

Prospect of post-JCPOA Iran-China trade relations

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On May 8, U.S. President Donald Trump pulled America out of the Joint Comprehensive Plan of Action (JCPOA), also known as the Iran deal, in order to fulfill one of his campaign promises. During the election, he repeatedly called the JCPOA the "worst deal ever." His decision to walk away from the deal, and re-impose American sanctions on Iran, will leave American companies with no option but to end their dealings with Iranian businesses or face the consequences.



Iranian Foreign Minister Javad Zarif, center, leaves after a meeting with European Union foreign policy chief Federica Mogherini at the Europa building in Brussels on Tuesday, May 15, 2018. [Photo: AP]

This is a matter of concern for European companies as well, which are Iran's major trade partners. They are preparing to leave Iran. For instance, French energy giant Total - which last year signed a multibillion-dollar project to develop Iran's South Pars gas field – announced on May 17 that if it cannot secure a waiver from the American sanctions it will pull out of Iran. Like other European companies doing business in Iran, Total will need to choose between their larger American market and their Iranian market. French oil and gas company Engie, German insurer Allianz, Danish oil tanker operator Maersk, and Italy's energy giant Eni are among the other major European companies that have also announced their plans to reduce or end their presence in Iran.

New Sanctions on Iran, New Opportunities for China?

The JCPOA may survive with the help of European powers, but there is a little doubt that U.S.-Iran relations will further deteriorate under the Trump administration, as Washington adds fresh sanctions to the ones already in place. These new sanctions will probably target Iran's high tech, oil and gas, petrochemical, shipping, and finance industries, along with advanced and potentially dual-use industries that could contribute to Iran's ballistic missile and nuclear industry. The new sanctions are also likely to target entities affiliated with the Iranian Revolutionary Guards Corps and its foreign branch, the Quds Force.

President Trump's policy on Iran will undoubtedly affect foreign entities, including Chinese companies doing business with Tehran. Within this context, most giant Chinese companies will try not to have direct trade relations with the Iranian government, or with private Iranian companies affiliated with the Revolutionary Guards or Quds Force, in order to avoid being sanctioned by the U.S. Treasury Department. In

the past, multiple Chinese companies have been targeted by the Treasury for doing business with Iran.

Previous experience indicates that the more Iran is isolated from the West, the more it will move towards countries like China, Russia, and India. This will pave the way for Chinese companies to further expand in the Iranian market as the share of Western companies begins to shrink.

The post-JCPOA era and Iran-China relations

China is the world's largest oil consumer and is Iran's first foreign trading partner. In 2017, the volume of trade between the two countries exceeded 37 billion U.S. dollars. The American sanctions can pose a challenge to Iran-China relations, however there is a strategic understanding that Chinese firms can survive in tougher business environments compared to their European peers. Therefore, the post-JCPOA era would be an opportunity for Chinese businesses to further expand to the Iranian market with its population of 80 million people that ordinarily would look to import goods from countries like Germany and Japan. Therefore, it is expected that business volume between Iran and China will grow further under President Trump's sanctions for the following reasons.

Iran's exhaustion of options

Under President Trump, Iran will face the harshest ever economic punishments in the months and years to come. And while Europe is reluctant, China will be among Tehran's few options to circumvent these sanctions. However, this is not the only reason to expect flourishing ties between the two nations. Public perception in Iran revolves around the idea that the future belongs to Asia, and in particular, China, since it is rising economically and geopolitically, and in the near future, China will be the global economic superpower. Iranians see China as a rising non-colonial superpower obliged to build relations based on mutual respect. This is a source of soft power for China's

government, and for Chinese companies in the Iranian market. Establishing and developing strong relations between Tehran and Beijing is therefore a priority for the Iranian government and private companies. As China's economic growth continues, it will need to import more energy, including from Iran and this, in turn, will enable Iran to import more goods from China.

Changing geopolitical dynamics at the global stage

The United States is still the world's largest economy, however its global share of the economy is gradually shrinking. In the 1960s, the United States account for about half of world's economy; it now accounts for roughly a quarter. This change is happening amid the high rate of growth in China's economy over the past few decades. Many people here in the United States think that China's awakening will permanently change the world's geopolitical and security landscape, and that the center of global power will shift from the West to the East. Iran is aware of this massive transformation and wants to adapt to it.

U.S.-China rivalry and perceived Chinese threat

Trade wars and geopolitical differences between China and the United States have gained momentum under the Trump administration. This is another incentive to bring Tehran and Beijing closer. One reason is because the U.S. government has listed Iran, China, North Korea, and Russia as the main threats to its national security in the 2018 Nuclear Posture Review prepared by the Trump administration. This represents a significant shift from the 2010 review, which listed terrorism as the priority. The United States is deeply worried about China's influence and its military presence in the South China Sea and elsewhere. Washington is also wary and suspicious of China's perceived economic expansion into Central Asia, the Middle East, and Africa.

Growing Chinese energy demand

Iran is the fifth largest oil exporter to China, and these exports account for about one-third of Tehran's oil exports. As the world's largest energy consumer, demand in China is projected to be double that of the United States by 2040. Part of this demand can be met by Iranian supply. China also needs to reduce its reliance on coal because of its serious air pollution problem. The new American sanctions and possible European halt on importing Iranian oil would mean that Tehran's oil exports would be reduced dramatically, and China hopes to benefit from the resulting reduction in Iran's oil prices, similar to what happened before the JCPOA was concluded. China also intends to do business with Iran using Chinese currency, the Renminbi, in response to new American sanctions that will become active in about six months. It seems that so long as Iran remains a part to the JCPOA, China's government will continue to maintain and even expand its trade and economic cooperation with Iran.

China's quest for new markets

Iran is a big market that Chinese companies can't afford to ignore even if that means risking American sanctions. Iranian trading companies are expanding in Chinese trade hubs such as Shanghai, Guangzhou, and Hong Kong. Therefore, Chinese companies that don't have considerable business interests in the United States are expected to develop strategies compatible with the new conditions, keep a low-profile presence in Iran, and if necessary, do business via intermediaries and companies that don't have a major share in the American market and so don't stand to lose out substantially if they are sanctioned by the U.S. government.

All of the factors above are going to influence Iran-China relations in the post-JCPOA era. Nevertheless, not everyone is optimistic. Some observers believe that given Iran's relatively insignificant oil exports to China, Beijing can replace or reduce its Iranian oil imports by increasing imports from Russia or Saudi Arabia. In addition, Chinese companies may be reluctant to endanger their share of the American market. They also argue that political instability is another hurdle in further expanding into Iran, with some

Chinese experts believing that at any moment there may be a political change in Iran that blows up all of China's investments. Beijing does not want to repeat the mistakes of past investments in countries like Libya, where China lost its heavy investments in the country following the domestic transformations there.

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