elite members of all the factions as articulated by Foreign Minister Javad Zarif. “Zarif: This Is a Post-western World”, *Persia Digest*, 15 December 2018.

<sup>8</sup> Oliver Stuenkel regards this process as the building of a parallel order by China and a host of emerging powers and leading to a system of global competitive multilateralism. See O. Stuenkel, *Post-Western World*, Cambridge, Polity Press, 2016.

<sup>9</sup> P. Dicken, *Global Shift: Reshaping the Global Economic Map in the 21st Century*, London, Sage, 2006.

<sup>10</sup> J. Hawksworth and A. Tiwari, *The World in 2050 – The Accelerating Shift of Global Economic Power: Challenges and Opportunities*, London, PricewaterhouseCoopers, 2011.

<sup>11</sup> A.R. Young, J. Duckett, and P. Graham (eds.), “Perspectives on the Changing Global Distribution of Power”, *Politics*, vol. 30, special issue, supplement 1, December 2010.

<sup>12</sup> R.A. Falk, *The Declining World Order: America’s Imperial Geopolitics*, New York, NY, Routledge, 2004; C.A. Kupchan, *No One’s World: The West, the Rising Rest, and the Coming Global Turn*, Oxford, Oxford University Press, 2012; A. Narlikar, *New Powers: How to Become One and How to Manage Them*, London, Hurst, 2010.

## Asia's Rise and the Persian Gulf

East Asia's importance as the world's most dynamic economic zone is no longer in dispute, and the strategic significance of this part of the world has been evidenced not only by the United States' "Asian pivot" under President Obama, but also by Russia's new Asia-leaning economic community, and by the fact that even India – itself a driver of Asian economic power – has articulated a "Look East" strategy. Japan's emergence as a major economy in the 1960s, followed by the globalisation of manufacturing and combined with the export-oriented industrialisation strategies of such Asian countries as the Republic of Korea, Singapore, and Taiwan (in the first instance), arguably accelerated the economic growth trajectory of Asian economies as a whole<sup>13</sup>. But Asia has been undergoing the most rapid period of socioeconomic change since the end of the Cold War, and China's re-emergence as a global economic powerhouse since the end of the 1990s has been transformational for Asia, turning it into the world's industrial heartland and providing the catalyst for the reorientation of the international system "eastwards". China has heralded its own return to centre stage with the launch in 2013 of its ambitious "One Belt One Road" (OBOR) or "Belt and Road Initiative" (BRI)<sup>14</sup> not only to consolidate its place as Asia's "indispensable power"<sup>15</sup> but, to the concern of India, Japan, South Korea and others, also to stamp its authority on Asia's complex regional systems.

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<sup>13</sup> A. Chowdhury and I. Islam, *The Newly Industrializing Economies of East Asia*, New York, NY, Routledge, 1993; World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Oxford, Oxford University Press, 1993.

<sup>14</sup> N. Rolland, "China's Belt and Road Initiative: Underwhelming or Game-Changer?", *The Washington Quarterly*, vol. 40, no. 1, Spring 2017, pp. 127-142.

<sup>15</sup> The phrase was famously coined in the mid-1990s amidst active US global engagements. In the words of President Clinton: "The fact is America remains the indispensable nation. There are times when America, and only America, can make a difference between war and peace, between freedom and repression, between hope and fear... [w]here our interests and values demand it and where we can make a difference, America must act and lead". President W. J. Clinton to the People of Detroit, Detroit, 22 October 1996.

For the hydrocarbon exporters of the Persian Gulf, the dramatic rise in oil and gas imports of some of East Asia's economies since the 1990s has resulted in a steady shift eastward of their political economies<sup>16</sup>. With half of Middle Eastern oil output now heading to just four Asian countries (China, India, Japan and Republic of Korea), convergence is inevitable, particularly as 41% of China's oil imports, 63% of India's and 75% of Japan's originate in the Gulf<sup>17</sup>.

## Oil Consumption and import

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(MILLION BARRELS PER DAY)



SOURCE: BP AND OPEC

BP, *BP Statistical Review of World Energy*, London, June 2017.

OPEC, *Annual Statistical Bulletin*, 2016.

<sup>16</sup> C. Feng, *Embracing Interdependence: The Dynamics of China and the Middle East*, Doha, Brookings Doha Center, April 2015.

<sup>17</sup> The six Gulf Cooperation Council countries now send nearly 70% of their exports to Asia and import 40% of their needs from Asia. See A. Ehteshami, "Regionalization, Pan-Asian Relations, and the Middle East", *East Asia: An International Quarterly*, vol. 32, no. 3, September 2015, pp. 223-237.

While oil consumption in the mature markets of Asia and Europe has stabilised or declined since 2005, and the United States has found domestic sources to meet demand, those of China and India (Asia's biggest growth markets) have steadily grown. OPEC data shows that in 2017 15.8 mb/d of its members' output headed east, with just 4.6 mb/d going to the EU and 3.2 mb/d heading to North America<sup>18</sup>. Thus, Asia-Pacific provides the biggest oil market for Iran, Iraq, Kuwait, the UAE, and Saudi Arabia, and a massive natural gas market for Iran and Qatar. Today, almost all of Oman's oil exports go to Asia. Other data suggests that China's market is now one of the most important in the world for the Gulf states, worth over \$70 billion in annual sales. Conversely, China is now the biggest trading partner of 10 MENA countries<sup>19</sup>.

## Chinese and Indian Oil Imports form the Persian Gulf in 2015

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(MILLION BARRELS PER DAY)

CHINESE IMPORT			INDIAN IMPORT		
	AMOUNT (Billion dollars)	% OF TOTAL		AMOUNT (Billion dollars)	% OF TOTAL
SAUDI ARABIA	21.3	10	SAUDI ARABIA	14	16
OMAN	14	7	QATAR	6.7	7.3
IRAQ	12.3	6.2	IRAQ	9.9	11
IRAN	11	5.4	IRAN	6.8	7.6
UAE	8.6	4.2	UAE	8.1	9
KUWAIT	6.1	3	KUWAIT	3.1	3.5

SOURCE UNCOMTRADE

Trading Economics, [China Imports Mineral Fuels Oils Distillation Products](#).  
 Trading Economics, [India Imports of Mineral fuels, oils, distillation products](#).

<sup>18</sup> Data from OPEC's 2017 Annual Statistical Bulletin.

<sup>19</sup> Y. Fatah al-Rahman, "Chinese FM: China is Biggest Partner to 10 Middle Eastern Countries", *Asbary al-Ansat*, 16 March 2017.

While an eastward shift is evident in the economic profiles of several Persian Gulf countries<sup>20</sup>, this is arguably most profound in the Islamic Republic of Iran. Here it goes beyond a purely transactional nature in the energy trade<sup>21</sup>. Iran's interest in Asia has deep roots and its own national narrative directly links the country's heritage to its ancient interactions with China's Silk Road, the civilisations of South and Central Asia, and its history as the meeting place of Asia's civilisations and their European counterparts<sup>22</sup>. In the 1960s and 1970s Iran had already positioned itself as an Asian actor, if not a rising power. It did so by first creating a South Asian sphere of influence through direct financial and economic support for the political regimes of Afghanistan and Pakistan. Secondly, it was the first of the so-called pro-Western MENA states to establish diplomatic relations with China (1971), which enabled it to enter into a dialogue with Beijing about regional and global issues very early on. Thirdly, Iran took steps to build a "blue water" navy able to protect its growing interests in the Asian sea-lanes, while projecting its ambitions (and perceived influence) to the rest of Asia.

As the region's largest economy and thanks to its wealth of capital, the monarchy accelerated the pace of development in the 1970s, leading international agencies to identify Iran as a potential NIC (Newly-Industrializing Country) alongside the likes of the Republic of Korea, Singapore, Taiwan. The country

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<sup>20</sup> T. Niblock and M. Malik (eds.), *Asia-Gulf Economic Relations in the 21st Century: The Local to Global Transformation*, Berlin, Gerlach Press, 2013.

<sup>21</sup> But energy remains important, as noted in a well-sourced commentary: "Iranian oil exports to Asia have more than doubled since the lifting of sanctions. In December 2016, imports of crude oil by Iran's top for Asian buyers – China, India, South Korea and Japan – reached 1.89 million barrels per day. India made over three times more purchases than a year earlier, while purchases by South Korea were up sevenfold. Iran is also home to 18.2% of the world's proven gas reserves, and plans to rival Qatar as the world's largest LNG exporter", "[Iran ramps up oil exports to South Korea, much to Trump's chagrin](#)", *The Iran Project*.

<sup>22</sup> J. Calabrese, *Revolutionary Horizons: Regional Policy in Post-Khomeini Iran*, New York, NY, St. Martin's Press, 1994.

was on the path of rapid transformation with a booming and rapidly-industrializing economy. Imperial Iran, a purportedly semi-peripheral<sup>23</sup> or sub-imperialist<sup>24</sup> power, was well-positioned to dominate West Asia and to extend its influence unhindered to the furthest reaches of the Asian continent. Iran's nascent interest in Asia accelerated dramatically following the revolution. "Look East" was reinforced by the reorientation of the country away from the West, helped in part by the imposition of Western economic and political sanctions, and thus enabling it to imagine a new direction for its development.

We argue, in fact, that Iran is unique amongst emerging Asian or Middle Eastern countries in seeing Asia's rise as an opportunity for an alternative future and trajectory. In particular, Tehran sees the re-emergence of China – as a leading global economic and emerging political power as a shortcut to prosperity after decades of stagnation and sanctions – rightly or wrongly. Tehran also sees it as a historic opportunity to delink (not necessarily detach) its political economy from the US-dominated West<sup>25</sup>. Iran is, arguably, in search of fulfilling what the Shah billed as its historic mission to become a major power in its own region as well as a linchpin of Asia's regionalism – to fulfil its destiny as a so-called "civilisational power". This line of thinking has influenced much of Iran's role perception, but it has moved beyond conjecture following the JCPOA. It is no surprise then that consideration of the strategic options facing Iran has been a critical feature of its internal political debate

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<sup>23</sup> I. Wallerstein, *The Capitalist World-Economy*, Cambridge, Cambridge University Press, 1979.

<sup>24</sup> M.H. Morley, "Development and Revolution: Contradictions in the Advanced Third World Countries – Brazil, South Africa, and Iran", *Studies in Comparative International Development*, vol. XVI, no. 1, Spring 1981, pp. 1-44.

<sup>25</sup> The two countries shared civilisational beliefs, notes Garver, "lead to the conclusion that the existing world order, created and still dominated by Western powers, is profoundly unjust and must be replaced by a new, more just order", J.W. Garver, *China and Iran: Ancient Partners in a Post-Imperial World*, Seattle, WA, University of Washington Press, 2006, p. 5. Iran is unique in the MENA region in sharing this vision of a post-imperial order with China.

since Hassan Rouhani's election. Indeed, in the debates leading to the presidential elections of May 2017 the main focus of attention was precisely this issue: How can Iran position itself to become the main beneficiary of Asia's growing global role and take strategic advantage of China's rise as Iran's most credible "political" partner in Asia? The lifting of some Western economic pressures following the JCPOA allowed Iran to think more strategically about the economy and consider new ways of addressing the structural weaknesses which had beset it since the Iran-Iraq war (1980-88). One path was that of the "resistance economy"<sup>26</sup>, which is in essence a replica of the outdated import-substitution industrialisation strategy of the late-XX century, but one adapted to deflect external pressures on the Iranian economy. Resistance economy has emphasised self-sufficiency in the context of strengthening the national economy. Ayatollah Khamenei's *Nou Rouz* message in March 2018 was to double down on the resistance economy and to encourage national production to enable the economy to withstand external pressures and empower the country's (weak) national and (powerful) state bourgeoisies to fulfil the country's economic potential. President Rouhani's administration also deployed the idea of national capacity building in its economic strategy, which projected reliance on massive foreign inward investment (of around \$50 billion) and diversification of Iran's exports mix<sup>27</sup>. Success for the government, therefore, unabashedly relied on the globalisation of Iran's economy and its deeper engagement with foreign capital, which it hoped would flow from Asia (and to a lesser extent from the EU) while the United States imposed restrictions on financial transactions with Iran.

Slow progress in attracting foreign investment – caused by élite infighting, lack of consensus regarding Iran's economic direction, obstacles put forward by state-affiliated vested interests, and US resistance – has not inhibited élite thinking about the

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<sup>26</sup> Ayatollah Khamenei coined this phrase as sanctions began to bite toward the end of Ahmadinejad's presidency.

<sup>27</sup> See A. Ehteshami, *Iran: Stuck in Transition*, New York, NY, Routledge, 2017.

Islamic Republic's place in a fast-changing global order. Indeed, the future of Iran's political economy has deeply informed elite deliberations, regime policy pronouncements, and diplomatic interactions during Rouhani's term in office. First and foremost, it is accepted that Tehran should deflect the United States and defuse the threats emanating from Washington (White House and Congress) by working closely with America's Western allies (the European Union and Japan) and international organisations (such as the International Atomic Energy Agency) to minimise pressure on the country<sup>28</sup>. The second priority, particularly in the aftermath of the Trump administration's withdrawal from the JCPOA in May 2018, has been to network as quickly and as fully as possible with the country's traditional economic partners in Europe<sup>29</sup>, while also accelerating engagement with the Asian powers. Iran is now using such regional organisations and vehicles as the Shanghai Cooperation Organisation (SCO), the Russian-led Eurasian Economic Union (EAEU), and of course China's Belt and Road Initiative (BRI) to deepen its Asianisation in an effort to blunt the United States' renewed attacks on its economy and polity. However, there is no consensus around the utility of total Asianisation, and certainly not at the expense of economic interactions with the West, and there are influential voices in Tehran who caution against total Asian immersion and in equal measure against close security proximity to Russia.

However, in an era of diffused global authority and "systemic shift" Iran has arguably been aiming to capitalise on its commercial links with Asia's major powers and key regions to build a series of dynamic and healthy domestic industries. Some

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<sup>28</sup> In May 2017's presidential elections all the candidates declared their support for JCPOA.

<sup>29</sup> Iran's trade with the EU has blossomed since 2015. Total trade jumped from 7.7 billion euros in 2015 to 13.7 billion euros in 2016. Bilateral trade grew by 265% in the first three months of 2017, according to Eurostat, from 2 billion euros for the corresponding period in 2016 to 5.3 billion euros. Iran's imports from the EU grew by 57% in this period.

in Tehran believe that Asian countries will interact with Iran non-ideologically and offer it commercially-attractive trade and investment terms. But at the same time, they are fully conscious of the variability of quality of products, construction projects and investment arrangements, which leads to Iran's continuing interest in economic relations with the European Union. In Asia, Iran's focus is very much on four countries: China, India, Japan and the Republic of Korea. While China remains Iran's main trading partner, interest in Japanese and Korean businesses has never waned and, American pressure notwithstanding, Iran is keen to bring corporations from both these countries into Iran for turn-key infrastructure projects, as manufacturing partners, and as investors in Iran's undeveloped and under-exploited natural resources sector. Tehran is also aware that Tokyo and Seoul are far too closely tied to the American geosecurity orbit for these countries to be able to stray too far from Washington, so it has articulated its interactions in purely economic terms, often allowing hydrocarbons to set the terms of relations. With the Democratic People's Republic of Korea, however, the relationship is almost entirely military and Iran continues to maintain close R&D links with Pyongyang in missile and rocket development, munitions and aspects of cyber warfare.

In Central Asia, Iran is content to peddle its manufactured and semi-processed wares for good neighbourliness, build relations on the basis of shared energy interests, and counter extremism and terrorism. With India, Asia's other giant, the relationship is rather nascent and had not, until recently, moved much beyond hydrocarbons<sup>30</sup>. Today though, sparked by China's ambitious BRI, India is busy negotiating closer security ties and joint development of Iran's Arabian Sea port of Chabahar as its access route into Central Asia<sup>31</sup>. The emerging

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<sup>30</sup> By way of comparison, in 2015 bilateral trade had stood at \$16 billion, compared with \$52 billion in Sino-Iranian trade.

<sup>31</sup> Worth noting that bilateral meetings of defence personnel and intelligence officials had become routine following 9/11 and flourished following Khatami's

relationship was furthered in the course of President Rouhani's high-level trip to India in February 2018 with a range of co-operation agreements reached in energy, connectivity, defence, counter-terrorism, economic exchange and banking<sup>32</sup>. A dominant Indian view is that "over time, Iran can serve as a stable and reliable partner for Indian goods and services in West Asia, while India can serve as a suitable counterweight to the trade that Iran conducts with the other Asian heavyweights, China and Russia"<sup>33</sup>.

Iran's approach to its Asianisation, therefore, is hierarchical in that Tehran openly places more importance and emphasis on countries with a strong geopolitical footprint on the Eurasian space. In this context, Iran is making efforts to find a new place for itself in an Asia being shaped by a systemic shift. Iran's "de-Americanisation" and continuing European political weakness now feeds Tehran's long-term desire to enhance its Asian status – its "Asianisation"<sup>34</sup>. Arguably, the natural tendency in Tehran's eastward orientation has been accelerating in recent years, thanks to three factors: China's ambitious BRI, the West's pushback against Iran, and Iran's growing interest in the neighbouring South Asia region, especially India.

In this, China occupies a special place: uniquely, China's trade and foreign policy with Iran falls into a distinct category. Policymakers in Beijing tend to align their activities within various ministries according to geographic boundaries, with separate departments dealing with distinct areas. But Iran, in the eyes of Chinese policymakers, is not considered West Asian, Arabian, or Middle Eastern; rather, it is included in East Asia.

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high-level visit to India in January 2003 leading to the signing of a "strategic partnership" between the two countries.

<sup>32</sup> E. Roche, "PM Modi meets Hassan Rouhani, India, Iran sign pacts after 'substantive' talks", *LiveMint*, 17 February 2018.

<sup>33</sup> B. Gopalaswamy, "Can Iran and India Turn the Page?", *The National Interest*, 14 January 2017.

<sup>34</sup> The term Asianisation is used to refer to a process in which MENA countries articulate strategic relationships with Asian powers based largely on booming economic ties.

Iran, along with Pakistan, is considered so important to China's sphere of influence that they are part of the "home affairs" region, including Japan, Hong Kong and Indonesia<sup>35</sup>. China is also interested in Iran's Asia focus and sees the BRI as the vehicle of choice for building on this<sup>36</sup>. Thus, what might have started as eastern drift is now arguably an easternisation drive, and the process is being reinforced by Asia's economic powerhouses. East Asia is now visible in most sectors of the Iranian economy and this presence is being underwritten by substantial lines of credit which are pushing Iran's financial system eastwards. Japan has led the way with a \$10 billion credit accord in 2016, which was followed by Citic Group of China by extending \$10 billion in loans to Iran, and a \$15 billion loan agreement with China Development Bank. These credit lines were matched by the Republic of Korea's Export-Import Bank, which agreed to provide \$9.6 billion in loans to Iran<sup>37</sup>. Japan embraced the JCPOA with great enthusiasm and committed to re-enter the Iranian market as a serious player and even volunteered to partner India in the strategic Chabahar port development project, which Tehran enthusiastically welcomed<sup>38</sup>. The Republic of Korea was not too far behind and following the JCPOA, Hyundai, Daelim, Daewoo and SK E&C signed

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<sup>35</sup> T. Kenderdine, "China Eyes Iran as Important Belt and Road Hub", *EurasiaNet*, 9 September 2017. Kenderdine notes that: "China is also providing \$1.5 billion in financing to electrify the Tehran-Mashad trunk line, and another \$1.8 billion to establish a high-speed rail connection linking Tehran, Qom and Isfahan [...] The Iranian upgrades are seen as crucial to achieve two Chinese trade priorities – expand commerce with Turkey and widen access for Chinese goods to Iranian ports near the Strait of Hormuz. Beijing hopes to see trains running between the western Chinese region of Kashgar and Turkey's Istanbul as soon as 2020. Iranian railways figure to serve as key links in routes through both Central Asia and the Caucasus".

<sup>36</sup> D. Conduit and S. Akbarzadeh, "Great Power-Middle Power Dynamics: The Case of China and Iran", *Journal of Contemporary China*, 13 November 2018.

<sup>37</sup> L. Nasser, "Iran's Leaders are Bolstered by Billions in Loans from the East", *Bloomberg*, 20 September 2017.

<sup>38</sup> M. Nukii, "Japan–Iran Relations since the 2015 Iran Nuclear Deal", *Contemporary Review of the Middle East*, vol. 5, no. 3, September 2018, pp. 215–231.

several agreements. Hyundai Heavy Industries agreed to build 10 ships for Iran's state-owned shipping company. Daewoo and DSME announced a joint venture for shipyard construction, Hyundai signed a joint venture production agreement with Kerman Motor, and Kia Motors resumed selling production kits to Saipa<sup>39</sup>.

When one adds the infrastructural investments of China and the Republic of Korea and the promises of greater engagement by India, Japan (and Russia) in the development of Iran's ageing transport, industrial and construction infrastructure, and the fact that much of Iran's defense partnerships are now Asian, then a more complete picture of Iran's rapid Asianisation emerges<sup>40</sup>.

### **From "Neither East, nor West" to "All East"**

Iran's revolutionary élite repackaged much of the country's priorities in the 1980s and in this process, ideology came to play a significant role in the repositioning of the country as an anti-imperial regional power, an active member of the NAM (Non-Aligned Movement), separate from the West and more inclined toward the Global South. The slogan "neither East, nor West" was coined specifically to show Iran's distance from the two superpowers. Clearly the term "East" was at the time copied from the West's reference to the "Eastern bloc" (the Warsaw Pact) and was never meant to articulate a policy of distance

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<sup>39</sup> C.D. Cimino-Isaac and K. Katzman, "Iran's Expanding Economic Relations with Asia", *CRS Insight*, 29 November 2017.

<sup>40</sup> More concrete evidence of this shift is to be garnered from Iran's trade statistics which shows that despite a growing European presence nearly 40% of Iran's total trade is with just four countries of China, South Korea, India and Japan. Adding Russia (2.5), Turkey (8.4), the UAE (16.7) and Afghanistan (1.7) to the total trade balance figures will mean that some 70% of Iran's trade is now with (a handful of) Asian countries, compared with just 13% of its total trade with 28 EU countries. See European Commission Directorate-General for Trade annual statistics.

from Asia. Indeed, just months after the revolution, Iran was busily courting a number of Asian countries in support of its military and for economic development. Tehran tried, unsuccessfully, to keep Japan engaged in Iran<sup>41</sup>, reached out to both Koreas, and very quickly restored ties with China as well<sup>42</sup>. In the first decade of its existence, however, the Islamic Republic pursued relations with Asian countries more out of necessity than choice. While its military ties with some Asian countries (China and the DPRK in particular) began to grow in the 1980s, the country's economy had not yet refocused eastward and the geopolitical imperatives of the Cold War, as much as Iran's economic needs, arguably prevented a wholesale pivot toward Asia.

Clearly, a number of forces after the end of the Cold War at first facilitated and later encouraged Iran's eastward pivot. China's rapid rise following the Cold War gave real substance to Iran's ideological belief in a weakening West (read US) and an empowered Global South<sup>43</sup>. Tehran's glance east, however, was nourished by a series of factors which included China's thirst for hydrocarbons starting in the 1990s, the opening up of Central Asia following the fall of the Soviet Union (which led to the establishment of the Iran-led Economic Cooperation Organization), and an Iranian desire to develop a network of relationships with Eurasian powers (the EU, Russia, China,

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<sup>41</sup> By 1978 Japan was the third most important exporter to Iran and the largest investor in the country (with 20 major projects). By then Japan had emerged as Iran's most valuable and largest oil export market in Asia. See Tetsuo Hamauzu, Japan's Economic Relations with Iran: Trade and Private Direct Investments', A. Ehteshami, K. Mofid, P. Alizade, and T. Hamauzu (eds.), *Iran's Economy After the Two Wars: Reconstruction and Development*, Tokyo, Institute of Developing Economies, 1992, pp. 231-289.

<sup>42</sup> M. Daftari, "Sino-Iranian Relations and 'Encounters:' Past and Present", *The Iranian Journal of International Affairs*, vol. VII, no. 4, Winter 1996, pp. 854-876.

<sup>43</sup> J.W. Garver, "China and Iran: Expanding Cooperation under Conditions of US Domination", in N. Horesh (ed.) *Toward Well-Oiled Relations? China's Presence in the Middle East Following the Arab Spring*, New York, NY, Palgrave Macmillan, 2016, pp. 180-205.

DPRK, and India) as a counterweight to the United States' intrusive presence on its doorstep. Tehran has had material reasons for looking east: its trade with China had been rising fast from the early 2000s<sup>44</sup> and in the early 2010s, when Western-driven international sanctions were at their most painful, 91% of Iran's exports headed to Asia and 68% of its imports originated in Asia (compared with just 29% coming from Europe)<sup>45</sup>.

As already noted, Iran's worldview contains a strong US-focused anti-Western core, but its anti-imperialist/anti-hegemonic narrative has – since the 2003 Iraq war in particular and in the wake of the 2008 financial crisis – acquired a new edge, in which the Islamic Republic perceives itself emerging as a critical (regional) actor in what it sees as a fast-emerging post-West international order. In their analyses, Iranian leaders seem less focused on how the international system (institutions of global governance) may be changing. Driven by their fixation on how transformation of the international order (the global matrix of power, dynamics of relations amongst the major powers, and the rise of regional powers) is taking place, they visualise the arrival of a post-West order with potentially huge benefits for Iran. In this view, China takes centre stage and emerges as one of Iran's two major (“strategic”) partners to neutralise America's global hegemony, despite the fact that China has thus far resisted being a world power substitute for the United States or a guarantor of regional security in the MENA region<sup>46</sup>. From Beijing's perspective, however,

Iran's posturing tends to undermine its substantial potential to benefit from the new opportunities presented by China's enhanced interest and investment in the Middle East. Iran threatens to entangle China in its self-made crises, adversely affecting Beijing's readiness to invest in closer ties with Tehran. This

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<sup>44</sup> S. Vakil, “Iran: Balancing East against West”, *The Washington Quarterly*, vol. 29, no. 4, Autumn 2006, pp. 51-65.

<sup>45</sup> Figures are for 2011, [www.tradingeconomics.com](http://www.tradingeconomics.com)

<sup>46</sup> Danish Institute for International Studies, *China and the Challenges in Greater Middle East – Conference Report* (Copenhagen, DIIS, 2016).

has proven a significant barrier to the upgrade of Iran-China relationship [...] highlighting that enhanced patterns of engagement in Great Power-Middle Power relations are not easily shifted, even in the face of immense economic incentives<sup>47</sup>.

While the economic data does not support a wiping out of the West<sup>48</sup>, or that the new order will be markedly different from the existing one, as some Iranian leaders seem to think, a weakened West is welcomed by them as providing greater breathing space and geopolitical opportunities for the Islamic Republic<sup>49</sup>. For Tehran, “multipolarisation”<sup>50</sup> gives it the chance to project itself more emphatically and also work with its Eurasian friends to defend its wide-ranging interests. In a naïve way, Iran seems to believe that its burgeoning partnership with China in particular, in a changing international order, can only help it become “great again”. An Asian-led new world order in which active regional powers hold the balance of power is not as far-fetched as it might appear, however, given that the analysis of the US National Intelligence Council also points to a world in which non-Western powers will come to hold sway<sup>51</sup>.

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<sup>47</sup> D. Conduit and S. Akbarzadeh (2018).

<sup>48</sup> Credible analysis by PricewaterhouseCoopers, for example, posits that between 2030 and 2050 the United States will be down from second to third place in global GDP (at PPPs) rankings, with India moving into second place and China remaining in first place. The Republic of Korea will have dropped to 18th place, Japan to 8th, while Germany, Great Britain, France, Italy, Spain and Poland will still be in the top 30 in 2050. Asia’s new giants will be Indonesia (4th), Turkey (11th), Saudi Arabia (13th) and Pakistan (16th). PwC, “[The Long View: How will the Global Economic Order Change by 2050?](#)”, London, PricewaterhouseCoopers, 2017.

<sup>49</sup> F. Leverett and H. Mann Leverett, “American Hegemony (and Hubris): The Iranian Nuclear Issue, and the Future of Sino-Iranian Relations”, in A. Ehteshami and Y. Miyagi (eds.), *The Emerging Middle East-East Asia Nexus*, New York, NY, Routledge, 2015, pp. 136-159.

<sup>50</sup> Term was used in the China-Iran joint communique in June 2000 issued during President Khatami’s high-level visit to China.

<sup>51</sup> National Intelligence Council, *Global Trends: Paradox of Progress*, Washington, DC, Office of the Director of National Intelligence Council, 2017.

For the conservative factions in Iran, though, the dislike of the United States and distrust of the West is so great that they are ready to jump on the Asian bandwagon and reorder Iran's political economy accordingly. Strengthening the economy, from this perspective, requires stronger control of society and a distancing of Iran's economic sectors from the West. This will arguably lead to a more corporatist and mercantilist approach to economic development which maintains tight control of the political system, control of society and conformity with the Islamic revolutionary practices and ideals of the revolution, while providing economic betterment and opportunity – in other words a “Beijing consensus approach with Islamic Republic characteristics”.

## Washington's Reshuffle

All the diplomatic traffic and meetings since January 2017 suggest that the United States under President Trump is not disengaging from the region and, if anything, is doubling down on the relationships with America's traditional Gulf Arab allies, and of course also Israel. The meetings in Riyadh in May 2017 underscored this policy and threatened to move the United States a fair distance away from a strategy of “belligerent minimalism”<sup>52</sup> and toward a fuller engagement with efforts to reverse Iran's perceived rising influence, the destruction of the Islamic State, and the containment of other Islamist (including the Muslim Brotherhood) jihadi forces. The view that the Trump administration will be more belligerent toward Tehran in order to keep its regional allies together and to materially and financially benefit from its closer relations with the Gulf Arab states had started to hold sway in Tehran's corridors of power well before President Trump's visit to Saudi Arabia. It is argued in parts of East Asia, moreover, that President Trump's

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<sup>52</sup> M. Lynch, “Belligerent Minimalism: The Trump Administration and the Middle East”, *The Washington Quarterly*, vol. 39, no. 4, Winter 2017, pp. 127-144.

eagerness to cause conflict with Iran can be best understood in the context of strategic economic considerations. As China offers Iran its biggest potential market in history for both its oil and natural gas exports, this allegedly

puts Tehran on course for conflict with the United States, since Washington also wants to increase its LNG exports and insisted on including LNG in a recent trade agreement with Beijing. The relevance of Washington's desire to export more oil and gas to the US ratcheting up of tensions in the Middle East and the Korean Peninsula is obvious,

according to one analyst<sup>53</sup>.

The United States would like to compete with Iran (and of course Qatar) in Asia's rising gas markets and to tie Iran down; holding back its rejuvenation as a major energy player in Asia and delaying its economic recovery would thus make geopolitical and economic sense. To make Iran appear as a risky energy partner can serve the same purpose.

The rising regional pressure on Iran could be viewed from the same perspective of "containment and rollback" of the Islamic Republic, which will have profound implications for its Asianisation strategy, for pressure from its neighbours and the US will limit its room for manoeuvre and raise tensions in ways that would limit and inhibit Asian and European commercial engagement with the country. Thus, since the beginning of President Trump's mandate, exchanges between Iran and its Arab neighbours have become even more tense, leading, in March 2017, to the Arab League denouncing Iran for what it regarded as hostile acts in the region. This was followed by the US Commander of Central Command describing Iran before Congress in late March as "the most significant threat" to US interests in the Middle East – a regime which needed to be confronted. To counter a threat allegedly left unchecked

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<sup>53</sup> Kim Yeolmae of Eugene Investment and Securities, in "Iran ramps up oil exports to South Korea, much to Trump's chagrin", *The Iran project*, 14 May 2017.

by the Obama administration requires the US to reboot its regional alliances and, ironically, to re-cultivate relations with the region's myriad autocratic regimes. And so, following bilateral conversations between the administration senior figures and Arab leaders, Cairo explains Saudi-Egypt relations of "strategic importance", and Prince Mohammed bin Salman's return from Washington results in threatening talk of taking the fight to Iran. The message of the young Saudi prince: "we'll work so that the battle is for them in Iran"<sup>54</sup>, reverberated through the Iranian security establishment and, not surprisingly, resulted in strong Iranian counter threats<sup>55</sup>. Regional tensions will continue to hinder Tehran's efforts to pull Iran to the centre, and ironically could push it eastwards.

## Challenges to Iran's Asian Pivot

The history of the Islamic Republic shows how crucial the relationship between the external environment and Iran's domestic politics is. In this regard, a continuing securitised region will inevitably strengthen the hand of the hardliners in Tehran's institutions, who are ardent Asianisers, and frustrate the accommodationists' efforts to achieve rapprochement with Iran's neighbours. Yet rapprochement is something that Iran needs to do. Its president promised it in May 2017 in the interest of its economic rejuvenation and opening up of public spaces and avenues of expression. A securitised region will amount to a more militarised region, with more US advanced weapons systems pouring into the Persian Gulf and Iran having to devote a greater share of its national income to defence<sup>56</sup>. Further

<sup>54</sup> B. Hubbard, "Dialogue With Iran Is Impossible, Saudi Arabia's Defense Minister Says", *New York Times*, 2 May 2017.

<sup>55</sup> Iran's Defence Minister's reply came a few days later (on 7 May) via the al-Mannar television station: "I advise them against committing any ignorant move. But if they commit such a mistake, it is unlikely that anywhere in Saudi Arabia would remain intact with the exception of Mecca and Medina".

<sup>56</sup> At the height of tensions between Iran and the West, during Ahmadinejad's

militarisation of the Persian Gulf, as in the past, will further push Iran toward deepening its military ties with countries that the US either sees as hostile or adversarial: China, Russia and of course the People's Democratic Republic of Korea. Military ties help build these partnerships and deepen inter-agency cooperation, thus helping to advance Asianisation. However, closer security relations with Russia and the Asian authoritarian regimes will hinder the country's civil society – the real lever for change – at a time when Iranians in their millions unreservedly turn westward. Yet, American-led pressure on the regime is pushing it eastward, into the arms of less liberal and more authoritarian Asian countries, strengthening the regime's anti-American forces.

On another front, Israel's look east policy is likely to impact Iran's efforts to build its own circle of partnerships. Israel has deep military and commercial ties with both China and India and, when necessary, can use these contacts to pressure Beijing and New Delhi to distance themselves from Iran. Israel's interest in isolating Iran and limiting its influence and access to arms and advanced technologies will require it to hinder the blossoming of economic and political relations between the Islamic Republic and its economic and military partners in China and India. Rising tensions over Iran's influence in the Arab region and its links with Hamas are playing straight into the hands of those who see profit in Iran's isolation.

Moreover, Iran's Asian ties are not vacuum-packed and its neighbours, Saudi Arabia, the UAE, Qatar and Kuwait – some of whom are more hostile to Iran's emergence as an Asian regional power than others – also have close cultural and prosperous economic relations with the countries of South Asia, and

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last term in office (2009-2013) Iran's military expenditures rose from \$8.6 billion in 2009, to an estimated \$19.5 billion in 2011, declining to an average of \$15 billion during Rouhani's first term in office. Despite Iran's several regional military outlays (in Syria, Lebanon, Yemen, etc.) the government did manage to reduce military expenditures from over 6% of GDP to 3.8% in 2016. See IISS, *The Military Balance*, Abingdon, Routledge, various years.

increasingly with China and Japan as well<sup>57</sup>. These countries carry considerable weight in Asian capitals as energy suppliers and investors. Iran's hope of building exclusive or insulated links with these Asian powerhouses is therefore likely to be curtailed as Asian powers continue to work with the GCC bloc of countries as critical markets and reliable energy suppliers. Asia's four key countries have made it abundantly clear that they do not intend to sacrifice their flourishing relationships with the GCC countries in anyone else's interest. China may lean toward Iran but, given its flourishing ties with others, its posture will harm its relations with Saudi Arabia, Kuwait, the UAE, Qatar, or even Egypt<sup>58</sup>. These countries can, in effect, inhibit Iran's Asianisation and forge their own links in competition with the Islamic Republic.

Then, there are questions to be answered about the virtues of hitching the country's wagon too closely to such adventures as China's BRI, on the success of which Iran is banking. There is the danger, as explained by June Teufel Dreyer, that "what may look like benefits may turn out to entrap (participating countries) in a China-centered spider web"<sup>59</sup>. If China uses the new Silk superhighways and waterways to stamp its own control on Asia, then Iran will have jumped from the frying pan of the West into the fires of the East. Further, little evidence exists that Tehran would be able to navigate crises arising from geopolitical and geo-economic tensions between India and China. It has declared both as close partners and has entered separate partnerships with them, which could compromise its national interest in building its Asian relationships were the geopolitical competition between China and India to spill over into the

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<sup>57</sup> G. Kemp, *The East Moves West: India, China, and Asia's Growing Presence in the Middle East*, Washington, DC, Brookings Institution Press, 2010.

<sup>58</sup> G. Caferio and D. Wagner, "What the Gulf States Think of 'One Belt, One Road'", *The Diplomat*, 24 May 2017. See also J. Fuller, *China's Relations with the Gulf Monarchies*, New York, NY, Routledge, 2019.

<sup>59</sup> Quoted in EurActiv, "China Champions Globalization with New Silk Road Summit", *Eurasia Review*, 12 May 2017.

operations of the BRI. But even if Iran were able to steer clear of geopolitical tensions between Asia's giants, it needs to recognise that its Asian partners, "while independent from Europe and the United States, will not sacrifice their far more substantial dealings with the major Western powers over Iran"<sup>60</sup>.

Domestically, too, obstacles to Iran's Asianisation remain. Firstly, there exists considerable evidence that Iran's city-dwellers, who now make up the majority of the population, increasingly draw their cultural habits and social norms from the West; the country's youthful population is highly networked and uses Western social media tools and lingo for interaction<sup>61</sup>. These large populations look westward and not eastward; while Japanese games, Korean gadgets and their soap operas dominate, while traders profit from importing cheap Chinese goods, it is American movies that are pirated and circulated on the black market and it is American means of social interaction and the modes and protocols attached to these social networks that prevail. Yet, an aggressive American posture, buttressed by an anti-Iran regional coalition, can only help inflame nationalist sentiments of the very social groups leaning toward the West while making it harder for the reformist forces to contain the IRGC-dominated security establishment bent on limiting their economic and social reforms agenda. It was evident in the May 2017 election campaign that the incumbent – Hassan Rouhani – was portrayed as soft on the West and accused of sacrificing the precious values of the Islamic Republic on the altar of better relations with the United States. It was noted then that an Ebrahim Raisi victory could perpetuate the "siege mentality that has been passed from generation to generation

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<sup>60</sup> A. Mafinezam and A. Mehrabi, *Iran and its Place Among Nations*, Westport, CT, Praeger, 2008, p. 84.

<sup>61</sup> 68.5% of the population (56.7 million people) are internet users, there are 88.7 million cell phone subscribers, and 21% (17.2 million people) are Facebook subscribers. In terms of scale of change, worth noting that internet use in 2000 was limited to 250,000 people. <http://www.internetworldstats.com/>; <https://www.budde.com.au/Research/Iran-Telecoms-Mobile-and-Broadband-Statistics-and-Analyses>

rather than trying to build bridges and bilateral relationships. He would perpetuate the more conventional, conservative foreign policy of confrontation<sup>62</sup>. Having avoided what would have been a catastrophe for many millions of Iranians, their elected president then found himself a prisoner of geopolitical forces partly fanned by Iran's own regional behaviour; this made him beholden to the military, who were eager to keep the United States and its allies at arm's length. So, as pressure from the outside mounts, the executive's room for carrying out the necessary reforms at home shrinks, and with it the prospects of detente and liberalisation of the economy.

Efforts by the US and its regional Arab allies to contain Iran's regional influence will lead to the strengthening of the hardliners and the forces who want to return Iran to perpetual confrontation. Ironically, this could lead Iran to expand the very policies against which the Riyadh summit took such a vocal stance. A more aggressive Iranian posture will inevitably only invite more pressure and American scrutiny and distance from European and Asian parties, who saw great commercial opportunities in the wake of the JCPOA. Given the fact that Asian countries are fundamentally risk averse, enduring tensions could dampen their enthusiasm for bolstering Iran's development, thus hindering its eastward orientation. Iran has already learnt that for the Asian economies there is no profit in conflict, and insecurity is an impediment to good business. This is as true for Japan as it is for China, and Tehran is realizing this.

Thus, Iran is once again caught between the promise of a better future in Asia and the present struggle to defend its regional interests in the face of strong American and regional pushback. We have argued that the fate of the Islamic Republic is determined as much by its own people and leaders as by the influence and impact of external forces at play in its large geopolitical hinterland. Yet, systemic shift in the twenty-first century

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<sup>62</sup> Quoted in G. Motevalli, "The World Needs to Watch Iran's Election", *Bloomberg*, 12 May 2017.

could finally be providing Iran with the opportunity to rise as a major regional power and a prosperous Asian economy – as one of the “N-11” group of emerging economies<sup>63</sup>. To succeed, however, it needs to align the domestic and the regional levels – to have an administration mandated to introduce social and economic reforms and one able to bring order to the region and enhance Iran’s integration into the global system. However, not being able to simultaneously satisfy the conditions of domestic peace and regional stability which are necessary for its Asianisation efforts could result in the country once again missing the opportunity to join the slipstream of Asian-driven economic prosperity, leaving it languishing on the periphery of the post-Western order. Destiny denied could push the Islamic Republic back onto the revolutionary pillars which even in the recent past had helped fuel its hostility to the outside world<sup>64</sup>. Geopolitics helps in certain situations, but in the case of Iran since its revolution, it has done nothing but hinder the country’s rise as a major regional powerhouse.

## The Trump Administration and Iran

For most of the last several decades, the United States have had constant key objectives in the broad Middle East/South Asia region. These include the free flow of hydrocarbon resources, non-proliferation of weapons of mass destruction, counter-terrorism, and Israel’s security. In all these areas, Iran is a major player: Tehran has its fingers in all Middle East/South Asia

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<sup>63</sup> The “Next-11” was coined by Goldman Sachs in 2005, in reference to the economic promise of a new group of largely Asian economies including the large Muslim countries of Bangladesh, Egypt, Indonesia, Iran, and Pakistan. <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/brics-book/brics-chap-13.pdf>

<sup>64</sup> M. Warnaar, *Iranian Foreign Policy during Ahmadinejad: Ideology and Actions*, New York, NY, Palgrave Macmillan, 2013; R. Takeyh, *Guardians of the Revolution: Iran and the World in the Age of the Ayatollahs*, Oxford, Oxford University Press, 2009; A. Ehteshami and M. Zweiri, *Iran and the Rise of its Neoconservatives: The Politics of Tehran’s Silent Revolution*, London, I.B. Tauris, 2007.

pies. The Islamic Republic's policies, therefore, can facilitate or complicate in equal measure Washington's efforts in pursuing its objectives. Since taking office in January 2017, President Trump has sought to replace the policy of engagement with rollback. In June 2017 Secretary of State Rex Tillerson told the House Foreign Relations Committee that "our policy towards Iran is to work toward support of those elements inside of Iran that would lead to a peaceful transition of that government"<sup>65</sup>. In the last few years the Mujahideen e-Khalq (MEK) has been portrayed as such an "inside" force, leading to high-level administration officials, several senators and former senior officials meeting with Maryam Rajavi, the head of the exiled opposition organisation, while such figures have also spoken at events sponsored by the MEK<sup>66</sup>. The MEK, however, enjoys little support or legitimacy inside Iran and was in fact designated as a terrorist organisation by the Department of State (until 2012), so it cannot act as a credible vehicle for spearheading change in Iran. The United States' experiments with "regime change" in Iran in 1953 and in Iraq in 2003 show that for transformational change to succeed the process has to be indigenous, not imposed from outside. The salutary lesson is that it is better to engage to change rather than isolate is being complicatedly ignored by the Trump administration. In late July President Trump said that "If it was up to me, I would have had them noncompliant 180 days ago"<sup>67</sup>. A month later, Nikki Haley, US Ambassador to the United Nations, visited the International Atomic Energy Agency (IAEA) headquarters in Vienna to pressure it to be more aggressive in its demands to investigate military sites in Iran. Yet, while Washington stayed in the JCPOA,

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<sup>65</sup> Press TV, "[Iran Summons Swiss Envoy over Meddlesome US Remarks](#)", 19 June 2017.

<sup>66</sup> The list includes Senators John McCain, Roy Blunt, John Cornyn, former CIA Director James Woolsey, former National Security Adviser Gen James Jones, and Former Homeland Security Secretary Tom Ridge.

<sup>67</sup> H. Gardiner Harris, "[If Report Says Iran Is Abiding by Nuclear Deal, Will Trump Heed It?](#)", *New York Times*, 27 August 2017.

it created a valuable space for diplomacy as well as providing the means for containing Iran's nuclear activities for 15 years in exchange for sanctions relief. The administration's departure has destabilised the international coalition of UNSC permanent members to contain nuclear proliferation and has in fact pushed Iran further into the arms of the Shanghai Cooperation Organisation countries and closer to Eurasia economically.

Third, with the signing of the nuclear deal, President Rouhani had promised the Iranian people substantial dividends in the form of job opportunities and prosperity fuelled by foreign investment and trade. Before leaving office, President Obama and Secretary of State John Kerry gave assurances to European and Asian partners that Washington would not have interrupted them doing business with Iran. This policy, however, changed under the Trump administration, and these added pressures have also impacted the reformist-centrist forces in Iran. The perception that economic and political pressure on the regime would bring about its collapse and encourage protests wrongly assumes that the regime is hapless and the population is ready to pounce. Neither assumption is correct. While it is true that the regime is divided about the best course of action and the population is extremely disgruntled about the economic situation and socio-political repression, objectively speaking there is no prospect of the regime collapsing under the weight of its problems or the masses rising up to overthrow it. Further, the regime has many partners in Asia who will assist its stabilisation, albeit while extracting a heavier price for their support. So while the threat of secondary US sanctions may have prompted many international companies to cancel their projects in Iran, and while at least one of the \$4.879 billion deals signed in July 2017, namely with France's Total and China's National Petroleum Corporation respectively, has been put on hold, this has left the crucial energy sector wide open for Chinese corporations to take over projects such as those agreed upon with Total. Thus, while sanctions keep American corporations away, and hinder the European presence, hundreds of business

delegations from Asia continue to pursue trade and economic partnership agreements with Tehran.

Finally, a major theme of the Trump administration's policy toward Iran has been to form a coalition of Sunni and Arab countries to isolate the Islamic Republic. This policy, sadly, is based on the flawed assumption that Sunni/Arab countries can unite to face the common enemy of Iran. As we have seen since May 2017, however, Arab divisions – such as the rift between Qatar and its Arab neighbours following the Riyadh summit – can create major crises for the Arab coalition and has divided the group over its relations with Tehran. Further, Tehran enjoys warm relations with so many countries in the region and beyond that it cannot be cornered with ease.

## **Conclusion**

Iran, along with Turkey and Egypt, is one of the most populous countries in the Middle East, with a large middle class and a well-educated and young population. It holds one of the world's largest proven hydrocarbon reserves and has a relatively predictable and stable government. Given the four decades of hostility with the USA, Tehran has firmly opted to pursue the twin-track policy of "Asianisation" and "de-Americanisation" to ensure its survival and future prosperity. In other words, with little sign that the United States will moderate its stance on Iran, Tehran has sought to build strong economic and strategic ties with other global powers, capitalising on systemic shifts and the consolidation of Asian powers as future rule-makers and as underwriters of its prosperity. Iran's Asian pivot is thus a weapon for blocking American intrusion and its use will encourage the country's Asianisation to the detriment of the West, which ironically had stood to gain the most from Iran's efforts to open up to the world. Iran's Asianisation, then, is arguably in the interest of its economic survival, which mandates expanding ties with China and other Asian powers. This is more a matter of necessity rather than choice. Should Washington's political

stance toward Tehran change, one can anticipate an adjustment in Iran's orientation toward China and other Asian and Eastern powers and a return to "both East and West". But given the prolonged US campaign to contain and isolate Iran, its integration into the global economy will of necessity take place under the auspicious orbit of the Chinese economic umbrella, particularly as China's Belt and Road Initiative is fully developed.

The success of this strategy, however, remains unclear given Iran's limited abilities to manage Asia's complex power politics, on the one hand, and the limited influence it can bring to bear on Asia's powerbrokers to favour Iran over their economic interests in the United States, on the other<sup>68</sup>.

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<sup>68</sup> For Asia's largest economy, of course, the United States is far more important than Iran: China exports \$436 billion worth of goods to the United States, 19% of the country's total. By contrast, it exports \$16.4 billion worth of goods to Iran, just 0.72% of China's total exports, less than 1/26th the US total. While China is Iran's largest trading partner, Iran's exports to China are only about a ninth of US exports (\$13.4 billion), compared to the United States' \$122 billion.

## 2. Iran and China: Old Friends in Search of a Sustained Partnership

Jacopo Scita

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On 3 September 2019, the London-based online journal *Petroleum Economist* quoted an anonymous senior Iranian source claiming that China will invest a total of \$400 billion in Iran's energy sector and infrastructure in the next five years. The source added that Beijing is also ready to send "up to 5,000 Chinese security personnel on the ground in Iran to protect Chinese projects"<sup>1</sup>. While the story was quickly reaching mainstream news outlets around the world, experts raised questions about its veracity. Indeed, the figures did not pass basic fact-checking<sup>2</sup>. However, the inflated data quoted by *Petroleum Economist* and the attention they generated reflect the structural and political limits, as well as the growing importance of Sino-Iranian relations.

Labelled as "an archetypal Great Power-Middle Power relationship"<sup>3</sup>, the partnership between Beijing and Tehran is characterised by a fundamental asymmetry in the distribution

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<sup>1</sup> S. Watkins "China and Iran flesh out strategic partnership", *Petroleum Economist*, 3 September 2019.

<sup>2</sup> J. Scita "No, China Isn't Giving Iran \$400 Billion", *Bourse & Bazaar*, 20 September 2019.

<sup>3</sup> D. Conduit and S. Akbarzadeh, "Great Power-Middle Power Dynamics: The Case of China and Iran", *Journal of Contemporary China*, vol.28, issue 117, 2018, pp. 468-481 (p. 468).

of material capabilities, international status and ambitions between the two partners. Arguably, the launch of the Belt and Road Initiative (BRI) has somehow nuanced that asymmetry, at least at the strategic level, granting Iran – whose geographic location makes it a crucial hub between Central Asia, the Middle East and Europe – a place in China’s ambitious Westward projection. With Tehran increasingly forced to look East due to the pressure of US sanctions, only briefly relieved by the JCPOA, the four decade-long friendship between the Islamic Republic of Iran (IRI) and the People’s Republic of China (PRC) may finally be on the verge of shifting from an asymmetrical relationship to a more balanced convergence between two actors in need of each other. This transition, however, has not yet taken place.

At least in the last decade, China’s interest in developing relations with Iran can be traced back to five main drivers: (1) Beijing’s quest for energy security; (2) the great potential of Iran’s domestic market, still suffering from international isolation; (3) the development of the Belt and Road Initiative; (4) the PRC’s desire to increase its presence in the Persian Gulf; and (5) the global competition between Beijing and Washington. The relevance of each of these drivers is neither fixed nor constant. Therefore, the question of which of them will prevail in shaping China’s approach towards Iran appears to be very much dependent on external factors, such as the existence of US secondary sanctions. The answer, then, will define the level of Beijing’s engagement with Tehran.

### **Iran in China’s Worldview: an Ancient Friend in a Turbulent Gulf**

The five drivers mentioned above define Iran’s strategic significance for Beijing. However, the narrative that justifies and supports Beijing’s relations with Tehran is rich and complex. As G.W. Garver outlined in his seminal study, “China’s modern relation with Iran is seen as part of China’s struggle to blot out

and overcome its putative national humiliation”<sup>4</sup>. This view was to some extent reinforced by the 1979 Revolution, which brought into Iran’s self-conception the idea of being a vanguard against the injustice of a Western-dominated international order – something that overlapped considerably with Mao’s vision of China<sup>5</sup>.

Interestingly, the sense of otherness with respect to the West shared by Iran and China is not only the result of both countries’ XX-century experience. It is also rooted in their history of friendship and cooperation that goes back thousands of years. Xi Jinping’s signed article published in Iran ahead of his 2016 trip to Tehran is an ode to this narrative. In it, Xi presented Sino-Iranian contemporary and future relations as a continuation of an exceptional past in which the two were powerful empires that “made an important contribution to opening the Silk Road and promoting exchanges between Eastern and Western civilizations”<sup>6</sup>. The powerful image that emerges from Xi’s words is that of an enduring friendship, built upon the memory of a glorious past and the possibility of overcoming shared national humiliation together.

Although common memories and visions define the ideological and rhetorical underpinning of Sino-Iranian relations, China’s interest in cooperating with Iran reflects cogent objectives and strategic horizons<sup>7</sup>. As will be outlined in the following sections, the Islamic Republic has a rapidly growing domestic market which, due to Tehran’s international isolation, is very receptive to Chinese goods and investments. It is not surprising, then, that China has acquired a dominant position within the Iranian domestic market since the early 2000s, when

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<sup>4</sup> J.W. Garver, “China & Iran. Ancient Partners in a Post-Imperial World”, 2006, University of Washington Press, p. 5.

<sup>5</sup> *Ibid.*, p. 13.

<sup>6</sup> “Full text of Xi’s signed article on Iranian newspaper”, *China Daily*, 21 January 2016.

<sup>7</sup> J.W. Garver, “China & Iran. Ancient Partners in a Post-Imperial World”, University of Washington Press, 2006, p. 3.

the UN imposed nuclear-related sanctions on Iran, leading to the country's progressive isolation. Preventing Iran's collapse fits with China's strategy to prevent the United States from acquiring a position of complete hegemony in the Persian Gulf. Therefore, two of the most important and controversial areas of collaboration between China and Iran are arms sales and nuclear cooperation. The latter, in particular, represents a sensitive issue for Beijing. Hua Liming, the former Chinese Ambassador to Iran and one of Xi Jinping's leading advisors on the Islamic Republic, stated that "whether the Middle East that controls the worlds' economic lifeline will be destroyed or go to peace hangs on the Iran nuclear issue"<sup>8</sup>. It is this understanding of the need for a peaceful solution to the Iranian nuclear crisis that shaped China's role in the negotiations between the P5+1 that led to the JCPOA in 2015.

Beijing also views Iran as pivotal in its Persian Gulf strategy. Indeed, several of the above-mentioned drivers directly apply to the specific context of the Gulf. Firstly, the region is essential for China's energy security. Although Iran is not the PRC's most important regional supplier, the Islamic Republic's centrality is inevitable given its strategic position on the Strait of Hormuz. Secondly, the launch of the BRI has increased China's interest in developing connectivity between its mainland and Central Asia, the Middle East and Europe. In the best-case scenario, Iran could serve as the Chinese gateway to an enormous market that includes these three regions. This vision is tied to the normalisation of Iran's international relations and the stabilisation of the Persian Gulf. In principle, China appears to be committed to both these objectives. Thirdly, Beijing's strategy in the Gulf responds to an "apolitical, development-focused logic"<sup>9</sup>. Therefore, Iran shares with Saudi Arabia and the United Arab Emirates the status of Beijing's strategic partner. Arguably, this

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<sup>8</sup> L. Hua, "The Iran nuclear issue and China's diplomatic choices", *China International Studies*, vol. 5, 2006, pp. 92-103 (p. 92).

<sup>9</sup> J. Fulton "China's changing role in the Middle East", *Atlantic Council*, 5 June 2019, p. 3.

marks a fundamental difference between the Chinese and the US view of the Islamic Republic – a difference that is clear in its principles, strong in its goals but not always effective in its realisation. Finally, Tehran represents a counterweight against the United States in the region.

## **Economic Relations: Unexpressed Potential Beyond Oil**

Especially after the imposition of nuclear-related international sanctions in the early 2000s, China has become Iran's most important trading partner, with the latter seeing Beijing as a source of substantial economic benefits<sup>10</sup> in defiance of international isolation. Conversely, Iran offers an attractive 80 million people domestic market, characterised by a young population and considerably bigger than the entire Central Asian market<sup>11</sup>. Unsurprisingly, the energy sector dominates Sino-Iranian economic exchanges. However, the attractiveness of the Iranian market, enhanced by the country's international isolation, as well as the pivotal positioning of Tehran in the BRI, makes Iran a potentially all-round strategic partner for Beijing. Nevertheless, the possibility of boosting economic relations between China and Iran remains negatively linked to the effects of US secondary sanctions and the chronic instability of the Persian Gulf.

Beijing's involvement in Iranian infrastructure development dates back to the aftermath of the Iraq-Iran War. In 1991, Iran's first post-war President Ali Akbar Rafsanjani invited China to take part in the public bidding for the construction of the Tehran Metro and then awarded the contract to the China

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<sup>10</sup> D. Esfandiary and A. Tabatabai, "Triple Axis. Iran's Relations with Russia and China", I.B. Tauris, 2018, p. 92.

<sup>11</sup> M. Shariatinia and H. Azizi, "Iran-China Cooperation in the Silk Road Economic Belt: From Strategic Understanding to Operational Understanding", *China and World Economy*, vol. 25, no. 5, 2017, pp. 46-71 (p. 54).

International Trust and Investment Corporation (CITC)<sup>12</sup>. Rafsanjani's initial attempt to look to the East opened a major campaign of Chinese infrastructure investments in Iran. Indeed, over the last three decades, Beijing-led projects have ranged from the construction of subway systems in Tehran and Mashhad<sup>13</sup>, railroads, bridges, tunnels and dams<sup>14</sup> to electric power plants, steel industries and infrastructure related to the country's still underdeveloped energy sector.

However, it is the energy sector – undoubtedly the most vital for Iran and the most attractive for China – that shows the limits and problems of Chinese infrastructure investments in Iran. Due to a mix of structural inefficiency, mismanagement, technical limits and foreign pressure, China's ability to deliver major projects has been unreliable. Two examples clearly illustrate the situation. In October 2009, the China National Petroleum Corporation (CNPC) and the National Iranian Oil Company (NIOC) signed a massive \$2.5 billion deal to develop the South Azadegan oil field. After five years, however, CNPC was still unable to deliver the development's targets, forcing NIOC to find new international partners<sup>15</sup>. A more recent case of undelivered commitments by a Chinese company is that of the South Pars giant gas field. The Iranian Government awarded the South Pars Phase 11 project to a consortium consisting of the French multinational Total and China's CNPC. The French group eventually decided to withdraw from the project in August 2018, in view of the upcoming introduction – from November on – of US secondary sanctions on the Iranian energy sector. At that point, CNPC announced its full commitment

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<sup>12</sup> J. Calabrese, “China and Iran: Mismatched Partners”, *The Jamestown Foundation Occasional Paper*, August 2006, p. 6.

<sup>13</sup> “China-made subway trains run in Iranian city Mashhad”, *China Daily*, 23 February 2017.

<sup>14</sup> S. Harold and A. Nader, “China and Iran. Economic, Political and Military Relations”, *RAND Occasional Paper*, 2012.

<sup>15</sup> A. Eqbali, “Iran decides to take Azadegan oil field back from China's CNPC: report”, *Sc&P Global*, 29 April 2014.

to the South Pars project, acquiring Total's stakes. However, in December 2018, during the trade war with Washington, the Chinese company abruptly suspended its investment in the project causing anger among Iranian officials<sup>16</sup>. Eventually, in October 2019, Iran's Minister of Petroleum Bijan Zangeneh announced that CNPC was no longer in the project<sup>17</sup>.

Trade relations have likewise suffered from the pressure of secondary sanctions. While China remains Iran's top trading partner, in the last quarter of 2018 – coinciding with Trump's decision to re-impose secondary sanctions on the Islamic Republic – Chinese exports to Iran dropped by nearly 70%. The latest figures (June 2019) show that China's trade with Iran has reached a low-but-stable level in what appears to be the new trend after the shock of the end of 2018<sup>18</sup>. However, due to the dramatic plunge in Chinese oil imports from Iran that followed the cancellation of oil waivers<sup>19</sup>, the level of trade between the two countries appears severely undermined. Under the current circumstances, Rouhani's ambitious goal of increasing bilateral ties and trading with China to the value of \$600 billion by 2026<sup>20</sup> appears implausible.

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<sup>16</sup> "CNPC suspends investments in Iran's South Pars natural gas project", *Offshore Technology*, 14 December 2018.

<sup>17</sup> "Petropars to Develop South Pars 11 Alone", *Shana*, 6 October 2019.

<sup>18</sup> J. Scita, "No, China Isn't Giving Iran \$400 Billion", *Bourse & Bazaar*, 20 September 2019.

<sup>19</sup> T. Gilroy, A. Lamy, and C. Lefevre, "US Government Will Not Reissue Sanctions Waivers for Countries Importing Iranian Oil", *Sanctions and Export Controls Update*, 27 April 2018.

<sup>20</sup> "Iran, China agree to increase trade ties to \$600bn in ten years", *Tebran Times*, 24 January 2016.

## Value of trade exchange between Iran and China

ISPI

(BILLION OF DOLLARS)



That being said, oil is likely to remain the backbone of Sino-Iranian economic relations. It is worth noting, however, that while China is one of the top destinations for Iranian oil, since the beginning of the 1990s Beijing has made a major diversification effort, with the result that Iran has not been among China's top 3 oil suppliers since 2012<sup>21</sup>. As a reflection of this fundamental asymmetry, Iran relies on its oil exports to China as a vital source of hard currency. Moreover, due to the centralised system of payments directly operated by Beijing, “the volume of Chinese exports is necessarily linked to Chinese imports from Iran, especially imports of crude oil”<sup>22</sup>. By contrast,

<sup>21</sup> See “China surpassed the United States as the world’s largest crude oil importer in 2017”, *ELA*, 5 February 2018 and D. Workman, “Top 15 Crude Oil Suppliers to China”, *World’s Top Exports*, 21 August 2019.

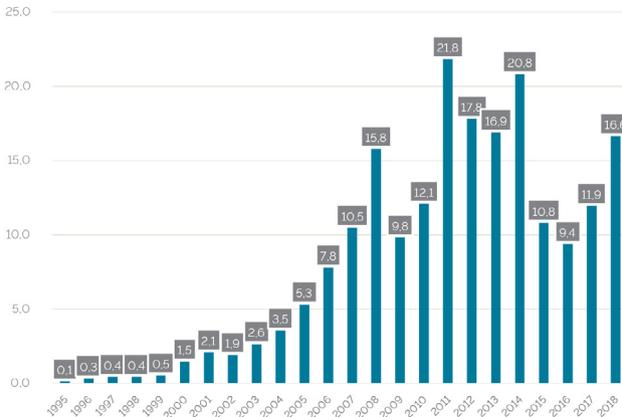
<sup>22</sup> “When the Sun Sets in the East. New Dynamic in China-Iran Trade Under

Beijing's reliance on Iranian oil does not appear vital because it has developed a sufficiently wide network of suppliers that can compensate for a sustained shock in Iran's oil output. As proved by the current plunge, China's strategy with respect to Iran's petroleum appears to be driven by a cost-benefit analysis that goes well beyond satisfying domestic demand. Indeed, Beijing's decision to keep importing a limited quantity of Iranian oil in defiance of US sanctions appears to be motivated by the interplay of different political scenarios, ranging from the trade war to avoiding a major escalation of tensions in the Persian Gulf – which would seriously affect Beijing's energy security.

## Chinese oil import from Iran

ISPI

(BILLION OF DOLLARS)



SOURCE: UNCTAD

## Security and Military Cooperation: China's Complex Strategic Calculus

Beijing has become one of Iran's key expertise, arms, and military technology suppliers since the Iraq-Iran War. As in the case of post-war reconstruction, China has been able to exploit Tehran's need of external partners, offering significant "contributions in the form of scientific expertise and dual-use technologies to Iran's indigenous arms manufacturing capability"<sup>23</sup>.

China has supplied Iran with a vast range of military products, from small arms to tankers and fighter jets<sup>24</sup>, transferring technology and expertise that Tehran uses to produce and develop military equipment domestically. In July 2017, the US Department of Treasury sanctioned a China-based network of individuals and societies for proliferation activities related to Iran's ballistic missiles program. In particular, the Chinese national Mr. Ruan Rulling was designated along with a company related to him after selling \$17 million worth of guidance system to Tehran<sup>25</sup>. For the same reason, in August 2019 OFAC designated another network led by an Iranian national, which was using a Hong Kong-based front company to avoid international sanctions<sup>26</sup>. Despite the fact that selling conventional weapons to Iran remains under the scrutiny and approval of the UNSC, China has firmly secured a pivotal positioning with respect to Iran's post-JCPOA defence and security needs – focusing on cyber security, joint navy drills and anti-terrorism. Interestingly, the emergence of ISIS triggered a fairly strong alignment between Iran, China and Russia, with Beijing being

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<sup>23</sup> J. Calabrese, "China and Iran: Mismatched Partners", *The Jamestown Foundation Occasional Paper*, August 2006, p. 9.

<sup>24</sup> D. Esfandiary and A. Tabatabai (2018), p. 132.

<sup>25</sup> "Treasury Sanctions Iranian Defense Officials and a China-Based Network for Supporting Iran's Ballistic Missile Program", *U.S. Department of the Treasury*, 17 May 2017.

<sup>26</sup> "Treasury Targets Procurement Networks Supporting Iran's Missile Proliferation Programs", *U.S. Department of the Treasury*, 28 August 2019.

particularly interested in cooperating with the other two countries to limit the possible spillover of the Islamic State group into the Xinjiang province<sup>27</sup>.

In September 2019, while visiting a naval base near Shanghai, the Chief of Staff of the Iranian Armed Forces Major General Mohammad Baqeri announced that “the joint military commission of both countries [would] be held during the visit”<sup>28</sup> to discuss training, drills and other military subjects. Two weeks later, the semi-official *Iran Press* reported the news of an imminent Iran, Russia and China joint naval exercise in the Sea of Oman and Northern Indian Ocean<sup>29</sup>. The news has not been reported or confirmed by Beijing’s state media. Chinese analysts interviewed by the Hong Kong-based *South China Morning Post* described the timing of the joint exercise as “a bit sensitive” and hypothesised that China “would probably send only peacekeeping, anti-piracy and humanitarian relief personnel to the drill”<sup>30</sup>, possibly in order to avoid sending an intimidating message to Saudi Arabia and the other Persian Gulf countries. Indeed, it should be noted that the news of the supposed joint navy drill appeared a week after the attacks on two Aramco facilities in Saudi Arabia, for which the international community blamed Iran, while China called for calm and an objective investigation<sup>31</sup>.

At the end of the Iraq-Iran War, China supplied Iran with “Silkworm” and C-802 missiles, which were used by Tehran in a series of attacks against US-flagged tankers and a Kuwaiti oil

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<sup>27</sup> D. Esfandiary and A. Tabatabai (2018), p. 150.

<sup>28</sup> “Senior comdr say Iran-China defense ties developing”, *IRNA*, 11 September 2019.

<sup>29</sup> “Iran, Russia, China to hold joint naval drills in the Sea of Oman”, *Iran Press*, 21 September 2019.

<sup>30</sup> See: Z. Pinghui, “China, Russia, Iran ‘plan joint naval drill in international waters’”, *South China Morning Post*, 21 September 2019; and M. Chan, “China’s role in joint drill with Iran and Russia limited to anti-piracy forces, analysts say”, *South China Morning Post*, 23 September 2019.

<sup>31</sup> “China hopes for ‘objective’ investigation on Saudi Attacks”, *Reuters*, 19 September 2019.

terminal in October 1987<sup>32</sup>. Not surprisingly, Sino-Iranian military cooperation has been a source of concern for the United States, which has often pressured the PRC to limit its involvement in Iran's defence industry. Nevertheless, Beijing's arms supply and military cooperation with Tehran appears to have evolved far more as a result of the restrictions imposed by UN sanctions, as well as on China's own pragmatic calculus – of which the main priorities are keeping Iran in place as a bulwark against the US in the Middle East, protecting Beijing's good relationship with the Arab countries in the Gulf and managing the regional and global competition with Washington – rather than simply as a function of US pressure.

### **Beijing's Enduring Interest in Iran's Civil Nuclear Program**

China and Iran also share a long history of nuclear cooperation, with the former having been Tehran's most important partner from 1985 to 1997, when China dismantled its nuclear cooperation projects with the Islamic Republic in order to safeguard its relationship with the United States. Indeed, during his October 1997 visit to Washington, President Jiang Zemin agreed “not to sell nuclear power plants, a uranium hexafluoride plant, heavy-water reactors, or a heavy-water production plant to Iran. China also agreed not to undertake new nuclear cooperation with Iran”<sup>33</sup>. Despite its full withdrawal in 1997 – China was allowed to bring to completion two minor, low-proliferation-risk projects already under construction<sup>34</sup> – Beijing has always supported Iran's quest for a peaceful nuclear program, whilst calling on Tehran to respect the Non Proliferation

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<sup>32</sup> J. Kifner, “U.S. Flag Tanker Struck by Missile in Kuwaiti Waters: First Direct Ride”, *The New York Times*, 17 October 1987; and Id., “Missile Reportedly Fired by Iran Damages a Kuwait Oil Terminal”, *The New York Times*, 23 October 1997.

<sup>33</sup> J.W. Garver (2006), p. 154.

<sup>34</sup> Ibid.

Treaty (NPT) and to avoid pursuing a nuclear weapons capability. However, according to a 2010 report by the *International Crisis Group*<sup>35</sup>, China does not perceive Tehran's nuclear ambitions as a direct threat, marking a substantial difference from the Western and Middle Eastern perceptions of the matter. In 2011, China and Russia opposed the US request to submit to the UN Security Council the IAEA's recently expressed concerns about possible Iranian undisclosed nuclear activities. The two countries *de facto* vetoed the imposition of new sanctions calling for a stronger diplomatic effort instead<sup>36</sup>.

It was with that posture towards the Iranian nuclear issue that China took part, as a permanent member of the United Nations Security Council, in the negotiations that resulted in the 2015 Joint Comprehensive Plan of Action (JCPOA). Beijing acted as a mediator between Tehran and Washington<sup>37</sup>, taking advantage of the negotiations to present itself as a responsible stakeholder committed to the peaceful, rule-based resolution of international security issues. The PRC had also more immediate interests in settling the dispute between Iran and the international community: avoiding a full-scale war in the Persian Gulf that would have resulted in a major disruption of China's hydrocarbons supply and normalising the Iranian dossier, thereby facilitating the development of the BRI's land corridor towards Europe and the Middle East. Arguably, Beijing got actively involved in the nuclear talks more to secure its strategic interests than for the sake of resolving Iran's ambiguity about its nuclear program – an issue that China does not consider as a direct threat to its security.

China is strongly involved in Iran's post-JCPOA nuclear program. In April 2017, Beijing and Tehran signed a deal to redesign

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<sup>35</sup> “The Iran Nuclear Issue: The View from Beijing”, *International Crisis Group Asia Briefing n.100*, 17 February 2010.

<sup>36</sup> J.W. Garver, “China-Iran Relations: Cautious Friendship with America's Nemesis”, *China Report*, vol. 49, no. 1, 2013, pp. 69-88 (p. 75).

<sup>37</sup> J.W. Garver, “China and the Iran Nuclear Negotiations: Beijing's Mediation Effort” in J. Reardon-Anderson (ed.), *The Red Star & the Crescent. China and the Middle East*, Co., 2018.

the Arak reactor. According to the document that preceded the agreement, which was part of Iran's JCPOA-related duties, China "will participate in the redesign and the construction of the modernised reactor", while the other signatories of the Iran Deal will provide technical, design and consultative support<sup>38</sup>. With other development agreements signed in the aftermath of the JCPOA<sup>39</sup>, China has positioned itself well in the development of Iran's civil nuclear sector. However, although China possesses advanced nuclear power technology and expertise<sup>40</sup>, the very same considerations about Beijing's seesawing in delivering infrastructural and energy-related projects are amplified here by the politically thorny nature of nuclear technology.

### **The Belt and Road Initiative: a Game-Changer for Sino-Iranian Relations?**

Since the establishment of the Islamic Republic in 1979, Sino-Iranian economic and military relations have been a complex function of China's energy security and strategic interests, within which Beijing's global competition with Washington and the PRC's attempt to build a positive relationship with the Gulf Cooperation Council countries have played pivotal roles. The launch of the Belt and Road Initiative in 2013 – probably the most ambitious geopolitical project of the XXI century – gave Iran a new position within China's external projection. However, the rejection of Obama's normalisation process by the Trump Administration and the opacity of the BRI itself<sup>41</sup>, are slowing down Tehran's full inclusion in the project.

<sup>38</sup> A. Kushki, "[Iran forges deal with China to redesign Arak reactor](#)", *Teheran Times*, 16 April 2017.

<sup>39</sup> D. Rogers, "[China, Iran agree two nuclear power stations and trade worth \\$600bn](#)", *Global Construction Review*, 27 January 2016.

<sup>40</sup> For a detailed survey of the state of nuclear power in China see "[Nuclear Power in China](#)", World Nuclear Association, October 2019.

<sup>41</sup> C. Zhou "[China slimming down Belt and Road Initiative as new project value plunges in last 18 months, report shows](#)", *South China Morning Post*, 10 October 2019.

Sino-Iranian cooperation along the Silk Road was at the core of the open letter signed by Xi Jinping and published by the IRNA-owned newspaper *Iran* before his first visit to Tehran in January 2016<sup>42</sup>. Interestingly, Xi's stopover in Iran took place immediately after the JCPOA Implementation Day, 16 January 2016, and coincided with the establishment of the Comprehensive Strategic Partnership (CSP) between the two countries. The article contained a long excursus on Sino-Iranian historical relations along the ancient Silk Road, seemingly aimed at outlining the areas of cooperation between China and Iran "under the framework of the Belt and Road Initiative". According to Xi Jinping, those are (1) "enhancing political mutual trust", (2) "pursuing win-win outcomes and common prosperity", (3) "promoting connectivity and expanding practical cooperation" and (4) "upholding openness and inclusiveness and encouraging inter-civilizational exchange". Xi's letter set the tone, expectations and broader objectives of Sino-Iranian relations after the signing of the JCPOA, reframing the partnership between the two countries as part of a wider, multilateral project – the Belt and Road Initiative.

Although the framework of cooperation sketched by Xi has not been fully developed, the BRI has been dominating the political discourse and socio-economic interactions between Iran and China since 2016. Significantly, in a recent interview with *Iran Daily*, the Chinese Ambassador to Iran Chang Hua referred to the Tehran Metro project, in which Chinese companies have been involved since the beginning of the 1990s, as "an epitome of the cooperation between China and Iran in the benefit of the people"<sup>43</sup> under the BRI. The Chinese project has also provided a powerful cultural and strategic *humus* for Tehran's interpretation of its relationship with Beijing. Before his August 2019 visit to China, Iran's Foreign Minister Javad

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<sup>42</sup> "Full text of Xi's signed article on Iranian newspaper", *China Daily*, 21 January 2016.

<sup>43</sup> "Ambassador hails China, Iran contribution to civilizations", *IRNA*, 23 September 2019.

Zarif claimed that the two countries have opened a new phase of cooperation inspired by the Belt and Road Initiative<sup>44</sup>.

Besides the effective narrative produced by the launch of the BRI, the project is expected to have a substantial impact on Sino-Iranian relations. Indeed, a large number of the 17 cooperation documents signed by the two countries on the occasion of the establishment of the CSP in January 2016 were related to the Belt and Road Initiative framework<sup>45</sup>. From the Chinese perspective, Iran has a key strategic position as a geographical pivot between Central Asia, the Persian Gulf and Europe. Furthermore, Tehran is one of the crucial hubs in the China-Central Asia-West Asia Economic Corridor, the land route that would provide Beijing access to the Mediterranean Sea without passing through Russia<sup>46</sup>. However, the full inclusion of Iran in the West Asia Economic Corridor depends on increasing the level and quality of connectivity between Iran and its neighbouring countries, a goal that requires major Chinese investments and a substantial improvement in Iran's trade legislation and global financial integration<sup>47</sup>.

However, as pointed out above, China's effectiveness in including Iran in the BRI appears to be undermined by Beijing's low score in delivering projects and by the political instability of the Persian Gulf. This is particularly obvious in the case of the West Asia Economic Corridor. Indeed, Iran is strategically positioned not only to connect Western China with Turkey and the Mediterranean Sea but also to work as an access point to the Gulf and the Middle East. Therefore, the normalisation of Tehran's regional posture and of its relations with neighbouring

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<sup>44</sup> Zarif, J. "Shared vision binds Iran-China relations", *Global Times*, 8 August 2019.

<sup>45</sup> M. Shariatinia and H. Azizi, "Iran-China Cooperation in the Silk Road Economic Belt: From Strategic Understanding to Operational Understanding", *China and World Economy*, vol. 25, no. 5, 2017, pp. 46-72 (p. 48).

<sup>46</sup> T. Erdbrink, "For China's Global Ambitions, Iran is at the Center of Everything", *The New York Times*, 25 July 2017.

<sup>47</sup> M. Shariatinia and H. Azizi (2017).

countries – a process that could have been triggered by the JCPOA and enhanced by Beijing’s strategic partnerships with Saudi Arabia and the United Arab Emirates – are a strong precondition for China’s commitment to Iran. With Washington’s policy of “Maximum Pressure” in place and growing tensions in the Persian Gulf, Tehran’s pivotal role in the Belt and Road Initiative is unlikely to be developed soon.

### **The US-Iran-China Triangle: the Washington Factor in Sino-Iranian Relations**

The most important external factor in shaping Sino-Iranian relations is the United States. Washington directly and indirectly impacts China’s relationship with Iran on three different levels. The first is Beijing-Tehran bilateral relations; the second is regional and involves the Chinese presence in the Persian Gulf; lastly, the global competition between China and the United States has historically affected the relationship between China and Iran. Although the boundaries between the three levels are rather blurred, the regional and global dimensions set the structural limits within which the US-China-Iran triangle works.

Within Beijing’s interaction with Tehran, the United States assumes the role of the “inveterate enemy” that challenges and ultimately prevents the “rise of a regional hegemonist power”, namely Iran<sup>48</sup>. The spirit of Sino-Iranian relations is rooted in the civilisational solidarity that brings China and Iran together under the banner of a shared national humiliation perpetrated by the West<sup>49</sup>. Ultimately, the self-represented otherness of both the People’s Republic and the Islamic Republic challenged Washington’s emerging hegemony in the post-Cold War world. It was in the aftermath of the 1991 Gulf War – arguably the

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<sup>48</sup> W. Tian, “Meiguo de zhongdong zhanlue jiqi lishi mingyuan” [America’s Middle East strategy and its historic destiny], *Xiandai guoji guanxi*, no. 8, 2006, pp. 1-7 as quoted in J.W. Garver (2013), p. 71.

<sup>49</sup> J.W. Garver (2006), p. 3.

conflict that opened the US unipolar moment – that Sino-Iranian relations reached the apogee of their antihegemony partnership<sup>50</sup>. Since then, however, ties between Beijing and Tehran have declined and re-emerged periodically. Nevertheless, the idea of an antihegemonic, anti-US partnership echoes throughout the Chinese and Iranian domestic narratives. For instance, in an unsigned editorial published in June, the Chinese newspaper *Global Times* claimed that Washington's desire to strangle Iran could easily cause a regional war. The article ended by saying that "the US is powerful, but not many people believe it can really bring down Iran. There is profound truth behind this understanding"<sup>51</sup>.

The US-China-Iran triangle takes tangible form and strategic meaning in the Persian Gulf. Interestingly, Iran's positioning is pivotal in both Washington's and Beijing's conceptions of the Gulf, although Tehran's role in the strategies of the two great powers diverges significantly. After the 1979 Iranian Revolution, the United States abandoned its "Twin Pillar" policy, aligning itself with the Arab sheikhdoms and crystallising the regional rivalry between Iran and Saudi Arabia. In contrast, China – which was not directly targeted by the revolutionary zeal of the Khomeinists – slowly increased its involvement in the Persian Gulf through a strategy based on the engagement of both Tehran and Riyadh. Beijing's peculiar approach to the Gulf had its apogee in 2016, when Xi Jinping signed comprehensive strategic partnerships – the highest level in China's partnership diplomacy<sup>52</sup> – with Iran and Saudi Arabia. In doing so, the PRC has shown its ability to exploit the security architecture developed and managed by the United States, securing its interests without acting as the regional policeman<sup>53</sup>.

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<sup>50</sup> Ibid., p. 106.

<sup>51</sup> "US desire to strangle Iran could easily ignite war", *Global Times*, 24 June 2019.

<sup>52</sup> J. Fulton, "China's changing role in the Middle East", *Atlantic Council*, 5 June 2019, p. 3.

<sup>53</sup> J. Scita, "China could resolve the next crisis in the Persian Gulf, but not this one", *LobeLog*, 2 October 2019.

For Beijing, the existence of a US-led regional order in the Persian Gulf is both useful and problematic. The long-lasting confrontation between Washington and Tehran has given China the chance to use the latter as a bulwark against the former, preventing the United States from attaining a position of complete hegemony in the Persian Gulf without directly confronting it. At the same time, Washington's presence offers the PRC a scapegoat to blame when tensions rise in the Persian Gulf<sup>54</sup>. On one hand, by accusing the US of being chiefly responsible for the current crisis in the Gulf, China can avoid blaming Iran directly. On the other hand, in doing so, the PRC adopts a clear stance against the US-led order in the Persian Gulf. This position can be seen as part of a broader Chinese attempt to present itself as the champion of a contrasting vision of international affairs. Nonetheless, the actual security architecture in the Gulf, built upon the rivalry between Iran and the Saudi Arabia-US axis, has proved to be an inherent source of tensions. While China could manage and even benefit from controlled skirmishes in the Strait of Hormuz, full-scale war would severely jeopardise Beijing's energy security and strategic interests. However, China's reluctance to take political stands and the strategic centrality of the United States in the region weaken Beijing's will and ability to act as an effective mediator between Iran and Saudi Arabia.

Finally, China uses Iran as a tool in its global competition with the United States. When Beijing abruptly interrupted its nuclear cooperation with Tehran in 1997<sup>55</sup>, the decision appeared to be at least partly linked to the Chinese attempt to re-establish relations with Washington after the 1996 Taiwan Strait Crisis. Today, Iran appears to be indirectly entangled in the trade war between Washington and Beijing. Indeed, China's behaviour with respect to US secondary sanctions on Iran seems carefully calibrated to exploit them as a negotiation

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<sup>54</sup> "The US will be primarily responsible if war eventually breaks out in the Persian Gulf", *Global Times*, 23 June 2019.

<sup>55</sup> J.W. Garver (2006), p. 153.

tool *vis-à-vis* Washington. The United States, for its part, appears to be engaged in the same game. After the end of the six-month oil waivers, the Trump Administration silently allowed China to keep importing a small quantity of Iranian crude in defiance of sanctions. Nevertheless, at the end of September 2019, the US Treasury blacklisted several Chinese shipping companies and individuals involved in buying Iran's crude<sup>56</sup>. It is significant, however, that Washington did not sanction major Chinese refineries, showing America's unwillingness to further escalate tensions with China by hitting a very economically and politically sensitive sector. What is clear, ultimately, is that it is unlikely that China will ever sacrifice its relationship with the United States in favour of Iran.

### **Iran's Eastward Turn and the European Union: a Problem and an Opportunity**

In the US-China-Iran triangle described above, the European Union appears to be no more than an interested bystander. Arguably, this happens to be in stark contrast with Europe's centrality in the resolution of the Iranian nuclear question<sup>57</sup> and with the EU's direct economic interests. However, since the re-imposition of US secondary sanctions against Iran, the European Union has shown the political will – at least at the rhetorical level – but not the concrete ability to oppose Washington's policy. The long-awaited operationalisation of INSTEX, for instance, will only have limited effects on EU-Iran trade<sup>58</sup>. As a result, this is increasingly undermining Europe's ability to counter Iran's Eastward turn.

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<sup>56</sup> A. Williams, G. Meyer and D. Shepperd, "US blacklists Chinese companies for shipping Iran oil", *Financial Times*, 26 September 2019.

<sup>57</sup> T. Cronberg, "No EU, No Iran Deal: The EU's choice between multilateralism and the Transatlantic link", *The Nonproliferation Review*, vol. 24, no. 3/4, 2017, pp. 243-259 (p. 254).

<sup>58</sup> S. Dowling, "INSTEX: Doubts linger over Europe's Iran sanctions workaround", *Al Jazeera*, 1 July 2019.

Despite this, the EU can try to directly engage China to establish a common ground for cooperative actions *vis-à-vis* Iran. Indeed, the JCPOA has shown that the European Union and Beijing have a shared vision of the peaceful resolution of international security and nuclear proliferation issues. Brussels should take advantage of Beijing's good relations with and leverage over Tehran to develop a coordinated attempt, alongside Russia, to safeguard the Iran Deal. Such a strategy should be issue-oriented and organised within the framework of the European Common Foreign and Security Policy.

For the European Union, China's growing relations with Iran are both a problem and an opportunity. As the 2003-2015 nuclear negotiations with Iran proved, the EU can be an active stakeholder within the international community. That successful experience should push the EU to re-engage China and attempt to restore the consensus that led to the approval of the JCPOA, even without the United States.

## **Conclusion**

The fundamental feature of Sino-Iranian relations is the asymmetry of power, status, and objectives that exists between the two countries. China is a great power engaged in a long-term competition with the United States and committed to building its own area of influence through the Belt and Road Initiative. Iran, for its part, remains a regional power strangled by US sanctions and, due to domestic and external factors, unable to complete its path of re-inclusion within the international community.

That being said, Tehran needs Beijing considerably more than the other way round. However, Iran's strategic position between Central Asia, the Middle East and Europe gives the country a potentially pivotal role in the Belt and Road Initiative. It is on this basis that the two countries signed their Comprehensive Strategic Partnership in 2016. Nonetheless, the US withdrawal from the JCPOA and the emergence of the trade war between

Washington and Beijing have profoundly influenced the way in which Sino-Iranian relations have evolved over the last three years. The spike in tension in the Persian Gulf that followed the Trump Administration's re-imposition of secondary sanctions on Iran, the risk of being targeted by those sanctions and the intersection between the Iranian dossier and the trade war have impacted Sino-Iranian relations. In other words, the US-China global competition appears to be the main factor shaping Beijing's current posture *vis-à-vis* Iran.

Until now, Iran's importance for China has been more contextual than direct, systemic rather than bilateral. In the Persian Gulf, Iran – along with Saudi Arabia – is the pillar of China's peculiar regional strategy and an important factor in Beijing's energy security calculation. Within the Belt and Road Initiative, Tehran is at the centre of the China-Central Asia-West Asia Economic Corridor. Finally, Iran has long represented a counterweight against the United States in the Persian Gulf, a tool used by Beijing to pressure or appease Washington according to circumstances. Therefore, the real long-term goal for both countries is to make their Comprehensive Strategic Partnership effective and sustained.

### 3. The Pendulum of Russian-Iranian Relations: From Common Goals to Divergent Interests

Maxim A. Suchkov, Polina I. Vasilenko

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If we look at the Middle East today, we see a cauldron of boiling passions. While this has been the case for centuries, the spread of radicalism, ethno-national and ideological conflicts, and the struggle for resources are now eroding attempts at establishing sustainable relations, both among regional countries and with external actors. While Russia has always been a key player in regional processes, its approach has undergone considerable transformations following the break-up of the Soviet Union in 1991. One of the main features of the new Russian foreign policy is the new role of Moscow as the power broker between all regional players in the Middle East.

Russia's ascent in the Middle East has often been attributed to a precise plan of action for the region<sup>1</sup>. In fact, whether Moscow truly has a strategy or is merely skilfully using other players' mistakes matters little: Russian success is arguably to be ascribed to a number of clear principles that Moscow implements, rather than a strategy. Among such principles, the key ones are: first, Russia's ability to establish a dialogue with all the countries in the region, including rival parties; second, Russia's non-interference in the internal affairs of states, especially those

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<sup>1</sup> A. Kortunov, "[Russian Foreign Policy in the Middle East: Achievements and Limitations](#)", *Russian International Affairs Council*, 22 July 2019.

affairs which are particularly sensitive for the countries' ruling establishments. According to some analysts<sup>2</sup> Russia is trying to restore the influence it used to have before the 1990s and reclaim its status as a "great power". To some extent, this approach aligns with the interests of those regional states that seek to balance American dominance in the region.

## The Making of the "Strategic Partnership"

For centuries, Iran has been using clashes between great powers to its own advantage, playing off their contradictions and trying to maximise its own benefit. This resulted in a lack of trust between Russia and Iran, which has been fuelled throughout the centuries. Although interactions between Moscow and Tehran have now acquired new forms, the burden of historical patterns remains difficult to overcome. Joint efforts and successful coordination in different areas, such as participation in the Syrian campaign, the fight against terrorism, and as the settlement of the Iranian nuclear deal, raised speculations about the possibility of a new regional union. This assessment, however, merely reflects expectations, while the real picture is more nuanced.

In such a framework, the above-mentioned suspicions play an important role. Today Iranian and Russian political élites express loyalty to each other, on the basis of common goals and a joint vision on some issues. Yet elements of distrust occasionally slip into the media or in experts' discussions. Iranians are concerned<sup>3</sup> that sooner or later Moscow could use Tehran as a bargaining chip for rapprochement with the United States. Moscow, in turn, is forced to turn a blind eye to Iran's growing ambitions and to the destabilisation that may result from some of Tehran's policies in the region.

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<sup>2</sup> D. Trenin, "What Drives Russia's Policy in the Middle East?", in *Russia's return to the Middle East. Building Sandcastles?*, Chaillot Papers, July 2018, pp. 21-28.

<sup>3</sup> M. Milani, "[Iran and Russia's Uncomfortable Alliance. Their Cooperation in Syria in Context](#)", *Foreign Affairs*, 21 August 2016.

After the collapse of the Soviet Union, the pendulum of relations between Russia and Iran has been swinging depending on contingent challenges. The lack of trust towards Moscow on the Iranian side can be explained by a number of decisions adopted by Russia. For example, Russia and Iran signed military supply contracts in the late 1980s and early 1990s. But after the US-Russian Gore-Chernomyrdin memorandum of 1995, Russia pledged to curtail military-technical cooperation with Iran, despite enormous financial losses and reputational costs for itself<sup>4</sup>. This decision damaged relations between Russia and Iran, as it was perceived in Tehran as a betrayal of their previous agreements at the benefit of the US. However, according to the Stockholm International Peace Research Institute, from 1995 to 2005 more than 70 per cent of Iran's arms imports were supplied by Russia<sup>5</sup>.

Another successful example of cooperation between the two countries is their joint support of the Northern Alliance in Afghanistan from 1996 to 2001, as well as their efforts to end the civil war in Tajikistan (1992-1997). However, in 2010 the Russian-Iranian relationship fell prey to the US-Russian "reset policy" inaugurated by Presidents Dmitry Medvedev and Barack Obama: Russia once again reneged on its agreement to provide the S-300s missile system to Tehran, despite the existence of a \$800 million contract and the fact this system was not included in the UN Security Council sanctions list<sup>6</sup>.

These few examples reflect the degree of inconsistency in Moscow's attitude toward Tehran. However, starting in 2015,

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<sup>4</sup> After the meeting of Presidents Boris Yeltsin and Bill Clinton in Moscow on 10 May 1995, the Russian side acknowledged that a military component was included in the contract for the construction of a Bushehr nuclear power station, namely the supply of a centrifuge. To avoid tensions with the United States, Russia agreed to sign the Memorandum, losing an estimated 4 billion dollars, but the construction of the Bushehr NPC is still ongoing.

<sup>5</sup> SIPRI, *Yearbook 2007: Armaments, Disarmaments and International Security*, Oxford, Oxford University Press, 2007, p. 398.

<sup>6</sup> S/RES/1929 (June 2010); [Executive order on measures to implement UN Security Council resolution 1929 on Iran signed by President D. Medvedev](#).

with both countries cooperating in the Syrian war, and with Russia significantly contributing to the negotiations which led to the JCPOA, this pendulum has become less unpredictable. Indeed, some politicians and experts suggest<sup>7</sup> that since then Iran-Russia relations have reached a strategic level.

The next turning point occurred in 2018, when US President Donald Trump withdrew from the Joint Comprehensive Plan of Action (JCPOA) and inaugurated America's policy of "maximum pressure" on Iran. This drew Iran even closer to Russia; yet both countries are well aware of the limited perimeter of their interactions and of the constraints imposed by their own national interests.

The current balance of power between the two countries is rather fragile. Russia finds common ground with Iran in Syria, the Caspian Sea, the Caucasus and in Central Asia. But the emergence of new factors may lead to a shift in the paradigm. Should Tehran's aggression against Israel go beyond assertive rhetoric, should Iranian policies threaten Russian interests in Central Asia, should Iran's influence in post-conflict Syria prevent Russia from pursuing its own objectives – any of the above could become a game changer in Iran-Russia relations.

On the other hand, Iran has its own sphere of influence and its own priorities, which it is not ready to trade off. In this vein, Iranians insist that they do not have a strategic alliance with Russia, but they have a strategic partnership in specific projects based on specific mutual interests. Thus, both sides stick to the formula of "strategic partnership". This formula, while not imposing binding obligations and commitments on the parties, demonstrates a certain level of mutual understanding and the presence of common goals and long-term prospects.

This thesis is illustrated by the reaction of President Vladimir Putin to the warnings of Israeli Prime Minister Benjamin Netanyahu during their recent meeting on 12 September 2019.

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<sup>7</sup> N. Kozhanov, *Understanding the Revitalization of Russian-Iranian Relations*, Carnegie Moscow Center, May 2015.

At the end of the day, they [Iran] will target their ideology not only at Israel and the West, but also at Russia because their ideology is against our common culture, they want to rule the world”, Netanyahu warned<sup>8</sup>.

Putin, in turn, in what could be interpreted as demonstration of loyalty to his strategic partner – Iran – subtly countered Netanyahu’s remarks by suggesting that Russia “knows what terrorism is”.

## **Russia and Iran in the Post-JCPOA World**

The JCPOA can be considered both as one of the most significant diplomatic achievements of the 21st century as well as one of its greatest disappointments. Those who saw this deal as a pillar on which the future of the non-proliferation regime could have rested upon are now forced to admit that it was another “colossus with feet of clay”. After the May 2018 US withdrawal, all the efforts undertaken by politicians and diplomats to harmonise interests and positions on the nuclear deal were dismantled. It was a 15-year long effort - from the moment in 2003 when the EU-three (Great Britain, France and Germany) made their first attempt at limiting the Iranian nuclear program, through the implementation of the JCPOA on 16 January 2016, when the IAEA submitted a report verifying and confirming that Iran had taken the actions agreed upon in 2015 in order to significantly reduce its nuclear potential<sup>9</sup>, till the moment the US withdrew from the JCPOA in 2018.

Until a few months ago, many experts agreed<sup>10</sup> that it was too early to officially declare the death of the Iranian nuclear

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<sup>8</sup> M. Suchkov, “Netanyahu tries to bring ‘Iran threat’ home to Russia”, *Al-Monitor*, 13 September 2019.

<sup>9</sup> IAEA Atoms for Peace, *Verification and Monitoring in the Islamic Republic of Iran in light of United Nations Security Council Resolution 2231 (2015)*, 16 January 2016.

<sup>10</sup> G. Allison et al., *Belfer Center Experts on U.S. Withdrawal from the Iranian Nuclear Deal*, Belfer Center for Science and International Affairs, Harvard Kennedy School, 8 May 2018; J. Dempsey, *Judy Asks: Can the Iranian Nuclear Deal Be Rescued?*, Carnegie Europe, 8 November 2018.

deal, especially since Tehran's "strategic patience" was still in place. But with increasing US pressure, these assessments began to change<sup>11</sup>. The negotiators, in particular the Europeans, have been trying to elaborate solutions in order to save the deal, but have sometimes been perceived as waiting for a third party to release them from these obligations. Formally, the JCPOA has not yet been rescinded by the remaining parties. Of course, the JCPOA is not an ideal agreement, especially since it does have just a 15-year restriction on the development of the Iranian nuclear program. Some critics of the treaty consider it plausible that Iran could then make a bomb. Actually, this was one of Trump's main criticisms, along with his strong aspiration to include the limitation of missile potential and the reduction of Iran's destructive influence in the region in the new agreement. Despite these facts, the JCPOA was the best way to defuse the growing tensions. Trump did not convince the world of the negative effect of the deal, but he leveraged the crucial importance US economic influence is, since other parties have had no other tools to oppose the US sanctions policy.

European countries have proven unable to move from rhetoric to action and fulfil their commitments. On the contrary, Russia and China not only openly opposed US policy, but also took measures to circumvent restrictions. Several Chinese companies have already paid for this, as they have been sanctioned by the United States. Moscow also took an active stance towards the future of the JCPOA, reflecting their past cooperation in developing nuclear energy for civilian purposes.

In 1992, Moscow and Tehran signed an agreement which implied Russia would have supplied four nuclear reactors to Iran; in 1995 they signed a contract which entrusted Russia with the construction of the first nuclear power unit in Bushehr. In light of this cooperation in the nuclear field, Russia felt compelled to take responsibility for subsequent events, so when passions ran

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<sup>11</sup> A. Baklitskiy, *JCPOA Is Neither Alive nor Dead: How Iran and Its Partners Adapt to the Unstable Balance*, Valdai Discussion Club, 8 August 2019.

hottest in 2011 as both the US and the EU increased sanctions pressure, Russian Foreign Minister Sergey Lavrov proposed a step-by-step approach to resolving the Iranian nuclear issue<sup>12</sup>. Like the rest of the international community, Russia welcomed the stipulation of the JCPOA, as this promised to be a new beginning for relations with Tehran. Given Iran's resource potential and its strategic position in the region, the sanctions relief which followed the JCPOA permitted Iran to achieve a significant increase in economic indicators in 2016-2017 (GDP growth of 12.5% compared to a negative downturn of 1.6% in the year before)<sup>13</sup>, thus attracting foreign investors and potential deals to the country. But two years were not enough to restore the economy of a country that has been suffering from restrictions for more than thirty years.

The Russian political rhetoric since the US withdrawal from the JCPOA has remained unchanged, but Russia, unlike other states, has benefited from this situation to some degree. On the one hand, oil prices remain high, as sanctions have shut Iran out of the global oil market. On the other, Russia found in Tehran a partner which also suffered from harsh US policies. Indeed, both countries suffer the pressure of sanctions, which they consider illegal and contrary to international law. Also, through partnership with Iran Russia sought to deny what it perceived as yet another US attempt at regime change. Subsequent Russian policies sought to convey that any such policies from the outside are unacceptable and will be met with resistance. Through their joint efforts in Syria, Iran and Russia underscored this very point. At the same time, however, the ultimate collapse of the JCPOA runs counter to Russian interests, since it would pave the way for Iran to resume developing its nuclear program, thus increasing the level of destabilisation in the region.

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<sup>12</sup> A. Mohammed, "Russia Lays Out "Step-by-Step" Approach on Iran", *Reuters*, 14 July 2011.

<sup>13</sup> Central Bank of the Islamic Republic of Iran, *Annual Review 2016/17*, p. 3.

In May 2019, on the anniversary of the US withdrawal from the JCPOA, the Iranian government announced a gradual reduction in its compliance with the deal's obligations. Some experts interpreted this as a step towards abandoning the JCPOA, but instead it looks more like a last attempt at preserving it, forcing its participants to fully abide by their commitments. The US "shock therapy" has not worked, because the resistance of the Iranian political élite was higher than America expected it to be. At the same time, some countries' attempts at mediating between the two have failed, because neither Iran nor the United States seem ready to make concessions yet. Commenting on the situation, President Putin emphasised that Russia could not save everyone, claiming that "Russia is not a firefighting rescue crew. We cannot save things that are not fully under our control. We have played our part, and we are ready to continue to play the same positive role, but it does not depend solely on us. It depends on all our partners and all the parties, including the United States, the European countries and Iran"<sup>14</sup>.

Hence, the Russian leader advised Iran to remain within the framework of the deal and not to respond to the US provocation. From the Russian point of view, a faux pas on the part of Iran not only would undermine the foundations of the nuclear deal, but also would alienate Iran from the sympathy of the international community against the US "maximum pressure campaign". In this regard Russia's position looks pragmatic, but political support is the only thing Russia can offer Iran in its struggle for the future of the JCPOA.

Areas of Iran-Russia interaction can be divided into two strategic trajectories: the first relates to tactical interaction and implies cooperation between the two countries in response to current challenges and threats. This primarily includes the Syrian campaign and the struggle to preserve the Iranian nuclear deal.

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<sup>14</sup> News conference following talks with Austrian Federal President Alexander Van der Bellen, "[Official Internet Resources of the President of Russia](#)", 15 May 2019.

The other trajectory is related to the development of strategic relations, in particular, long-term projects in the economic, energy, military, humanitarian and other fields. These two trajectories today are developing unevenly, creating imbalances between Iran and Russia, which in turn prevents the full potential of their relations from being developed. In the following section we will analyse several key areas of interaction, and classify them according to their achieved or potential success. In particular, we will outline areas of achievements (the Syrian campaign and military cooperation), an area of omissions (economic cooperation), and areas of opportunities (regional integration and energy cooperation).

## **Areas of Achievements**

**The Syrian campaign** - While relations between Russia and Iran certainly did not originate in Syria, their cooperation there represented a turning point. Both countries managed to build a successful model of cooperation for the purpose of achieving common goals. The top priorities for both Moscow and Tehran included preserving the integrity of the Syrian Arab Republic and its government, headed by President Bashar al-Assad; combating the Islamic State and other terrorist groups; and opposing what both see as “the interventionist model” of the West.

Russia-Iran cooperation in Syria played out in three areas: Russia supplied weapons, provided strategically important information, and participated in the coordination of military operations. Russian air forces entered the battlefield in the fall of 2015 upon the request of the Syrian government; the decision of the Kremlin, however, was also affected by talks with Qassem Suleimani, the head of Iran’s Qods forces, who visited Moscow in the summer of that year. On that occasion, he allegedly persuaded the Russian leadership to seize the initiative and intervene in the Syrian conflict.

The subsequent high level of interaction between the two militaries in Syria is also revealed by the fact that in the summer of

2016, the Iranians provided the Russian Air Force with temporary use of their Hamadan air base. From there, Russian bombers launched airstrikes on Islamic State fighters. According to analysts, the combination of ground operations carried out by Iran and air operations controlled by Russia strongly contributed to the defeat of the Islamic State and the restoration of the Syrian government's control over much of the country's territory.

Moscow was sceptical of the performance and intentions of the US-led coalition against ISIS. By launching its own military campaign in Syria, Russia, achieved two objectives: it protected itself from the terrorist threat in its neighbourhood and raised its regional profile with local governments, especially in comparison to the bad reputation Washington has acquired in the region after its failures in Iraq and Afghanistan. Russia also believed – and continues to do so – that it stood on higher moral ground than the United States, since its campaign was based upon a legitimate request from the Syrian government and was approved by the Russian parliament. The US campaign met none of these conditions.

Beside the officially-stated objective “to bring peace and stability to the region” claimed by Russia and Iran, Tehran also pursued the goal of gaining a foothold in a neighbouring state that proved unable to guarantee its own defence and security. Moreover, Iran helped establish a stable arms supply chain to the Lebanese Hezbollah. Thus, Syria became a key link in the Iraq-Syria-Lebanon “Shiite axis”. In doing so, Iran got closer to Israel's borders, and Hezbollah was able to refurbish its military equipment, thus adding to Israel's perception of insecurity. In this regard, the Israeli leadership expected the Russian military presence to serve as a potential deterrent to the growing Iranian influence. In a few instances, such as in February 2018, the conflict could have escalated into a direct Iranian-Israeli war had it not been for Russian mediation, which brought about the withdrawal of the Iranian military forces 85 km behind the Israeli border. As Russia maintains close relations with Israel, the latter's security has become the red line that marks the boundaries of Iranian actions

in the area. However, in case of a decisive offensive by one of the parties, the authority and influence of Moscow would not be enough to prevent the outbreak of hostilities.

When the victory in Syria was perceived to be on the horizon, Russia and Iran began to search for new formats of interaction. The so-called Astana format bringing together three historical adversaries – Russia, Iran, and Turkey – was established in order to guarantee a ceasefire and launch a stabilisation and de-escalation processes. In addition, the Astana format has become a platform for inter-Syrian dialogue and the formation of the Syrian constitutional committee, as well as for discussing the post-war reconstruction process. Thus, the Astana format has become a symbol of the constructive interaction of external powers in Syria. While disagreements within the Astana trio persist, the three states continue to value this framework, which, in the absence of a better alternative, helps Moscow, Tehran and Ankara promote their own agendas and coordinate efforts in shaping the course of action in Syria.

**Military cooperation** - Russia traditionally considers Iran a promising arms market. Since the 1990s, Russia has been supplying Iran with airplanes, submarines, air defence systems and other advanced weapons and military equipment. Despite political fluctuations and sanctions pressure, Moscow has continued to cooperate with Iran.

In 2010, relations between Iran and Russia were put to a credibility test. Russian President Dmitry Medvedev signed a decree – “On measures to implement the fourth UN Security Council sanctions resolution on Iran” – which implemented the ban on the transfer of S-300 systems, armoured vehicles, combat aircraft, helicopters, and ships. Iran filed a \$4 billion lawsuit with the Geneva International Arbitration Court against the Russian company Rosoboronexport for cancelling a contract for the supply of S-300 systems. This dispute was highly politicised, as Russian support in the nuclear issue became a lever of pressure on Iran.

Ultimately, after the conclusion of the JCPOA, Russia fulfilled its obligations and in April 2016 delivered the first batch of anti-aircraft missile systems to the Islamic Republic. Since 2015, military cooperation between the two countries has continued to grow. In addition to joint military operations in Syria, Iran and Russia considered regional security, the prevention of drug trafficking, and military cooperation in the Caspian Sea as their common priority areas. In 2015, in Tehran, the two countries' defence ministers signed an agreement on military cooperation and thereby expanded the practice of joint manoeuvres in the Caspian Sea.

The major milestone in military relations between Moscow and Tehran occurred in July 2019 when the two signed a memorandum on the expansion of military cooperation. The memorandum allows the parties to go beyond regional politics and focus on security issues in the northern Indian Ocean and in the Strait of Hormuz, where the so-called "tanker war" broke out in 2019. The memorandum is also a sign that both sides are ready to expand their military cooperation, including in the maritime space, but they do not bind each other with strict obligations, in keeping with the nature relations between Moscow and Tehran. The political significance of the memorandum should not be underestimated either. First, by strengthening military cooperation with Iran, Russia demonstrates support for Tehran, which today is under great pressure from both the US and regional players. Secondly, considering the optional nature of the signed document, Russia uses its available resources to strengthen its influence in the region and pursue a constructive and balanced policy in order to stabilise the situation. This policy would not only give leverage and justify the presence of Russia in the Gulf region, but would also establish its image as a peacemaker.

## **Area of Omissions**

**Economic cooperation** - Russia permanently demonstrates its intention to develop economic cooperation with Tehran despite US sanctions. The reality, however, is much different,

with bilateral trade turnover remaining at modest rates. In 2018, Iran's share in Russia's foreign trade amounted to only 0.2%, which moved Iran to the 50th position on the list of foreign trade partners (in comparison, in 2017 Iran was in 48th position)<sup>15</sup>. Russia's economic opportunities are less significant in comparison with China, which has been Iran's main export partner since 2008, or even with Germany and India. Nevertheless, there are certain achievements in trade and economic cooperation between Russia and Iran.

First of all, Russia supported Iran by launching an oil-for-food program. This agreement was initially reached in 2014. According to leaked information, the deal allowed Iran to sell 500,000 barrels of oil per day (bpd) to Russia, to procure food-stuff and goods<sup>16</sup>. However, the launch of the joint program was repeatedly postponed until 2017, largely due to difficulties with monetary settlements. According to reports<sup>17</sup>, Iran never delivered a single barrel of oil to Russia: the parties could not agree on a price (Russia insisted on a discount); supply logistics (the United States threatened Russia with sanctions for a deal with Iran, and Moscow took a long time to build a scheme to avoid problems); tanker insurance (the parties could not agree on insurers) and final recipients (Iran insisted that its oil should not be delivered to countries where it already has quotas). As of today, details of these dealings have not been disclosed.

Not surprisingly, when the sanctions against Tehran were lifted in 2016, Russia suggested the deal was no longer necessary. However, in March 2017, Russia's Minister of Energy announced the deal was again on the table. When sanctions on Tehran were restored, Russia vowed to help Iran counter US attempts to throttle its oil sales. The Trump administration has warned Moscow against any actions that could help the Islamic

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<sup>15</sup> Russian Trade with Iran in 2018: *Russian Foreign Trade*, February 2019.

<sup>16</sup> J. Saul and P. Hafezi, "Exclusive – Iran, Russia Negotiating Big Oil-for-Goods Deal", *Reuters*, 10 January 2014.

<sup>17</sup> M. Lipin and D. Galperovich, "No Evidence of Russia Buying Iran's Oil in Claimed Defiance of US Sanctions", *VOA News*, 16 July 2019.

Republic to evade the punishment measures. But Russia is looking to continue developing its trading of Iranian oil, which is sold to third countries under oil-for-goods deals, regardless of the sanctions. Recently, Russian authorities have claimed that Iran could use the Russian Volga-Don Canal to transfer oil from the Caspian Sea to the Black Sea. Before, Iran sent oil to Syria and Turkey through the Suez Canal<sup>18</sup>. However, after the US withdrawal from the Iranian nuclear deal, this route has become unprofitable. Countries buying Iranian oil or helping to transport it are at risk of falling under US sanctions.

The second priority direction for strengthening economic relations between Russia and Iran is an alternative mechanism for the transfer of payments. In September 2016, the Russian commercial bank RFK Bank and the Iran Export Development Bank signed two agreements in Tehran to facilitate interbank settlements between Russia and Iran in national currencies<sup>19</sup>. These agreements fit well with the de-dollarisation policies pursued by both countries. Since the dollar is a symbol and an instrument of the US's hegemony and unilateral approach, the refusal to use it is perceived as a boon for economic independence. With the start of the second round of sanctions in November 2018, the White House tried to cut off Iran's main sources of income. Thus, the Brussels-based SWIFT network for making international payments was pressured to cut off links with targeted Iranian institutions. Being disconnected from SWIFT almost completely isolated Iran from the international financial system. In order to continue bilateral cooperation, Russia launched settlements with Iran in national currencies and, according to recent reports<sup>20</sup>, the two countries would use their own domestically developed financial messaging systems

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<sup>18</sup> "Iranian Oil Can Be Carried Via Crimean Ports, Regional Authorities Claim", *TASS*, 27 August 2019.

<sup>19</sup> The Central Bank of the Russian Federation, *Russia and Iran hold talks on development of banking cooperation*, 2 September 2016.

<sup>20</sup> "Banks in Iran, Russia Connected Via Non-SWIFT Financial Messaging Service", *Financial Tribune*, 17 September 2019.

– Iran’s SEPAM and Russia’s SPFS. It remains to be seen whether this mechanism can help expand and deepen trade relations between Russia and Iran, but as of now this area continues to be the weakest side of the bilateral cooperation.

## **Areas of Opportunities**

**Regional integration** - The divergence of interests in post-war Syria has shown that Moscow and Tehran have different views and conflicting objectives in the Middle East. However, they have great potential for interaction in a global or wider Eurasian context. On the eve of the lifting of sanctions in 2016, Russia tried to encourage Iran’s participation in a process of regional and international integration. In 2015 Iranian President Hassan Rouhani was invited to the BRICS (Brazil, Russia, India, China, and South Africa) summit in Ufa. This event gave reason to talk about the Islamic Republic joining this fundamentally non-Western union of five major emerging economies. The expectation in Moscow was that participation of the first Muslim country – one of the key countries in the Middle East region, with great economic and energy prospects – would have brought an element of diversity and additional legitimacy to the BRICS. However, this plan was never implemented. This was due to both the internal contradictions between the current members of the BRICS, as well as the restoration of the sanctions regime on Iran preventing the establishment of strong economic relations with the country. The BRICS, speaking as one, defend the idea of keeping the Iranian nuclear deal alive, thus rejecting US policy of unilateral pressure that violates international law. Nevertheless, they are not able to oppose the US deterrence of Iran, and their support is limited to the rhetorical sphere.

In turn, Iran is more interested in joining the Shanghai Cooperation Organization (SCO) – another political community of non-Western countries – than the BRICS. That also fits into Russia’s strategy to involve Iran in regional cooperation. It

is worth noting that since 2017, the SCO has often been called the “Shanghai Eight”. Given the fact that the Western community is in a state of protracted crisis, as revealed by the existence of different opinions on the sanctions policy towards both Iran and Russia, it is possible to speculate on whether the Shanghai Eight can replace the G8, often perceived as inefficient. Iran is still on the observers’ list, as the SCO recently accepted two new members (India and Pakistan), but Russia continues to lobby for Iranian interests.

Another promising and long-awaited project is the development of the International North-South Transport Corridor (INSTC) – a multi-mode network for moving freight between India, Iran, Afghanistan, Armenia, Azerbaijan, Russia, Central Asia and Europe. Although the agreement between Iran, Russia and India to initiate the INSTC project was signed 19 years ago (September 2002), and it, in turn, made many specialists doubt the possibility of its completion, the member countries still continue to develop the region’s infrastructure.

In the early 2000s, this region faced a series of challenges: the US military campaigns in Iraq and Afghanistan, waves of economic recession, the explosion of ethnic conflicts in Central Asia, the strengthening of sanctions against Iran, the growing influence of China, the spread of radicalism, drug trafficking – all of which postponed the implementation of the project indefinitely. However, the very idea of connecting the space of Central Asia by capturing the flow of Chinese goods and directing it to Europe from the trans-Eurasian sea route to continental transit through Iran, the Caspian countries and southern Russia was seen as a potential new impetus for trans-Asian relations, emphasising Russia’s status as a window to Europe and at the same time attracting investment to Iran.

The last missing link in the western part of the route was the Rasht (Iran) – Astara (Azerbaijan) railway line. In March 2019, the Qazvin-Rasht railway was opened in Gilan province. Although it was facing a severe economic crisis, Iran had been building this line for more than 10 years. In the short term,

the North-South corridor will help Russia to implement the oil-for-goods exchange program, which is the main engine for the development of the project in Iran. In addition, the interim agreement concluded in October 2019 between the Eurasian Economic Union (EAEU) and Iran leads to the establishment of a free trade zone. This FTA would allow Iran to expand the export of goods and labour to neighbouring countries, strengthen its role as a transit country, and increase cooperation in other sectors. Thereby Iran, with the participation of Russia, draws into its orbit regional states that unlike European countries are less influenced by the United States, and are more interested in the stable economic and political development of the region.

**Energy cooperation** - Energy is one of the most important areas for cooperation and the achievement of Russia and Iran's common goals. Both countries possess large oil and gas reserves and play an important role in the global energy market. This area of interaction between them should be considered both as an opportunity and as a potential challenge.

Energy cooperation between Moscow and Tehran has also experienced its ups and downs, given the costs that a wave of sanctions pressure on Iran could entail. Looking back, it is worth recalling that Russia was the only country that agreed to help Iran finish building the Bushehr nuclear power plant after the Federal Republic of Germany withdrew from its commitments in 1980. The first unit of Bushehr Nuclear Power Plant (NPP) was connected to the Iranian national power grid in September 2011, and in April 2016 the unit was finally transferred to Iran for operation: that was the official completion of the construction project. At the same time, Rosatom, as part of its obligations, continues to service the unit and provide it with nuclear fuel. In November 2014, the Russian Federation and Iran signed a contract for the construction of the second and third power units of Bushehr NPP (Bushehr-2 project) on a turnkey basis. Preliminary acceptance of the second block by Iran is scheduled for August 2025, and the third block is

scheduled for February 2027. In addition, in November 2014, Russia and Iran signed a series of documents expanding cooperation in the use of nuclear energy for peaceful purposes and opening up the possibility of building up to 8 nuclear power plants in Iran using Russian technology<sup>21</sup>. Russia is thus still considered as Iran's main partner in implementing its nuclear program<sup>22</sup>.

The signature of the JCPOA, along with other emerging opportunities, contains hidden challenges. Being world leaders in proven natural gas reserves, Russia and Iran emerge as natural competitors for common markets. Russia is concerned about the possible expansion of Iranian gas to Europe. When in 2007 the Islamic Republic and Switzerland signed a contract for the supply of 1.5 bcm/y for 25 years, Moscow regarded it as an encroachment on Russian gas hegemony. However, in 2010, the contract was broken after the introduction of sectorial sanctions by the EU against Iran. Under sanctions pressure, Iran could not fully develop its oil and gas industry. However, the prospect of reaching an agreement on the nuclear issue has again raised the question of the future clash of interests between Russia and Iran in the West.

Upon the lifting of sanctions, Iran started negotiations to penetrate the European natural-gas market, both as a supplier (it controls one of the largest gas reserves in the world) and a transit hub linking gas-rich countries in the Caspian Basin region to Europe. Having been excluded from the European market for a long time, Iran took decisive action to become part of the Southern Gas Corridor as soon as the negotiation process started. This too was perceived by Russia as a threat to its own interests. Despite considerable investments in Iran's gas industry, Russia has a vested interest in the European market, its biggest client. However, the supplies to Europe have not

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<sup>21</sup> "Russia Plans to Build Up To 8 Nuclear Reactors in Iran", *Business Insider*, 22 May 2014.

<sup>22</sup> "Rosatom Committed to Iranian Plant Project", *World Nuclear News*, 9 May 2019.

yet materialised for Iran, whose current total output is nearly equivalent to Russia's yearly gas-sales rate to the EU. This makes it unable to compete with Russia in the European market in the short term.

After the Ukrainian crisis of 2014, Europe sought to diversify its gas purchases in order to reduce its dependence on Russia. However, it did not stimulate European countries to compensate for Iran's economic losses after the US withdrawal from the JCPOA, since the fear of US sanctions seems to be stronger than the potential benefit. Shortly after the resumption of sanctions, European companies began to leave Iran, and the special mechanism for carrying out transactions with Iranian companies (INSTEX) has not yet proved its worth. Thus, the "pro-European orientation" of Iran does not undermine Russia's position in Europe.

Answering the question of whether Russian authorities are helping Iran to overcome the US sanctions, which might result in a reduction in oil prices, Russian Foreign Minister Sergey Lavrov emphasised that reducing tensions on the Iranian issue would benefit bilateral trade and economic relations and, accordingly, would bring tangible benefits to Russia.

But behind such rhetoric lie real advantages that Russia could receive from the forced containment of Iranian activity in the oil and gas sphere. And these benefits became even more apparent when economic sanctions were unilaterally restored by Washington.

On the one hand, Russia is interested in replacing Iranian oil blocked by restrictions. From this point of view, Moscow can be called a beneficiary of the US sanctions policy. On the other hand, trade with Russia could become one of the most effective tools for Iran to help mitigate the impact of sanctions. Iran can get the necessary goods and possibly investments from Russia in exchange for oil. Such a partnership would strengthen the foundations of Russian policy within the framework of its geopolitical rivalry with the United States.

In 2017, Russia made a choice in favour of establishing sustainable cooperation, since Iran's competitiveness has remained a problem of the distant future. During Putin's visit to Tehran in November 2017, Russia and Iran agreed to "strategic" energy deals worth as much as \$30 billion for the development of Iran's oil and gas fields, as well as research collaboration<sup>23</sup>. With the agreement, Rosneft and Gazprom, the Russian energy giants, put themselves ahead of potential Western suitors in Iran. It was assumed that Russian energy companies, together with their Chinese partners, would be in a better position to manage the field in order to meet Iran's substantial energy investment needs in the face of increasing economic pressure. Obviously, the sanctions could not but provoke fluctuations in the energy cooperation of the two countries, but their potential is still extremely promising.

## Conclusion

In light of the above, the question policy-makers are asking in Moscow, Tehran and other international capitals is: is there a place for strategy in partnership between Russia and Iran?

The above examples make it clear that both countries prefer tactical cooperation and finding solutions to current problems, which do not bind the parties with long-term obligations. However, this is not always true. The economic side of the partnership suffers from a number of external destructive factors as well as from the parties mutually perceiving one another as not being of high priority in certain fields. For instance, Russia does not need Iranian oil, while Iran needs technology, mainly Western, which Russia cannot provide. But the energy and military sectors, despite the complicated history between the two states, remain the pillars of the relationship.

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<sup>23</sup> "Russia's Rosneft, Iran's NIOC agree to team up on oil and gas projects worth \$30 billion", *Reuters*, 1 November 2017.

Nevertheless, regional processes and the global paradigm shift are affecting the transformation of these relationships today. After the takeover of Crimea in 2014, Russia made a dramatic divorce from the Western-architected world order, which prompted an important psychological shift in President Putin's foreign policy. The West is no longer a role-model, the Eurocentric model is perceived as collapsed and the relationship with the "global East" becomes a new priority.

This particular concept drives Russia to engage more with key stakeholders in different Asian regions. As far as the Middle East is concerned, it means that Russia will pursue more robust cooperation with Iran, Turkey, Jordan, Egypt, the Gulf monarchies and other countries. From Russia's point of view, this move should be coupled with greater empowerment of these countries in dealing with regional security and other challenges. Thereby, Iran became one of the critical partner-states in Russia's foreign policy. Although, needless to repeat, the history of the relations between the two has seen countless ups and downs.

Today, these relations are still subject to fluctuations. Nevertheless, the two countries have reached an understanding regulating a fragmented approach in bilateral relations allowing cooperation on areas where countries share common goals without jeopardising each other's vital interests.

## 4. Iran and India: The Increasing Convergence of Mutual Interests

Rakesh Sood

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Regional and global developments have brought India and Iran closer together in recent years. For India, Iran is an important energy supplier and also gives it connectivity towards Afghanistan and Central Asia. Both countries share a common concern about the growing hard-line Salafism among Sunni Muslim nations promoted by Wahabi clerics from Saudi Arabia. While Iran's primary policy objective is to manage the fallout from the US's unilateral withdrawal from the nuclear deal, it has also reached out to Asian countries, including India, as part of the newly announced "Look East policy".

In *The Discovery of India*, a seminal socio-political history by Pt Jawahar Lal Nehru written nearly eighty years ago, the author argues that "few people have been more closely related in origin and throughout history than the people of India and the people of Iran". As two ancient neighbouring civilisations, exchanges between the two peoples date back to millennia. Among the earliest evidence of this are the references to each other's cultures and practices in the Vedas and the Zoroastrian texts. Persian was the court language in India from the early 13th century to the early 19th century, when it was replaced by English. Even today, India has the second largest Shia population after Iran.

Yet relations between the two governments since India's independence have fluctuated. During the 1950s-1960s, differences

were caused the pro-U.S. tilt of the Shah of Iran, while after the Islamic revolution it was Iran's pro-Pakistan tilt that caused tensions. Perceptions began to converge only with the end of the Cold War. The first concrete example was arguably the cooperative arrangement worked out between Russia, Iran and India in the late 1990s to support the Northern Alliance in Afghanistan and prevent a takeover by the Pakistan-sponsored Taliban. During the last quarter century, both India and Iran have expanded the areas of strategic convergence even as they have sought to increase their room for manoeuvre in a world where the geopolitical and economic centre of gravity is inexorably shifting from the Euro-Atlantic to the Indo-Pacific.

The Cold War had sub-divided Asia into Northeast, East, Southeast, South, Central, and West Asia. New boundaries and political divisions broke up what had been civilisational frontiers with their own economic spaces. This affected India-Iran relations, too. With the end of the Cold War, new terms like "globalisation" and "connectivity" testified to a more fluid situation. India embarked on its Look East policy in the early 1990s in a bid to revive old ties with ASEAN (Association of Southeast Asian Nations) states. Iran had also embarked on a Look East policy during President Ahmedinejad's tenure (2005-2013) in an effort to counter Western efforts to isolate it. It didn't go very far because China was hesitant about coming forward and Russia was too weak. In other words, regional and global politics got in the way. The US was still the sole superpower, leading interventions in Afghanistan and Iraq.

The situation today is quite different, with both Russia and China displaying a new assertiveness. How far they will go in helping Iran, though, is still a question mark. Meanwhile, Iran too has broadened its Look East policy to include India, Japan and ASEAN states too. Most importantly, US foreign policy seems to lack coherence, putting a strain on the Western alliance; this is especially true of the US's unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA).

Therefore, while Iran's Look East is not a radical policy shift, the political environment is more conducive for Iran.

However, it is important to recall that the US has always loomed large in Iran's foreign policy calculus. The ouster of Prime Minister Mohammed Mossadegh in a CIA-sponsored coup in 1953 with the support of Shah Reza Pahlavi impacted Iran's domestic and regional politics. Under the Shah, Iran became a key US regional ally, together with Israel. After the Islamic revolution in 1979, the situation changed and the relationship became one of acute mistrust and hostility. Despite this, the US's overwhelming presence in the region meant that Iran could not afford to ignore US ties with Israel and Saudi Arabia (which replaced Iran as the principal US ally in the region) coming under strain. The centrality of the US relationship for Iran is evident from the fact that the nuclear talks with the European nations during 2003-05 had to await a new opening in the Iran-US equation before a deal could be finalised.

## Iran's Complex Politics

After the Islamic revolution, Iran came under a theocratic regime and the hostility in its relations with the US became the most strident feature of its foreign policy. Though the theocratic structure has some positions filled by direct elections and has set up multiple institutions that create checks and balances, the overall power balance is tilted in favour of the Supreme Leader. The checks and balances are exercised in a somewhat opaque manner, but this is fairly reflective of the tussles between different interest groups representing the conservatives, moderates, reformists, principlists and hardliners. Again, nowhere is this more evident than in the balancing act on issues pertaining to the JCPOA and, especially, relations with the US major foreign policy shifts may be announced by the President but need the stamp of approval of the Supreme Leader.

Both the President and the 290-member parliament (*Majlis*) are directly elected to four-year terms. *Majlis* elections are due

in February 2020, while President Rouhani will complete his second term in May 2021. These future elections have already begun to affect negotiating postures in Tehran. However, the powers of both the *Majlis* and the President are curtailed by the Supreme Leader (by virtue of the theory of the guardianship of the jurist, *Velayat-e-Faqih*), a position created by Ayatollah Khomeini after the Islamic revolution. The current Supreme Leader Ayatollah Khamenei has been in place since 1989, and this longevity is to guarantee the stability of the regime. Yet this longevity enables the Supreme Leader to take a long-term view and without his blessings, neither the secret talks with the US hosted by Oman during 2012-13 nor the JCPOA could have taken place. The Supreme Leader is appointed by the 88-member Assembly of Experts, a directly elected body with a term of eight years. The current Assembly, widely described as “moderate”, was elected in 2016.

All candidates for the elections – Presidential, Assembly, and *Majlis* – are vetted by the 12-member Guardian Council. Six of the members are nominated by the Supreme Leader and the other six by the Chief Justice of the Supreme Court. While the Chief Justice is himself appointed by the Supreme Leader (along with other members of the higher judiciary), the Chief Justice does exercise a degree of freedom in his choice of candidates. The Guardian Council also scrutinises all legislation passed by the *Majlis* to ensure that it is consistent with the principles of Islamic jurisprudence. Stand-offs between the Guardian Council and the *Majlis* are resolved by the 51-member Expediency Council, which is appointed by the Supreme Leader. In addition, the Supreme Leader also appoints the heads of the radio, TV, armed forces, Islamic Revolutionary Guard Corps (IRGC) and the Supreme National Security Council (SNSC). While the overall balance is tilted in favour of the Supreme Leader, the election process is widely seen as one of the most credible in the Islamic world.

Secret meetings between Iranian and US officials in Oman were authorised by the Supreme Leader only after President

Rouhani, widely perceived as a “moderate”, had taken over in mid-2013. From 1989 to 2005, he had served as Secretary of the SNSC and also handled the nuclear negotiations from 2003 to 2005. This is why the Supreme Leader agreed to shift the responsibility for the nuclear negotiations from the SNSC to the Foreign Ministry. It was a perfect example of checks and balances, Iranian style. On one hand, the Supreme Leader was delegating responsibility to a directly elected president and displaying his confidence and trust in him, but, on the other, he was also distancing himself from the outcome in case the secret talks created a public embarrassment or the nuclear deal failed to carry conviction with the different sections of opinion at home.

## **Nuclear Negotiations and the JCPOA**

If there is one issue that has shaped both domestic politics and Iran’s foreign policy since 2013, it is the nuclear issue. President Rouhani has had to adopt a zigzag route in his efforts to strike a balance between what kinds of constraints Iran’s hardliners would be willing to accept in return for the limited sanctions relief on offer.

The Obama administration had inherited the Stuxnet cyberwar programme from its predecessor. It successfully delayed uranium enrichment by 2-3 years but after it leaked out, the Iranians strengthened their cyber capabilities and expanded their enrichment capacity to nearly 20,000 centrifuges, including some more advanced designs. By the time President Rouhani took over in 2013, US intelligence estimates claimed that Iran was three months away from acquiring sufficient quantity of HEU (Highly Enriched Uranium) to be able to produce one nuclear device. While other aspects of Iran’s regional behaviour and its missile testing were worrying, the rationale driving the Obama administration was that a nuclear armed Iran would be more threatening. Therefore the JCPOA focussed exclusively on rolling back Iran’s nuclear activities. Geopolitics was also

changing after the 2008 global financial crisis and the timing appeared suitable for another attempt at dialogue. This time, the talks were successful, leading to the JCPOA in July 2015.

Under the JCPOA, Iran ended certain activities (converting the underground Fordow enrichment facility into a research centre and dismantling the Arak heavy water research reactor), accepted restraints on other activities (reducing the number of operational centrifuges to 5060 at Natanz for 10 years, restricting enrichment level to 3.6% for 15 years, limiting the Low Enriched Uranium stocks to 300 kg by shipping out nearly 10 tonnes of extra stocks and refraining from setting up a research reactor for 15 years) and accepted a highly rigorous inspection regime. Heavy water stocks were also capped at 130 MT. In return, about \$100 billion of Iranian assets were unfrozen and Iran was allowed to resume sales of oil. 16 January 2016 was declared Implementation Day, when the IAEA (International Atomic Energy Agency) certified Iranian compliance and sanctions relief kicked in. The UN Security Council unanimously adopted Resolution 2231, endorsing the JCPOA and lifting the UNSC sanctions.

On its part, the US lifted “secondary nuclear related sanctions”, although its unilateral sanctions linked to “terrorism” and “missile proliferation” along with a general trade embargo remained in place, with a few exceptions. What was significant was that other countries were able to resume normal trade with Iran with the caveat that financial transactions had to bypass US territory. The US continued to maintain a list of Iranian entities whose transactions would continue to attract sanctions.

However there had been a certain weakness in the US position from the start. Obama’s negotiations were not supported by the Republican-dominated Senate and the JCPOA was never submitted for Senate ratification. This meant that in order to keep the promised sanctions relief going, the US administration had to periodically (every 90 days under the Iran Nuclear Agreement Review Act and every 120 days under the National Defence Authorisation Act 2012) extend the waivers using the

provisions in these legislations. With the coming of President Trump and his open denunciation of the nuclear deal (he called it “a horrible one sided deal that should never, ever have been made”), it was clear that sooner or later, the guillotine would come down on the JCPOA. Finally, on 8 May 2018, the US unilaterally walked out of the JCPOA. Two countries applauded President Trump’s decision – Israel and Saudi Arabia, a reflection of the region’s politics.

## **Post JCPOA Realignments**

Other parties to the JCPOA – China, Russia, France, Germany, UK and EU, were critical of the US decision. The E3/EU assured Iran that they would devise a mechanism that would enable Iran to continue its trade as long as it upheld its end of the JCPOA obligations. To begin with, the US provided temporary waivers to eight countries (China, India, South Korea, Taiwan, Japan, Turkey, Greece, and Italy) to continue a reduced level of oil imports from Iran. These waivers expired on 2 May 2019.

During this period, Trump also expanded the list of sanctioned entities to include the Supreme Leader, Foreign Minister Zarif and the IRGC. As part of its “maximum pressure” policy, Iran’s industrial metal industry (the second largest export earner) has also been brought under sanctions. The promised E3/EU mechanism – Instrument in Support of Trade Exchanges (INSTEX) – was created earlier this year but is limited to trade in food and agricultural products, medical equipment and pharmaceuticals. Much to Iran’s annoyance, oil exports are excluded. As a result, no transactions have taken place.

Iran waited for a year, giving time to the Europeans to come up with a unified political response. The prolonged discussions within the EU convinced the Iranians that there were too many internal differences and far greater economic engagement with the US to expect any sanctions relief from the EU mechanism. After waiting for a year, Iran started pushing the envelope, beginning on 8 May 2019. The first announcement was that Iran

would not observe the stockpile limits of 130 MT of heavy water and 300 kg of low enriched uranium imposed by the JCPOA. These were breached in July when Iran also announced that it would undertake enrichment beyond the 3.67% limit. Two months later, in September, Iran announced that restraints on R&D on centrifuge technology would no longer be observed. Most recently, in November, Iran began to introduce uranium hexafluoride gas in Fordow and doubled the number of advanced centrifuges operating at Natanz from 30 to 60. It is reported that the Arak reactor is also being readied for restarting operations, perhaps in December or January.

For a year after US withdrawal, Iran had exercised a policy of strategic patience. However, expanding sanctions brought the “moderates” under pressure. The inability of the E3/EU to make good on its assurances also contributed to Iran adopting a policy of carefully calibrated confrontation while President Rouhani has continued to emphasise that Iran will not be the one to kill the JCPOA. All the measures undertaken so far have been described as “reversible”, indicating that these are messages to the US to return to the JCPOA and to the Europeans to keep to their promises and use their influence with the US. The activities are at declared facilities, making it clear that Iran is not moving towards the bomb but engaging in diplomatic signalling.

Tensions in the Persian Gulf have also risen in recent months. In mid-May, four oil tankers off the coast of Fujairah reported sabotage and in mid-June, another two tankers were targeted outside the Strait of Hormuz. The US blamed Iran, which denied the allegations. US military presence in the region has been enhanced with the addition of the USS Abraham Lincoln aircraft carrier along with its task force. Additional Patriot missile batteries are being deployed in the region. Saudi Arabia and the UAE are stepping up arms purchases from the US. On 20 June, Iran shot down a Global Hawk US unmanned surveillance aircraft, claiming it was in Iranian airspace. Trump approved a retaliatory air strike but changed his mind at the last

minute, instead opting for a cyber attack against Iranian missile launch systems. On 14 September, two Saudi Aramco facilities, the Khurais oil field, and the Abqaiq refining facility were hit by 18 drones and seven cruise missile strikes, impacting half of Saudi oil exports. The attack was claimed by Houthi rebels, but given the scale and sophistication of the attack, the US has pointed the finger at Iran.

Iranian policy has been successful at exploiting the gap between the US and its European allies that was created by Trump's unilateral withdrawal from the JCPOA. However, this can continue only as long as the E3/EU remain convinced that Iran remains committed to upholding its end of the JCPOA obligations. This is a difficult balancing act for Iran, which cannot be seen to be meekly observing its part of the JCPOA obligations even as the promised sanctions relief remains a mirage after nearly 18 months. With *Majlis* elections due early next year, President Rouhani will be compelled to keep pushing the envelope, as anything else will open up the government to charges of weakness.

## Assessing Iran's Look East Policy

It is against this complex political backdrop that the present initiative for a Look East policy by Iran needs to be evaluated. It is clear that this initiative has been blessed by the Supreme Leader. Addressing a gathering of scholars and academics on 17 October last year, Khamenei said that "Iran should look to East, not West. Pinning our hopes on the West or Europe would belittle us as we would beg them for favour and they would do nothing". However, unlike in the West, there are no major regional platforms, either political or economic, in the East. Iran has been an observer at the Shanghai Cooperation Organisation (SCO) since 2005, but China is careful about converting it into an anti-US platform and does not seem to be in any hurry to elevate Iran to full membership. Other platforms like ASEAN or SAARC (South Asian Association for Regional Cooperation)

do not fit the bill for Iran. Therefore the Look East policy essentially has to depend on Iran increasing political and economic ties with key countries to its East.

One attempt in this direction was the first Regional Security Dialogue in September 2018, which brought together the National Security Advisers of Afghanistan, China, India, Russia and Iran. While the focus was Afghanistan, the agenda was politically broader, including a reference to regional connectivity. With Russia and Turkey, Iran is also engaged in the Astana process that has aimed at policy coordination on Syria.

A boost to relations with China was expected after President Xi Jinping's visit to Tehran in January 2016. Trade over next ten years was to rise to \$600 billion and a 25-year road map was to be worked out. However, this target appears unlikely as current levels are below \$30 billion a year and China has cut down on its oil imports. After the US withdrawal from JCPOA, China's CNPC (China National Petroleum Corporation) took over French Total's share in the South Pars gas field, bringing its stake to over 80% in the \$5 billion project, but has since withdrawn under US pressure, provoking Iranian criticism. Other projects involving an LNG pipeline to China, metro transit systems, railway lines, and dams have been discussed. On its part, Iran has been silent regarding the Chinese crackdown on the Muslim Uighur community in Xinjiang.

However, in the near term, there are clear limitations to what Look East can deliver. For China, its relationship with the US is the most complex challenge that it will have to face in the coming decade. It is partly a trade war, but more significantly it is also a technology war (5G/Huawei is only one example) and linked to Chinese ambitions in overcoming the constraints imposed by the first and second island chains in the Western Pacific, the key to Taiwan unification. China is therefore unlikely to allow its relationship with Iran to add more irritants to its relations with the US, or for that matter, its relationships with Saudi Arabia and Israel.

With Russia, Iran's economic ties are relatively limited, though the political relevance of including Russia in the "Look East" cannot be underestimated, given its rekindled interest in the MENA region. Russia's long-term economic project is the Eurasian Economic Union (EAEU) which came into existence in 2014 with Russia, Belarus and Kazakhstan; Armenia and Kyrgyzstan joined in 2015. Iran has an FTA with the EAEU and while there is talk about Iran joining as a member, there is little movement in this direction. Russia's interest in the EAEU is to reinstate its economic ties with the former areas that constituted the USSR, but this approach is challenged by some states looking towards the EU (Moldova, Georgia and Ukraine), and others at China's Belt and Road Initiative. Iran is an important partner for Russia to regain its influence in the Middle East, along with Israel, with which Russia enjoys warm ties.

Japan and South Korea are further away and, in any event, much too closely aligned with the US to respond positively in concrete terms to Iran's Look East initiative. ASEAN is a large and important group, but its members have varying opinions on Iran, which makes a common political position difficult to achieve. These are some of the facts on the ground that set practical constraints to how much the Look East policy can deliver to Iran in the near term.

## **India-Iran Relations**

Building upon the post-Cold War changes in the region, the foundations of India's new relationship with Iran were laid out in 2001 during Prime Minister Vajpayee's visit to Tehran, followed by President Khatami's return visit as the Republic Day Chief Guest in January 2003. The New Delhi Declaration provided the strategic underpinning in terms of shared regional and global interests and addressed all aspects of bilateral cooperation – energy, connectivity, education and training, science, and technology with special reference to IT. The two countries also established a framework for enhancing defence cooperation.

All the elements identified in the 2003 New Delhi Declaration remain valid today, especially long-term energy cooperation as well as developing the port of Chabahar for enhancing connectivity to Afghanistan and Central Asia, but implementation has been poor. Russia, Iran and India signed the foundation agreement for the International North-South Transport Corridor (INSTC) in May 2002. The INSTC was visualised as a 7200 km long multi-modal trade and transport link between the ports of Mumbai and Kandla on the Indian west coast, linking to Chabahar and Bandar Abbas with road and rail links continuing on to Mashhad and the Caspian Sea (Bandar Anzali) and linking further to Afghanistan and Central Asia on the eastern side and through Baku onwards to Moscow. Over the years, a number of Central Asian countries, together with Armenia, Azerbaijan, Turkey, Oman and Syria have also signed on to the INSTC. Chabahar was an integral part of the INSTC as Bandar Abbas is highly congested, constrained by the bottleneck of the Strait of Hormuz and cannot take large ships, which often use Dubai instead for transshipment. However, the INSTC project was scheduled to begin pilot runs last year, but parts of the rail/road infrastructure are yet to be completed.

The connectivity projects did not show much progress during the Ahmadinejad years. Part of the reason was that this period coincided with increasing sanctions on Iran, and growing Iranian preoccupation with ensuring some amount of oil sales, often through barter arrangements or on the high seas. Developments at Chabahar Shahid Beheshti Port (not to be confused with the nearby Shahid Kalantri port) also picked up after 2015. During Prime Minister Modi's visit in May 2016, an MOU was signed for India to equip and operate two terminals at Shahid Beheshti Port as part of Phase I of the development. Another milestone was the signing of the Trilateral Transit and Transport Corridor Treaty, for which Afghan President Ashraf Ghani was also present in Teheran. The project involves developing the port of Chabahar (barely a thousand kilometres from Kandla on the Indian west coast) with road

and rail connectivity linking it to Zaranj, on the Afghan-Iran border, 800 km to the north. The initial trilateral agreement to develop the Chabahar route to facilitate regional trade and transit to Afghanistan and Central Asia was signed more than a decade ago. In 2008, India completed the 220 km long Zaranj–Delaram road in Afghanistan at a cost of \$150 million.

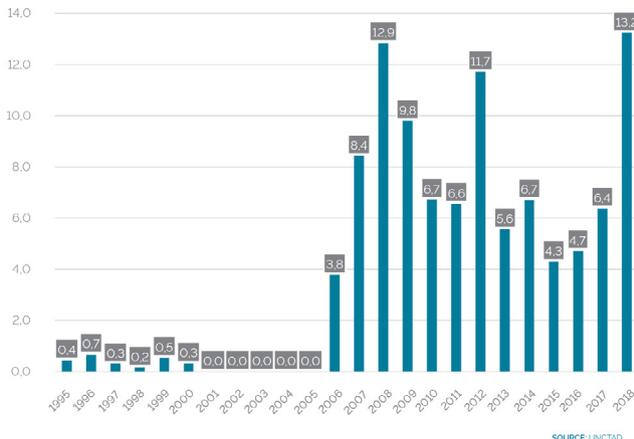
In December 2018, India Ports Global Ltd took over interim operations for Phase I and in consultation with the Iranian counterpart, Port Management Organisation, an Iranian company was appointed to look after the day to day matters. Phase I was declared operational. During the last eight months, the port has handled more than 3500 TEUs. The current capacity is 2.5 million MT of cargo annually and with the completion of Phase I, it is expected to rise to 8.5 million MT. Much of the Indian wheat (75,000MT) intended for Afghanistan is being currently shipped through Chabahar. However, the current arrangement is of an interim nature and expected to end in mid-2020. Negotiations for a more permanent contract have been slow and halting. One positive development has been Japan's interest in supporting India on the Chabahar development.

India has been granted a waiver by the US under the Iran Freedom and Counter-Proliferation Act (2012) to continue its cooperation on Chabahar, as it helps in Afghanistan's economic development. Despite this, it has been difficult to procure heavy equipment like ships to shore heavy cranes and rail-mounted gantry cranes to bring Phase I to completion. There are very few manufacturers of such specialised equipment and European and South Korean companies are often hesitant about dealings with Iran. Waiver applications for more than \$70 million worth of equipment have been pending with US authorities for months. Therefore, even though India's development at the Shahid Beheshti terminal enjoys a waiver, in actual practice the maximum pressure US sanctions approach has slowed developments. In addition to \$85 million of capital investment, India has also committed to provide a line of credit for \$150 million for which banking and arbitration provisions still need to be finalised.

Another major infrastructure project is the gas pipeline project from the South Pars field, initially known as IPI (Iran Pakistan India), and after India pulled out, as the IP (Iran Pakistan) pipeline. This first agreement for the project had been signed between Iran and Pakistan in 1995 with India joining in 1999. Detailed project reports underscored the economic benefits of the project. Prolonged negotiations on pricing lasted nearly a decade. By 2009, India had pulled out of the project following a major downturn in relations with Pakistan after the terror attack in Mumbai in November 2008. This reignited the debate about dependence on a pipeline through Pakistan. According to reports, Iran has completed its portion of the pipeline and the work on the Pakistani part of the pipeline was jointly inaugurated in early 2013 by Presidents Zardari and Ahmadinejad. It was expected to have been completed in 22 months but is still pending. Saudi and US pressure on Pakistan has worked, and the project remains unfinished. For the last two years, the idea of an undersea gas pipeline from Iran to India via Oman (bypassing Pakistan's Exclusive Economic Zone) has been talked about, but the project is unlikely to gain traction as long as Iran remains under sanctions.

## Indian oil import from Iran

(BILLION OF DOLLARS)



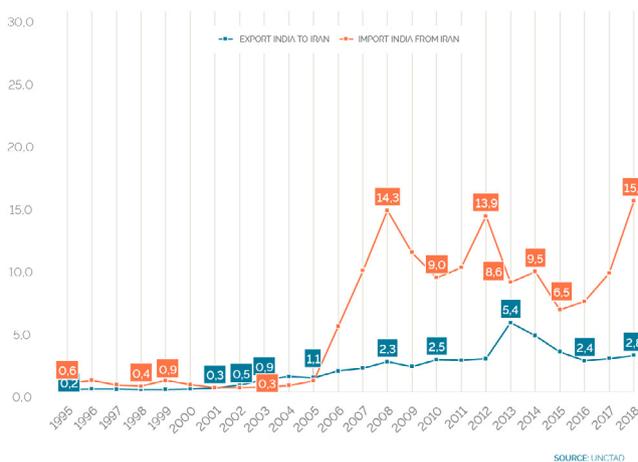
Oil imports by India account for the major part of bilateral trade. The volume of this trade has fluctuated widely depending on the sanctions environment. In 2008, Iran had emerged as the second largest supplier to India, accounting for nearly 15 percent of India’s oil imports, or 21 million MT. By 2014, this had dropped to less than 11 million MT. The quantities went up again after the JCPOA was concluded and sanctions were eased. In 2017-2018 India was importing 560,000 barrels per day, but these were reduced by half as sanctions were reintroduced by the US, and they have petered out since mid-2019. Bilateral trade between India and Iran rose from about \$11 billion to \$17 billion in 2018-2019. Of this, Indian imports were \$13.5 billion while Indian exports were \$3.5 billion. The India-Iran trade figures for the current financial year are likely to be significantly lower due to the drop in oil imports.

Iran has not been happy about this, and Foreign Minister Zarif recently commented that Iran “expected India to be more resilient” instead of succumbing to “US bullying”. Indian exports to Iran include rice, pharmaceuticals, meat, cotton, animal fodder, plastics, chemicals, paper, and paper board. While there has been an attempt to diversify Indian exports, it is expected that bilateral trade will show a sharp decline during the current year.

## Value of trade exchange between Iran and India

ISPI

(BILLION OF DOLLARS)



As highlighted in the earlier section with regard to China and Russia’s relations with Iran, India’s relations with Iran too cannot be divorced from its relations with the US. Further, unlike China or Russia, India is a private sector-driven economy, and companies will carefully evaluate the risks to doing business with Iran on their other global operations. During the last decade, India was deeply invested in normalising its nuclear

position in global civilian nuclear trade and commerce. These efforts, which were strongly supported by the US, finally led to a special waiver for India by the Nuclear Suppliers Group in 2008. In order to get the necessary waivers through the US Congress, which has a strong non-proliferation lobby, India had to strike a delicate balance between competing interests. The Modi government too has remained committed to deepening ties with the US, and this was clearly the driver for India ending its imports of Iranian crude after May this year.

At the same time, the Modi government has also demonstrated an interest in improving relations with Saudi Arabia, the UAE, and Israel. These three countries share close ties with the US and deep concern about Iran's nuclear programme and its regional behaviour. Given that the Gulf Arab states host nearly seven million Indian expatriate workers and the region accounts for three fourths of India's energy imports, stability in the region, especially in the Persian Gulf, becomes critical.

## **Conclusion**

Iran's major foreign policy challenge today remains its neighbourhood. The rise of the Islamic State (IS), instability in Afghanistan, Iraq, Syria and Yemen, a more assertive Saudi Arabia adopting an increasingly hostile position, and a hostile Israel which sees Iran's nuclear programme as an existential threat, are Iran's immediate preoccupations. The involvements of external players like the US and Russia create more complexity.

There is then the longer term trend where the geopolitical and economic centre of gravity is shifting to the Indo-Pacific. Iran's markets for oil and gas lie to its east. With substantial domestic reserves of shale oil and gas, US engagement in the region is likely to decline in coming years. The EU is preoccupied with Brexit and managing internal differences, which have increased after the expansions during the last 20 years. Key European states are tackling the challenges of ageing populations, rising

populism, and rising anti-immigrant sentiment. Until these issues are addressed, a Common Foreign and Security Policy will not carry weight, as the INSTEX experiment has shown.

Under these circumstances, Iran's Look East policy makes eminent sense in the long term. However there are limits to how far it will go in the near term. China's current trade in goods and services with the US is nearly \$740 billion, while India's is nearly \$150 billion. Iran's Look East partners are determined to demonstrate autonomy in their conduct of foreign policy and would therefore be reluctant to toe the US line. At the same time, they will not enter into an Iranian embrace that jeopardises their ties with the US. Further, they also have relations with other countries in the region, such as Saudi Arabia and Israel, and in India's case, a large diaspora in the Gulf region. In the longer term however, Iran's Look East policy will serve it well, in part because of its natural projection towards Asian civilisations.

## 5. The Transatlantic Divergence and EU-Iran Relations: A Litmus Test for European Sovereignty

Annalisa Perteghella

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The Joint Comprehensive Plan of Action (JCPOA), signed in Vienna in July 2015, is often depicted as one of the most important diplomatic successes of the European Union, finally proving that Brussels can actually exercise the role of “a strong Union, [the] one that thinks strategically, shares a vision and acts together”<sup>1</sup>. The EU, indeed, played a key role in facilitating and mediating the negotiations that led to the deal, as well as a crucial role in the first phase of its implementation. However, the May 2018 US withdrawal from the JCPOA has severely challenged the EU’s ability to continue to properly implement the deal: the reinstatement of US secondary sanctions, in fact, essentially shattered the economic incentives devised as the leverage for getting Iran to limit its nuclear program. Despite strong statements reiterating the EU’s support and commitment to the JCPOA, the measures that Brussels has put in place in order to shield itself from US sanctions have not proven able to actually preserve the promising EU-Iran economic relations, which represented a key aspect of the deal. It is because of this – and not of the US withdrawal *tout court* – that in May 2019 Iran started scaling back compliance, thus paving the way for

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<sup>1</sup> Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union’s Foreign and Security Policy, European Union External Action, 15 December 2016, p. 3.

the gradual collapse of the whole agreement. The entire JCPOA drama lays bare the many limits of the EU as a global actor. While the debate on “European sovereignty” has suddenly been reignited by French president Emmanuel Macron’s stark warning about Europe being “on the edge of a precipice”<sup>2</sup>, the time seems to have definitely come to start looking for solutions.

This chapter looks at how European policy *vis-à-vis* Iran has been affected by US behaviour at different stages. If the deal can indeed be considered *also* a European success, it was transatlantic convergence which made it possible. Without the US administration’s willingness to reach a compromise – for example by accepting Iran’s right to enrichment – and without the waiving of US secondary sanctions, the deal would not have been reached. The key importance of transatlantic convergence dramatically revealed itself the day the US withdrew from the deal, basically leaving the EU powerless in sustaining it.

The chapter offers a review of the EU’s role in getting to the JCPOA, which was arguably one of mediation and facilitation. It then proceeds to outline how engagement with Iran – and preservation of the JCPOA – fulfils European interests, and how the EU acted in order to protect those interests in the aftermath of the US withdrawal from the deal. The final section indulges in how the US/EU asymmetry in interests and capabilities *vis-à-vis* the Middle East affects the EU’s ability to act in defence of its interests, thus leaving it severely limited in acting on the world scene on a par with global powers such as the US, Russia, and China.

## **The EU’s Role in the Nuclear Negotiations with Iran**

Highlighted by the Brussels-Washington divorce over the fate of the JCPOA, transatlantic divergence over Iran policy is actually nothing new. Ever since the 1979 Iranian revolution,

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<sup>2</sup> “Emmanuel Macron on Europe’s fragile place in a hostile world”, *The Economist*, 7 November 2019.

which dramatically altered the US system of regional alliances, Washington has been pursuing a containment policy towards Iran, aimed at isolating it and forcibly altering its behaviour. The European Union, in contrast, has been pursuing a “constructive engagement” policy since the early 1990s, when the “reconstruction era” inaugurated by the then-president Rafsanjani opened new opportunities for EU-Iran dialogue and cooperation. Relations between Europe and Iran were normalised following the Iraqi invasion of Kuwait, in what the EU deemed a necessary move for helping stabilise the region<sup>3</sup>. Indeed, EU-Iran relations entered a phase of “Critical Dialogue” in 1992, with the European Council affirming “its beliefs that a dialogue should be maintained with the Iranian government”, and calling for improvement “in a number of areas, particularly human rights, the death sentence pronounced by a Fatwa against the author Salman Rushdie, and terrorism”<sup>4</sup>. Washington, instead, resumed their “active containment” policy by means of an extensive package of sanctions targeting firms doing business with Iran<sup>5</sup>. The extraterritoriality of these sanctions caused a major rift in transatlantic relations, as these provisions were aimed at curbing European companies’ engagement with Iran, and prompted the EU to introduce a “Blocking regulation” aimed at protecting its companies from the U.S. Treasury’s *longa manus*<sup>6</sup>. However, this early EU experiment at dialogue with Iran came abruptly to a halt in 1997, not as a result of US pressure but as a consequence of the *Mykonos affair*: when on 10 April 1997 a German court found the highest Iranian authorities responsible for killing members of the Kurdish opposition in the *Mykonos*

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<sup>3</sup> L. Dryburgh, “The EU as a Global Actor? EU Policy Towards Iran”, *European Security*, vol. 17, nn. 2-3, June-September 2008, pp. 253-271.

<sup>4</sup> European Council in Edinburgh, 11-12 December 1992, European Council, *Conclusions of the Presidency*, RAPID, DOC/92/8.

<sup>5</sup> H.R.3107 - Iran and Libya Sanctions Act of 1996, Congress.gov.

<sup>6</sup> Council Regulation (EC) No 2271/96 of 22 November 1996 protecting against the effects of the extra-territorial application of legislation adopted by a third country, and actions based thereon or resulting therefrom.

restaurant in Berlin, the Critical Dialogue was suspended, and all European ambassadors were recalled from Tehran<sup>7</sup>. It took the election of reformist president Khatami to actually resume relations and kick-start a second round of dialogue, this time labelled “Comprehensive Dialogue”, “on both the areas of concern [...] and on issues of mutual interest”<sup>8</sup>. This time, more specific incentives for cooperation were offered, in particular financial and technical cooperation in the areas of energy, drugs, refugees, and trade and investment, conditional on Iran’s progress on the issue of human rights, weapons of mass destruction (WMD), the fatwa against Salman Rushdie, domestic economic reform, and support for radical groups<sup>9</sup>. The overall objective of the Comprehensive Dialogue was to commit Iran and offer incentives with the aim of inducing changes in its behaviour. The most important of these incentives was the invitation to enter into a Trade and Cooperation Agreement (TCA) with the EU, on the basis of progress in the areas of human rights, non-proliferation, terrorism, and the Middle East Peace Process. Once again, the rationale was engaging Iran in order to support the stabilisation of the region in the aftermath of the September 11, 2001 attacks. Negotiations began in December 2002 but were unilaterally suspended by the EU in June 2003, after the disclosure of the Iranian secret nuclear programme<sup>10</sup>.

Since then, the nuclear dossier has taken centre stage in EU-Iran relations, with the Foreign Offices of three European Member States (E3) – France, Germany, and the United Kingdom – taking the lead in outlining their concerns to Iran

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<sup>7</sup> “Declaration by the Presidency on behalf of the European Union on Iran”, RAPID PESC/97/32, 7009/97 (Presse 97), Brussels, 10 April 1997.

<sup>8</sup> “Declaration by the European Union on Iran”, RAPID PESC/97/41, 7569/97 (Presse 125) E/41/97, Luxembourg, 29 April 1997.

<sup>9</sup> Commission of the European Communities, “Communication from the Commission to the European Parliament and the Council – EU relations with the Islamic Republic of Iran”, COM(2001) 71 final, Brussels, 7 February 2001; “Declaration by the European Union on Iran”..., cit.

<sup>10</sup> Council of the European Union, *Statement on the 2518th Council Meeting – General Affairs and External Relations*, Luxembourg, 16 June 2003.

and discussing the issue of uranium enrichment. Central in the EU calculus was the concern that the US administration's bellicose attitude towards Iran – as shown with Tehran's inclusion in the "Axis of evil" along with Iraq and North Korea – could have resulted in an escalation, and even in a US-led attempt to impose regime change in Iran, as happened in Iraq in the same year<sup>11</sup>.

In November 2004, the E3 negotiated the Paris agreement with Iran, committing Tehran to the suspension of its enrichment of uranium while negotiations on a long-term agreement were underway<sup>12</sup>. However, the Iranian perception of the EU initiative as a mere delaying tactic – asking Iran to suspend its enrichment activities indefinitely without reciprocating with the promised rewards – led Iran to resume its original nuclear program. In August 2005, the E3 provided Iran with a new negotiation offer, trying to conciliate and integrate the Iranian concerns with those of the Bush administration, which was sceptical of the EU's engagement policy and resolute in demanding the complete cessation of Iran's enrichment activities. Tehran's insistence on unrestricted enrichment, as well as its concerns about the Arak heavy water facility were the main issues behind the breakdown of the talks, which prompted the International Atomic Energy Agency (IAEA) to pass two resolutions criticising Iran's continuation of its enrichment activities and reclaiming the sole legal authority to pursue verification of the peaceful nature of the Iranian nuclear programme. Those events paved the way for realignment between the US and the E3. It was the newly-elected German Chancellor Angela Merkel who took the lead for a new initiative, presented in October 2005,

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<sup>11</sup> R. Alcaro and A. Bassiri Tabrizi, "Europe and Iran's nuclear issue: the labours and sorrows of a supporting actor", *The International Spectator*, vol. 43, no. 3, 14-20, 2014.

<sup>12</sup> "Communication dated 26 November 2004 received from the Permanent Representatives of France, Germany, the Islamic Republic of Iran and the United Kingdom concerning the agreement signed in Paris on 15 November 2004", IAEA, INFCIRC/637, 26 November 2004.

under which Iran and Russia would have shared ownership of a uranium-enrichment plant in Russia. Despite its willingness to discuss the proposal, Iran also made clear it was not willing to totally give up enrichment on its own soil, thus depriving the compromise its meaning in the eyes of the Europeans. A new proposal was put forward by the E3 in May 2006, offering Iran economic incentives, such as the normalisation of trade relations and support for full WTO membership in exchange for the cessation of enrichment. This condition, as well as the lack of US-backed guarantees against potential threats from its neighbours, led Iran to refuse the proposal and resume nuclear brinkmanship, with the resumption of enrichment at Natanz and with vocal posturing about its technological achievements in the enrichment process.

Throughout the year 2006, the EU continued – unsuccessfully – its mediation attempt between Iran and the US. Nevertheless, in June of that year that the E3 were joined by the US, Russia, and China, thus becoming the P5+1. Indeed, the E3 expansion into the P5+1 can be credited to European mediation between the hawkish US approach and the more nuanced Chinese and Russian ones. In particular, the EU can be credited for having been able to successfully bring the US aboard the negotiating team, thus mitigating the strict US policy of non-engagement. By joining the P5+1, Washington could “use that framework to influence policies on Iran without having to talk directly to the Iranians”<sup>13</sup>.

In October 2006, the EU supported for the first time the referral of Iran’s nuclear programme to the UN Security Council. Subsequently, the latter approved Resolution 1737, which imposed a worldwide ban on the import and export of materials and technology used in the Iranian uranium enrichment process, demanding in parallel the immediate suspension of the Iranian enrichment activities. Due to the IAEA’s repeated inability to verify the exact nature of its nuclear programme, Iran

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<sup>13</sup> R. Alcaro and A. Bassiri Tabrizi (2014), p. 16.

was referred again to the UN Security Council, which in March 2007 passed Resolution 1747, tightening the existing sanctions regime and extending it to an arms embargo. Despite another European proposal, presented in 2007 by Javier Solana – the EU High Representative for Common Foreign and Security Policy, talks on the Iranian nuclear dossier were once again derailed by the US's firm request of enrichment cessation as a precondition for engaging in the dialogue, which clashed with Iran's insistence on enrichment as a basic right granted under the Non-Proliferation Treaty (NPT).

It took the election of Barack Obama and his 2009 offer of détente to kick-start a new round of talks in Geneva, this time “without preconditions”. The draft of the Geneva deal entailed the shipment of Iran's Low Enriched Uranium (LEU) to Russia, to be then returned to Iran for use in the production of medical isotopes. Iranian reluctance to surrender a significant portion of its LEU stockpile was the main reason behind the Geneva deal's failure, with President Ahmadinejad announcing in February 2010 that Iran had reached the stage of 20% enriched uranium. The stalemate continued throughout 2011. In 2012 the EU imposed an embargo on Iranian oil exports, aimed at forcing Iran back to the negotiating table. In doing so, the Europeans ultimately abided by US requests to strengthen the sanctions regime as a response to Iranian backtracking on the 2009 Geneva initiative. Since then, it was arguably the US's direct involvement in the talks – as well as its willingness to recognise Iran's right to enrichment – which led to the Joint Plan of Action of November 2013 and ultimately to the signature, in July 2015, of the Joint Comprehensive Plan of Action (JCPOA).

As shown in the above overview, the EU has played a crucial mediation role throughout the years-long nuclear negotiation efforts that led to the JCPOA. Indeed, the EU can certainly be credited with having started the negotiation process and having been able to bring the US on board. However, it cannot be portrayed as an actor properly advancing its own vision and leaving its own mark on the course of the events. This innate

inability to put in place an autonomous initiative in pursuit of its own interest has dramatically come to the fore with the US withdrawal from the JCPOA, which has clearly demonstrated that the EU “wears no clothes” when it comes to strategic autonomy.

## **Why Engaging Iran is in the EU's Interest**

The long-standing transatlantic divergence on how to deal with Iran stems from the different perceptions in Washington and Brussels about how to achieve stability in the Middle East, a shared EU and US interest. Apart from the Obama interregnum, Washington's security scheme in the area has historically been to empower its regional allies – with Israel and Saudi Arabia as the main pillars of this strategy – and in parallel isolate Iran, perceived as the source of all regional disorder. In contrast, Brussels' approach rests on the inclusion of Iran among the main regional interlocutors: in the European perception, Tehran has a large stake in regional affairs and therefore it is not possible to achieve any long-lasting solution without its involvement. Moreover, behind the EU's “constructive engagement” approach lies a belief in the moderating effect brought about by engagement: by offering economic, political, and other incentives to Iran, the system will be encouraged to “play by the rules”.

More broadly, engaging Iran into the development of joint solutions aligns with several European interests encompassing the normative, security, and economic dimensions.

On the normative level, including Iran in the discussions on the nuclear dossier – abiding by it until 2018, and attempting to save the JCPOA since – responds to the EU's interest in upholding the international non-proliferation regime. The definitive sinking of the JCPOA, in fact, would pave the way for Iran to fully resume its nuclear activities, potentially triggering a nuclear arms race in the region. The JCPOA, moreover, has strengthened the IAEA's oversight power and system of

inspections, envisaging the implementation of the most robust verification system in the world. As the IAEA is one of the main pillars of the multilateral non-proliferation regime, this can be seen as a strengthening of multilateralism and diplomacy *vis-à-vis* hard military solutions such as pre-emptive strikes on nuclear facilities.

Of course, preserving the JCPOA is also tied to the security dimension: the achievement of a negotiated solution to the Iranian nuclear issue can arguably be viewed as a reduction in the number of threats originating from the Middle East. More broadly, as far as the security dimension is concerned, engaging Iran appears essential for obtaining long-lasting solutions to regional crises, both due to the pivotal role that the country plays in the region and to its potential to disrupt regional security. Indeed, taking as a case in point the summer 2019 escalation of tension in the Persian Gulf, Iran's aggressive posture provoked an increase of insecurity in the region; this display of Iran's potential was driven by Tehran's sense of siege, in this case specifically caused by the "maximum pressure" applied by the US and resulted in a self-sustaining vicious cycle which almost escalated into a violent confrontation.

Furthermore, Europe has trade and energy interests in engaging Iran. As the brief post-JCPOA honeymoon showed, there is plenty of room for European companies in a wide array of Iranian economic sectors. In particular, European expertise in the energy sector could potentially become a key element in the development of Iranian oil and gas fields, as well as its clean energy technologies. Moreover, additional strategic opportunities for European investments in the country exist in the infrastructure and car manufacturing sectors, as well as in the Iranian market for European fashion and design.

Currently, Tehran appears heavily dependent on Europe in terms of trade exchanges. Indeed, in 2018 the EU emerged as the second major trading partner for Tehran (UNCTAD), surpassed only by China. In turn, Iran is not even within the top 60 major European trade partners for the European. Despite

this gap, trade cooperation with Iran is as strategic asset for Europe: historically, it represented the incentive par excellence to be offered to Iran in order to ensure its fruitful collaboration in achieving and maintaining regional stability. In conclusion, the economic dimension of cooperation with Iran is closely linked to the security dimension: in the case of the JCPOA, the resumption of economic and business ties with Iran is intended not as an end *per se*, but rather as an instrument to ensure the Iranian implementation of the deal.

## Value of trade exchange between Iran and EU28



(BILLION OF DOLLARS)



SOURCE: UNCTAD

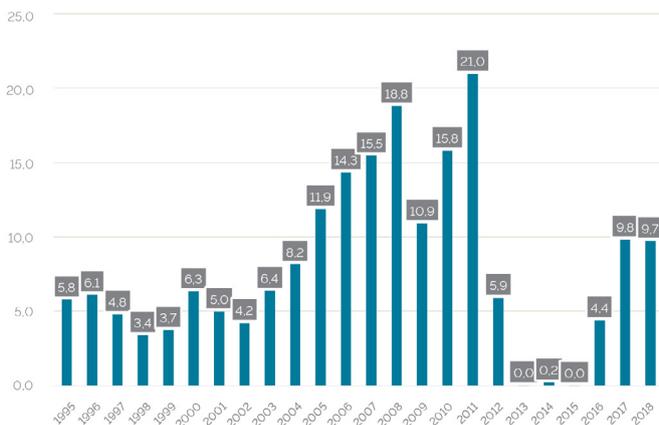
Energy cooperation deserves separate mention. Unlike non-energy trade, in the energy field Iran is one of the main EU partners globally. Before the JCPOA, Iranian oil exports to Europe were restricted by the EU embargo which had been in place since 2012; the JCPOA implementation allowed Iran to

position itself as one of the most pivotal European oil suppliers and to rapidly gain 11th place among the major oil exporters to the EU (UNCTAD). In particular, for Spain, France and especially for Greece and Italy, in 2017 Iran represented one of the main sources of oil imports. In fact, Italy and Greece were the only two European countries which, after the US withdrawal from the deal, could benefit from temporary oil waivers, i.e. the licenses to import oil from Iran despite the November 2018 US re-imposition of sanctions.

## EU 28 oil import from Iran

(BILLION OF DOLLARS)

ISPI



SOURCE: UNCTAD

Likewise, the Iranian gas sector – which remains largely under-developed– also offers the EU the possibility of a major diversification of its natural gas imports. The major suppliers of natural gas to the EU are currently Norway and Russia. Imports from Moscow, in particular, reached 16.4 billion dollars (UNCTAD) in 2018. This dependency is particularly pronounced in the case

of Italy, which last year imported from Russia 32 thousands MCM of natural gas, 46% of the entire value of European gas imports from Moscow. In this sense, the occasion offered by Tehran for a possible wider diversification of gas imports would represent for the EU a strategic asset that would help it reduce its reliance on Russia and its vulnerability to energy shocks, such as the supply disruption that occurred in 2009 in several European countries as a result of the Russia-Ukraine gas dispute.

### **The European Response to the US Withdrawal from the JCPOA**

Notwithstanding the fact that, as outlined in the first section of this chapter, EU/US divergence of views *vis-à-vis* Iran is nothing new, the advent of the Trump administration brought about a totally unexpected challenge to transatlantic unity and, ultimately, to European interests. In particular, the US decision to withdraw from the JCPOA and re-impose pervasive sanctions on Iran inflicted a serious blow to transatlantic relations. Indeed, Washington demonstrated an unwillingness to take into consideration its allies' concerns about the potential consequences stemming from its decision to leave the agreement, let alone European interests. Even more dangerous, in the eyes of the Europeans, was the fact that the US decision to resume the usual policy of containment was not motivated – as in previous negotiation phases – by Iran's lack of adherence to what had been agreed to; instead, it appeared (and still appears) more like a whim than a rationally calculated choice, driven by an arrogant conviction of being able to negotiate “a better deal”. The fact that Trump's decision ended up jeopardising the existing one and imperilling the US's own interests further enraged the Europeans.

Following its withdrawal from the deal, the US put in place a radical “maximum pressure” policy, made of increasing rounds of sanctions aimed at strangling Iran's national economy and forcing the Iranian government back to the negotiating table, from a position of weakness. With this in mind, the US

essentially blocked any kind of trade interaction between Iran and the EU, and pressured the Belgian company SWIFT to prevent Iranian access to its financial messaging system and thus shut it out from the world's financial channels. The re-imposition of US secondary sanctions, which were suspended under the JCPOA, the refusal to renovate waivers for oil imports, the sanctioning of Iran's metal industry, as well as of the Islamic Revolutionary Guard Corps (IRGC) and of key Iranian officials, including foreign minister Zarif and the Supreme Leader Khamenei, ultimately succeeded in isolating Iran and in causing significant damage to its economy. It did not, however, succeed in bringing Iran back to the negotiation table and even less so in moderating its regional behaviour, another major objective of Trump's maximum pressure strategy.

The European reaction to the radical US turnaround has been of strong condemnation, and even stronger reaffirmation of the EU commitment to preserving the JCPOA and, more broadly, the policy of engagement with Iran. As EU HR/VP Federica Mogherini reiterated in 2018,

Our position as Europeans has not changed. On the contrary, we have seen the reasons why this agreement was a good agreement. We remain committed to the full and effective implementation of the nuclear deal with Iran. Our determination to preserve the deal is also in the interest of the United States, because preserving the nuclear deal is essential to our common security – both for Europe and the United States – and for the entire Middle East, that might otherwise fall into a spiral of nuclear proliferation and of an even more dangerous level of conflictuality<sup>14</sup>.

In practical terms, however, the EU had to face the difficult task of insulating itself from enemy fire coming from the US Treasury. The preservation of economic and trade relations with Iran, in fact, was the condition for keeping the JCPOA alive, and safeguarding European interests with it.

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<sup>14</sup> [Speech by HR/VP Mogherini on the Iran Nuclear Agreement](#) at the European Parliament Plenary Session. Brussels, 12 June 2018.

In order to do so, the EU came up with a set of initiatives aimed at shielding European companies from US sanctions.

These included an update of the EU Blocking Statute first adopted in 1996 in order to counter the Iran and Libya Sanctions Act: in 2018, the Statute was revised so as to include all recent rounds of US sanctions against Iran<sup>15</sup>. In theory, the blocking regulation is devised in a way that protects EU companies from potential fines derived by engaging with Iranian entities under US sanctions; in practical terms, however, this measure proved ineffective, as the potential repercussions, such as being prevented from accessing the US market, along with huge fines were sufficient to discourage EU companies from engaging with Iranian counterparts.

Another initiative is the extension of the European Investment Bank's (EIB) External Lending Mandate (ELM) to include limited investments in Iran<sup>16</sup>. However, as the EIB would need to access international capital markets to raise funds, this measure too risked exposing the EU to US sanctions and thus boiled down to a merely symbolic decision<sup>17</sup>.

Third is the approval by the European Commission of an 18 million euro aid package for Iran, divided in support for Iran's private sector and small and medium-sized enterprises, environmental projects, and countering drug abuse<sup>18</sup>. The size of the aid package, however, looks quite small in comparison to the total worth of EU imports from Iran in 2017, i.e. before the re-imposition of US sanctions (€10.1 billion).

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<sup>15</sup> Council Regulation (EC) No 2271/96 of 22 November 1996..., cit., and Commission Delegated Regulation (EU) 2018/1100 of 6 June 2018 amending the Annex to Council Regulation (EC) No 2271/96 protecting against the effects of extra-territorial application of legislation adopted by a third country, and actions based thereon or resulting therefrom C/2018/35.

<sup>16</sup> European Parliament, "Extending the European Investment Bank's External Lending Mandate to Iran", 15 June 2018.

<sup>17</sup> EurActiv, "EIB cannot do business with Iran, bank chief warns", 18 July 2018.

<sup>18</sup> European Commission, "European Commission adopts support package for Iran, with a focus on the private sector", 23 August 2018.

Finally, there is the establishment of a Special Purpose Vehicle (SPV) – the Instrument for Supporting Trade Exchanges (INSTEX) – functioning as a barter mechanism in order to permit the continuation of European trade with Iran<sup>19</sup>. The limitation of the INSTEX scope of action to humanitarian trade, i.e. trade exempted by US sanctions, and the exclusion of the oil trade, severely affected the SVP’s ability to actually make a difference. In addition, its complex operationalisation due to the difficulty of setting up a financial mechanism insulated from the US-dominated international financial system made it impossible for this provision to achieve any positive results.

It was in response to the inefficacy of the EU’s measures, and thus in response to the EU’s inability to properly implement the JCPOA by offering Iran economic incentives, that Tehran announced the end of “strategic patience” and the beginning of “maximum resistance” to US pressure. The gradual scaling back from its commitments under the JCPOA, as well as the brinkmanship in the Gulf of Hormuz, fit precisely into the Iranian strategy of raising the stakes of the game in order to compel the EU to find a way to ensure the correct implementation of the JCPOA, and the US to return to it.

## **Conscious Uncoupling? Behind – and Beyond – the EU Powerlessness in Saving the JCPOA**

As a European diplomat confidentially affirmed, US policy in several domains now represents more a threat than an opportunity for the EU. Nowhere this has been more evident than in the case of the JCPOA. Despite different initiatives put in place with the aim of preserving the deal, the EU has so far been unsuccessful in upholding the economic incentives that represent the compensation for Iran abiding by its commitments.

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<sup>19</sup> European External Action Service, [Statement by High Representative/Vice-President Federica Mogherini on the creation of INSTEX, Instrument for Supporting Trade Exchanges](#), 31 January 2019.

The main reason is that it has not been possible for the EU to actually find a way to effectively shield its companies from US secondary sanctions. The result has been, as outlined above, the end of Iran's "strategic patience" and the beginning of a gradual scaling back from its JCPOA commitments, i.e. the beginning of a progressive dismantling of the JCPOA. The consequences have been widespread and not limited to the sole nuclear dossier: Iran began a strategic brinkmanship in the Gulf aimed at luring back the US into negotiations from a position of strength; the result has been a spike in tension and a further decrease in regional stability, which ended up endangering the EU's interests too.

Arguably, the main reason for the EU's inability to adequately implement the JCPOA was the blow inflicted by the US. This is in line with the dismantlement of multilateralism as a method and, more broadly, of liberalism as the main ideology informing the world order. In spite of multilateralism, the US is now pursuing a bilateral, and purely transactional, approach to crises and negotiations. In the case of the Iranian nuclear deal, this new US stance was motivated by Trump's desire to "negotiate a better deal", fueled by his perception that this was best achieved by going at it alone, by simple means of a policy of "maximum pressure" that would have forcefully brought Tehran back to the negotiation table, and from a position of weakness. This is in stark contrast with the EU's effort to "promote a rules-based global order with multilateralism as its key principle and the United Nations at its core"<sup>20</sup>.

Where does all of this leave Europe? As the European Council President Donald Tusk claimed in 2018, "the rules-based international order is being challenged [...] by its main architect and guarantor, the US". Likewise, the recently appointed EU High Representative for Foreign Affairs and Security Policy Josep Borrell, in his hearing to the European Parliament affirmed:

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<sup>20</sup> [European Union External Action Service, Shared...](#), p. 8.

“the ‘America First’ posture of the Trump administration has overturned this central feature of the multilateral rules-based international order and the EU must now develop its own strategic autonomy and strategic culture”<sup>21</sup>. Quoting the new strategic agenda for the EU for 2019 to 2024 adopted by the European Council in June 2019, Borrell reiterated that “the EU needs to pursue a strategic course of action and increase its capacity to act autonomously to safeguard its interests, uphold its values and way of life, and help shape the global future”.

Indeed, transatlantic divisions are not solely to be attributed to Trump’s radical nationalism. The EU and the U.S. have been “consciously uncoupling” for several decades, thus divisions and divergences are nothing new. Almost twenty years have passed since the two sides of the Atlantic alliance clashed on the Iraqi intervention. Neither is it a novelty that the EU appears weak and powerless on the global scene. Again, the post-2001 scenario reignited the debate on Europe’s role in the world.

However, the EU/US decoupling on the Iranian nuclear deal revealed in all its seriousness the fundamental asymmetry of interests and capabilities between Washington and Brussels. With the global power balance shifting east, the US is now focused on the rivalry with China; moreover, following the shale gas revolution that significantly increased US energy production, Washington is no longer dependent on Middle Eastern oil. In another significant sign of the times, the majority of oil flows originating in the Gulf are now heading east, towards the energy-hungry Asian economies. The combination of these elements shapes the diminished U.S. interest in the region. It is not a coincidence that one of Trump’s electoral promises in 2016 was to disengage America from the “useless” Middle Eastern wars. For Europe, on the contrary, the Middle East remains a critical neighborhood, as the waves of chaos originating in the region reverberate on its shores. Two of the major challenges which in

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<sup>21</sup> European Parliament, [Josep Borrell Fontelles, High Representative of the Union for Foreign Affairs and Security Policy/Vice-President: A Stronger Europe in the World, Hearings of European Commissioners-designate, September 2019.](#)

recent years have been putting the EU under pressure - massive flows of refugees as well as the threat of terrorism – are spillovers of the destabilisation of the Middle East.

To this EU/US asymmetry of interests *vis-à-vis* the Middle East corresponds an asymmetry of ability to exercise political and strategic influence. While the US is a global superpower, perhaps unwilling to flex its global muscles but definitely in the condition of doing it should the need arise – the EU remains the proverbial political dwarf, “a vegetarian in a world of carnivores” as German foreign minister Gabriel put it, and continues to suffer from a “capability-expectations gap”<sup>22</sup>. In this respect, saving the JCPOA represents a crucial test for the EU’s ambitions to be recognised as a credible diplomatic actor on the global stage, as well for its ambitions to be a security provider and, most of all, to be able to protect its own interests.

Thus, the current US/EU spat represents both a challenge and an opportunity, as the EU is now going through a crucial moment that endangers its interests, but that can also spur it to adopt a more autonomous action in foreign, security and defense policy.

Unfortunately, in this make-or-break moment, the overall European climate does not seem conducive to greater autonomy, a precondition of which is greater unity and of course less national sovereignty. Nationalism, indeed, is not on the rise on the American shore of the Atlantic only: Europe is also going through the age of populism and is witnessing a new wave of nationalist retrenchment.

Not to mention the fact that one of the major outcomes of these retrenchment – Brexit – is a challenge in itself to the European quest for strategic autonomy and to the survival of the JCPOA as such. While the E3 has so far been the main engine of the European attempt to push back against US policy on Iran, with the United Kingdom leaving the EU and searching

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<sup>22</sup> C. Hill, “The Capability-Expectations Gap, or Conceptualizing Europe’s International Role”, *Journal of Common Market Studies*, vol. 31, no. 3, September 1993, pp. 305-328.

for a reinvigoration of its “special relationship” with the US, the very firmness of the European front appears in doubt. The UK, after all, has historically been the most hawkish of the E3, and the July 2019 episode of the seizure in Gibraltar of the Iranian tanker *Grace 1* – allegedly as an act of submission to US requests – seems to have offered a preview of the most likely future positioning of the Kingdom.

## **Conclusion**

While the European Union did play a crucial role in the P5+1 negotiations that led to the JCPOA in 2015, its success arguably stemmed from its ability to bring the US on board. Without Washington’s will to pursue engagement with Iran, Brussels would simply have lacked the leverage to commit Tehran to a deal. This dynamic has been laid bare with Trump’s decision to withdraw from the JCPOA, which evidenced the limits of European foreign policy. And yet, continuing to engage with Iran would help the EU achieve its goals in the non-proliferation, security, economy, and energy realms. Brussels’ inability to resist US pressure to cease economic and trade activities with Tehran is what recently re-awakened the longstanding debate on Europe’s role in the world. As the chapter contends, it is the lack of a unified approach to foreign policy that undermines the EU’s ability to have the same weight on the global stage as major players like the US, China, and Russia.

## Conclusions

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As there are few signs that America will moderate its stance on Iran in the near future, Tehran is hard at work building stronger ties with alternative global powers. During the four decades of antagonism with the US, Iran went through a gradual “de-Americanisation” process, distancing itself not only from the US but also from the West as a whole. Indeed, Iranian relations with the EU, whose stance toward Iran has fluctuated over the years, have also been affected by the growing alienation of Tehran from the Western bloc. The pressing search for new partners for economic and strategic ties resulted in Tehran turning its attention eastwards, especially to the countries that are emerging as the major winners in the new multipolar global order, namely China, Russia, and India.

Indeed, Tehran has been able to capitalise on the systemic power shift that occurred in the past decades, deepening its connections with the new kings of the international chessboard in all possible directions, from strengthening bilateral trade exchanges to committing to long-term regional infrastructural projects. This strategic eastward orientation translated into an Iranian gradual process of “Asianisation”, i.e. an enhancement of its Asian status that could guarantee its economic survival while strengthening its regional integration to the detriment of the West. Indeed, against the backdrop of the prolonged US efforts to contain and isolate Iran, Tehran has limited room for manoeuvre, and its prosperity within the global economy must develop under the Asian economic orbit, particularly under

Chinese auspices. In turn, the strategic assets that Iran can offer to the greedy Asian economies are a huge domestic market, a large, well-educated, and young population, and some of the largest hydrocarbon reserves of the world.

China in particular plays a key role in the Iranian Look East strategy, as Beijing is Tehran's largest trade partner. However, the fundamental feature of the Beijing-Tehran relationship is the asymmetry of power, status, and objectives that has constantly characterised the two countries' history. While both have experienced a period of troubled relations with the West, China is a great power engaged in a long-term competition with the United States and committed to building its own area of influence through the Belt and Road Initiative. Iran, for its part, remains a regional power strangled by U.S. sanctions and unable to complete its path toward re-inclusion within the international community. In the last three years, however, the intensification of the US-China rivalry – with the emergence of a trade war – and the further complication of US-Iran relations – with Washington's withdrawal from the JCPOA – has deeply influenced the evolution of Sino-Iranian relations. The development of the Belt and Road initiative, in particular, could pave the way for a more balanced convergence, as Tehran is at the heart of the China-Central Asia-West Asia Economic Corridor. In the long-term, thus, the challenge for both countries is to make their Comprehensive Strategic Partnership effective and sustained.

As far as relations with Russia are concerned, they have been historically complicated by lack of trust and mutual suspect. Despite this, however, the two countries have today reached an understanding based on cooperation in areas where they share common goals – like the energy and military sectors – without jeopardising each other's vital interests. In particular, Iran is a key partner in Russia's ambitions of returning to the Middle East. Indeed, Russia's dramatic divorce from the West – especially as a result of the 2014 Ukraine crisis – is what prompted Moscow to look east. For Iran, likewise, the US turnaround on

the JCPOA and the severing of economic relations with Europe has been key major incentive that led it to search for alternative partners.

Finally, connectivity and infrastructural projects such as the INSTC, along with energy ties are what drive Iran-India relations. However, even more than in the case of Russia and China, India can't divorce its relations with Tehran from its relations with the US. As the Modi government appears strongly committed to deepening ties with the US, New Delhi is particularly careful not to antagonise Washington. A key example has been India ending its imports of oil from Tehran after the Trump administration failed to renew the waivers it had granted to the major importers of Iranian crude. Furthermore, the current Indian government has a key interest in improving relations with Saudi Arabia, the UAE, and Israel, thus needing to strike a balance between Tehran and its regional adversaries. However, in the long-term India-Iran relations are set to expand, as the two countries share a common Asian projection.

Where does all of this leave Europe? The JCPOA set the stage for a deeper EU-Iran engagement, which would have fulfilled crucial Iranian and European interests. The US withdrawal from the deal, however, has severely challenged the EU ability to continue to give it proper implementation. Despite strong statements reiterating the EU's support and commitment to the JCPOA, the measures that Brussels has put in place in order to shield itself from US sanctions have not been enough to actually preserve the promising EU-Iran economic relations, which represented a key aspect of the deal. It is because of this – and not of the US withdrawal *tout court* – that in May 2019 Iran started scaling back compliance, thus paving the way for the gradual collapse of the entire agreement. The entire JCPOA drama is indeed revealing of the many limits of the EU as a global actor. While the debate on “European sovereignty” has suddenly been reignited by French president Emmanuel Macron's stark warning about Europe being “on the edge of a precipice”, the time seems to have definitely come to start looking for solutions.

The US withdrawal from the deal has not only inflicted a blow on the transatlantic bond, it has also laid bare the limits of European foreign policy. As this Report evidenced, while the EU potentially stood to benefit from Iran's re-inclusion in the world community, today it is mainly other actors who are deepening their cooperation with Iran. This definitive wake-up call, if the EU aspires to play on the global stage on par with major actors like the US, China, Russia, and India.

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