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ECONOMIC INTERACTION BETWEEN CHINA AND IRAN IN TRADE AND INVESTMENT

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Annotation

The Chinese-Iranian strategic partnership, solidified following the 1979 Islamic Revolution in Iran, is grounded in pragmatic economic and geopolitical interests. Aspiring to global power status, China provides Iran with investments, diplomatic support, and a market for its oil, thereby securing access to energy resources and opportunities to advance the Belt and Road Initiative. Amid Western sanctions, Iran leverages China as a critical partner to ensure economic stability and counter U.S. influence. The collaboration spans energy, infrastructure, trade, and military-technical domains but is constrained by the asymmetry of relations, sanctions, and Beijing's cautious policy of avoiding a formal strategic alliance to maintain balance with other partners.

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Introduction. In recent decades, China has increasingly acquired the characteristics of a global power due to its growing economic might. More and more countries across various continents are falling within China's sphere of interests. While in the second half of the 20th century such penetration had a pronounced ideological character, today China's policy represents economic expansion. The political role of the PRC in global processes is also increasing. In this regard, China's support for a particular country, participation in regional organizations with Chinese involvement, provides such countries with certain advantages. Iran is one such country.

China and Iran established diplomatic relations in 1971, but for a long time the level of relations between them remained quite low. The first official visit by a high-ranking PRC official to Iran was made only in 1979. The intensification of bilateral relations occurred after the Islamic Revolution in Iran and was largely conditioned by the anti-American orientation of the Revolution and the subsequent rupture of Iranian-American relations. In its foreign policy activities, Iran was forced to begin searching for new allies and new economic partners. Evidence of Iran's interest in establishing multifaceted relations with China is the fact that practically the entire Iranian leadership has visited China since the Islamic Revolution. Reciprocal visits by high-level delegations have formed a complex of generally balanced bilateral relations at a high level and laid the foundation for positive dynamics in Iranian-Chinese ties.

The official visit of Islamic Republic of Iran President S.M. Khatami to China in June 2000 was regarded by officials of both states as the beginning of a new stage in relations between the two countries. Iran's leadership sees the PRC as one of its main foreign policy partners, cooperation with

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which contributes to the development of the Iranian economy and strengthening the country's defense capabilities, as well as protecting, to a certain extent, Iran's interests in the international arena.

Chinese investments in Iran have not only led to lucrative contracts for China's three largest national oil companies (China National Petroleum Corporation, Sinopec, and China National Off-Shore Oil Corporation), but have also potentially strengthened China's energy security by developing solid relations with a supplier that would be unlikely to be intimidated and forced to reduce oil exports to China in case of a U.S.-China military conflict.

Non-energy commercial ties between China and Iran are also important for bilateral relations. China's participation in developing Iranian infrastructure ranges from building the Tehran metro to investments in mining, dam construction and port development, as well as commercial shipbuilding and consumer goods sales. Non-energy trade and investment serve as Beijing's primary incentive for expanding relations with Iran.

Expanding relations with Iran provide Chinese state-owned enterprises with opportunities to obtain overseas contracts and sell their goods abroad, as well as provide employment for Chinese workers. From 1985 to 1997, cooperation in civilian nuclear energy was also one of the main elements of relations, helping China gain significant profits that allowed it to modernize its own nuclear energy infrastructure.

Economic relations between Iran and China are concentrated in three main areas: international trade in goods, Iranian oil exports to China, and Chinese investments in Iran. Examining trade between the two countries reveals an interesting picture. While Chinese exports help Iran find alternatives to goods that would be supplied by Western countries if not for sanctions, Iran's imports of Chinese goods have decreased significantly since economic sanctions against Iran were restored in 2018 after the U.S. withdrawal from the nuclear agreement in May of that year.

Chinese goods exports to Iran totaled $10 billion in 2023 (see Figure 1), which is the highest annual figure for 2019-2023, but still 30% less than in 2018, when Chinese exports to Iran peaked at $13.9 billion—the same year sanctions were reimposed against Iran. This amount is much lower than China's peak exports to Iran of $24.3 billion in 2014. This decline can be explained both by the actual fall in Chinese exports to Iran and by the fact that Chinese exports are being routed through third countries due to Chinese companies' fears of circumventing secondary U.S. sanctions against Iran. These concerns led to a significant reduction in Chinese exports to Iran starting from the second half of 2018 [1].

Chinese exports to Iran cover a wide range of sectors, with about 70% falling into three main categories. The first category includes vehicles such as personal cars and motorcycles, as well as spare parts for these vehicles, accounting for a quarter of total exports. The second category includes machinery, nuclear reactors, and boilers. The third category consists of electronic equipment.

Trade indicators clearly demonstrate the imbalance between the two countries. Iranian imports from China accounted for more than 15% of Iran's total imports of $65 billion in 2023. In contrast, Chinese exports to Iran constituted only 0.3% of China's total goods exports, which reached $3.38 trillion in the same year. In other words, Iran is just one of many markets for Chinese goods, while China is a major source of Iranian imports [2].

Iranian exports to China mainly consist of oil. Two other important trends should also be noted. First, Iranian oil exports to China increased significantly after the COVID-19 crisis, surpassing pre-pandemic levels. Oil export volumes grew from 118 million barrels in 2020 to 441 million barrels in 2023, representing a 350% increase. This means China imported an average of 1.2 million barrels of oil per day from Iran in 2023. This trend continued in the first half of 2024, with China importing an average of 1.38 million barrels of oil per day from Iran.

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Second, Iran has become almost completely dependent on China as a market for its oil. In 2017, Iran exported only a quarter of its oil to China. However, when economic sanctions against Iran were imposed at the end of 2018, Iranian oil exports to China fell from 272 million barrels in 2018 to 170 million barrels in 2019. Despite this, China's share in Iranian oil exports grew from 37.2% in 2018 to 71.4% in 2019. By 2023, it exceeded 80% of total Iranian oil exports and reached 90% in 2024. Iranian oil exports to China increased significantly despite disagreements between the two countries over oil prices [2].

After the start of the war in Ukraine and the imposition of sanctions on Russian oil, Iran faced competition from lower prices at which Russia offered its oil to China. The main beneficiary of this development was China, which saved $10 billion in 2023 on imports of Iranian and Russian oil due to substantial discounts. This underscores Iran's strong dependence on China, while China has alternatives to Iranian oil, as only 10% of China's oil imports come from Iran.

Circumventing sanctions on Iranian oil exports to China does not solve Iran's foreign currency problem, as China uses small Chinese banks to pay for Iranian oil in Chinese yuan rather than dollars. Moreover, Iran is obligated to use these revenues to purchase Chinese goods. Despite Iran's efforts to reduce its dependence on oil, various estimates indicate that one-third of Iran's budget is formed from oil revenues. Sanctions have made oil exports even more important for Iran.

The nuclear agreement generated hope in Iran for attracting foreign investors to the country. However, the reimposition of sanctions significantly affected foreign direct investment, which totaled only $8.1 billion from 2018 to 2022 compared to more than $5 billion in 2017 alone. Chinese investors could not fill the gap left by Western investors; China invested only $618 million in Iran in 2018-2022, representing 7.5% of all foreign direct investment in the country. Most of these investments were directed to the construction sector [3].

Foreign investment in Iran decreased significantly after sanctions. Chinese companies were reluctant to invest in Iran due to sanctions and economic and political instability in the country. Additionally, Chinese companies that invested in Iran after the 2015 nuclear agreement withdrew their investments when sanctions were reimposed. For example, China National Petroleum Corporation, which signed an agreement in 2016 to invest $600 million in the South Pars gas field, canceled its investment when sanctions were restored. While China invests billions of dollars in Saudi Arabia, the United Arab Emirates, and other regional countries under the Belt and Road Initiative, its investments in Iran remain minimal. In 2022, China invested $1.5 billion in Saudi Arabia and $1.3 billion in the UAE.

This trend has led to internal criticism in Iran from those who argue that Beijing is exploiting Iran at the expense of its struggling economy. Critics emphasize that relations between the two countries are asymmetric and do not represent equal partnership. Moreover, Iranian businessmen object to Chinese companies offering cheap products, making local products in Iran less competitive. Iranian consumers also complain about the quality of Chinese consumer goods imported to Iran.

China plays a crucial role in Iran's ability to circumvent sanctions, primarily through oil exports. However, their economic partnership remains limited, particularly regarding China's investments in non-oil trade and major infrastructure projects in Iran. Sanctions, Iran's refusal to adhere to Financial Action Task Force recommendations—an international task force on combating money laundering and terrorist financing—and structural problems in Iran's economy, such as poor governance, corruption, and lack of transparency, all hinder economic cooperation between the two countries. As a result, Iran is largely dependent on China and has no alternatives from Western countries. Improving economic relations between Iran and China largely depends on diplomatic settlement between Iran and Western countries led by the United States. This solution could contribute to the lifting or at least easing of sanctions. Stricter enforcement of U.S. sanctions on Iranian oil exports to China would likely substantially harm their economic relations; however, it is doubtful that the United States could force

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China to more strictly adhere to these sanctions.

The basis for this is common foreign policy approaches, particularly where both countries advocate for a multipolar world, while contemplating the possibility of forming one such pole—a strategic alliance of China-Iran-Russia-India. In its statements on various international problems, Iran invariably emphasizes its commonality with the PRC's position, especially since the early 2000s, amid the growing influence of the United States in the region.

Experts attribute Tehran's increasing desire to obtain maximum support from China, as such support, as well as strengthening bilateral relations, is an important element in the struggle to preserve Iran's statehood itself. The current level of China-Iran relations is best characterized by the growth in trade turnover between the two countries. In 2001, trade volume was $3.3 billion; in 2010—$29.3 billion, exceeding the previous year's indicators by 38.5%; in 2011, its value reached $45 billion, and in the current 2012, trade turnover is expected at no less than $50 billion, despite sanctions related to Iran's nuclear program [5].

Examining Iranian-Chinese relations, one cannot fail to address their military and military-technical aspects. The volume of Chinese arms supplies to Iran has been significant since the second half of the 1990s. Not only finished weapons were supplied, but a number of technologies were also transferred, and practical assistance was provided in creating production facilities for tactical and operational-tactical missile systems and artillery systems. According to several experts, China is currently somewhat adjusting its Iranian policy under increasing pressure from the United States and the EU, who understand that China's joining the sanctions regime could inflict enormous damage on Iran's economy, considering China's share in Iranian exports [4].

In 2011, China suspended implementation of several oil and gas projects in Iran, proceeding to implement some of them only after threats from the Iranian side about canceling issued licenses. Without urgent investments in the oil and gas sector, considering its current state, Iran would lose the ability to export oil by 2015. Simultaneously, China significantly increased the volumes of oil purchased from Iran. In 2011, they grew more than twofold compared to the previous year. This trend continued in 2012. Thus, in April, oil imports from Iran grew by 48% compared to March 2012 and are projected to increase further. China's share in Iranian oil exports currently stands at 21%, while China does not intend to abandon Iranian oil to appease Western sanctions against Iran, as it desperately needs its oil. By the end of 2011, Iran became the third largest oil exporter to the PRC after Saudi Arabia and Angola. This occurs against the backdrop of the West's systematic policy of economic strangulation of Iran. On May 21, 2012, on the eve of negotiations between the "six" and Iran on nuclear issues, the U.S. Senate approved new sanctions targeting Iranian oil exports. As a result, two more Iranian state oil companies fell under sanctions [8].

In early 2012, several companies were banned from exporting to the United States, including the Chinese "Zhuhai Zhenrong Corp," which exported petroleum products to Iran. Sanctions were applied in accordance with U.S. law prohibiting cooperation with Iran's Central Bank. By now, China's banking system, with few exceptions, has ceased cooperation with Iran to avoid application of international sanctions to Chinese banks. However, one cannot speak of China's absolute compliance regarding U.S. and EU policy toward Iran. Chinese companies continue fairly intensive activities implementing various projects in Iran [4].

In April 2012, the Korean automotive company "Hyundai Motor Company" ceased its activities in Iran due to the threat of sanctions. Its place in Iran's market was taken by the Chinese company "Great Wall." Having a high level of relations with Iran, China maneuvers in relations with its competitor for leadership in the Islamic world—Saudi Arabia. Conducting a pragmatic economic policy toward it, Beijing is subject to political consequences of bilateral relations, as Saudi Arabia is an obvious conductor of U.S. policy in the region. Despite the fact that the PRC does not take steps to infringe

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Iran's interests in favor of Saudi Arabia, the very fact of their close economic relations to some extent clouds Iranian-Chinese relations.

In case of Saudi Arabia replacing Iranian oil in China's market, Beijing's support for Iran would not undergo significant changes, as without its participation, the transcontinental communications project cannot be implemented. However, China is very interested in its implementation. Besides the oil component of economic relations, China actively participates in various spheres of Iran's economy, which, in case of the visible positive dynamics of such participation, could minimize the consequences of international economic sanctions for Iran. Understanding this, Iranian leadership takes all possible steps to strengthen bilateral cooperation.

Today's conditions allow Iranian partners to circumvent restrictions, relying on provisions preventing harm to Iran's population when applying sanctions. The Chinese-Iranian partnership is conditioned by the current geopolitical situation and economic expediency, and therefore does not have long-term prospects. Iran strives to form a full-fledged strategic alliance, while China is primarily interested in the economic component.

Pragmatism in China's policy toward Iran is manifested in its refusal to conclude a bilateral strategic partnership agreement and, consequently, signals certain limitations in the framework of cooperation. Iran understands and accepts such a state of affairs, while counting on diplomatic support. It receives such support, achieving softening of UN Security Council resolution formulations directed against Iran. At the same time, China will not use its veto right when adopting UN sanctions against Iran, guided by fears of deteriorating Chinese-American trade and economic relations and interest in preserving its exports to the United States.

Conclusion: Based on the above, the following conclusions can be drawn:

Throughout the history of bilateral relations between China and Iran, friendly, high-level partnership ties have formed between them. The foundation of such relations is not ethnic, cultural, or religious commonality of peoples. China and Iran are not immediate neighbors. The state ideologies of both states essentially have no fundamental points of contact. Iran and China differ in their geopolitical position, global influence, economic and military-technical potential. The basis of Chinese-Iranian relations is the pragmatism of state interests. While conducting independent foreign policy, China is forced to build its relations with Iran with regard to the United States and their allies. Analysts study Beijing's possibilities to sacrifice its Iranian partner's interests for the sake of preserving extremely beneficial and necessary relations with the United States and the European Union. It seems that such a question in this context will not arise in the foreseeable future in the real situation. Many influential global players are interested in preserving Iran as a viable state. Common approaches to preserving a friendly, strong Iran allow China to conduct independent foreign policy in the Iranian direction. Iran's geopolitical position is of great importance for Beijing. Iran experiences increasing pressure from the United States and the European Union. At the same time, Iran's partners also fall under their pressure. Under threat of sanctions extension to them, Iran's partners are forced to curtail their projects in the country and reduce volumes of purchased Iranian oil, which is the main source of budget revenues.

The economic relations of the two countries over the past decade have brought them among each other's main partners. However, there is a serious imbalance in the trade structure. Iran serves China perhaps in a single capacity, as a supplier of raw materials—oil, albeit very important, while China is one of Iran's main investors and importers to the Iranian market of finished goods. Given the current level of trade turnover, reduction of Iranian-Chinese cooperation could seriously affect Iran's socio-economic situation, while for the Chinese economy it would be minimal due to China's alternative hydrocarbon suppliers. However, without Iran, it would be very difficult for China to implement its strategic plan to revive the Great Silk Road. There will be no cardinal reduction in bilateral relations on China's initiative in the future. The state of Chinese-Iranian ties, combined with other efforts by Iranian

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leadership and positions of major global and regional actors, can ensure Iran's preservation as a sovereign subject of the world community. Such a state of affairs will persist even in case of a forceful solution to Iran's nuclear problem and possibly subsequent events of Iranian, regional, and global character.

Political interaction between the two countries intensified after the Islamic Revolution in Iran. China, which was only at the beginning of its rapid economic growth, desperately needed new partners and markets. Iran became such a partner, which after the revolution found itself in a very difficult political and economic situation, aggravated by the Iran-Iraq War of 1980-1988. Iran showed interest in establishing strategic partnership relations with China, while official Beijing did not support such an initiative. The PRC adheres to the principle of a multipolar world in its foreign policy, and establishing too close ties with Iran could create difficulties in China's relations with other, no less important partners who are in obvious confrontation with Iran. For Iran, these became the United States and Israel, as well as several Arab countries. Nevertheless, Iran gained the desired support at bilateral and international levels. Such a PRC position is explained by its desire to strengthen Beijing's influence in the Middle East, Central Asia, and Caucasus regions by using Iran's existing positions there, which became, to a certain extent, an ally for China.

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