How Iran Adapts Itself to International Sanctions: Asianization of Trade and Economic Regionalism

Kiani, Mohammad Reza; Behravesh, Maysam

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How Iran Adapts Itself to International Sanctions: Asianization of Trade and Economic Regionalism

By Mohammad Reza Kiani and Maysam Behravesh on September 17, 2010

The major difference between the latest round of sanctions and the previous penalties imposed on Iran was the consensus with which they were applied and the areas they covered. In a concerted international effort led by the Obama administration, the US, UN and EU each enforced its own version of sanctions on the Islamic Republic which included expanding an arms embargo and tightening restrictions on financial and shipping enterprises related to "proliferation-sensitive activities". An important focus of these penalties was the country's foreign trade, particularly exports of gasoline products to Iran. Some proposals were even made about refuse to buy Iranian petroleum and thus deprive the government from a vital source of income.

Before the imposition of recent United Nations Security Council (UNSC) sanctions on Iran, The European Union (EU) was Iran's premier trading partner, receiving almost a third of its exports, some 18 billion Euros in 2009**(1)**. However, due to increasing controversy around Iran's nuclear programme and, more recently, the June 2009 Presidential elections, the EU has further moved toward adopting a peculiarly hard line American-style foreign policy vis-à-vis the Islamic Republic. In the area of bilateral trade, for example, Iran's traditional top partners in the EU, namely Germany and Italy which have long been the two most important destinations of its manufactured exports amongst developed countries, have dramatically reduced their involvement in the Iranian economy.

The sanctions in turn have changed the previous way in which Iran was carrying out its international financial trade. In response to economic isolation, it has increasingly tried to fill in the gap by providing considerable incentives to Chinese, Indian and Central Asian companies to attract their investment, especially in the domestic construction industry, manufacturing and energy sector. In fact, a chief strategy of the Iranian government to minimise the grave economic effects of sanctions has been to shift its international trade direction from the West to the East and resort to further regional ties. In other words, the government has moved to adapt itself to the pressing circumstances by adopting a trade policy of Asianization and economic regionalism.

Based on recent figures released by the Islamic Republic of Iran Customs Administration (IRICA), Iran's non-oil exports hit $11.8b from March – the beginning of Iranian New Year – to early September 2010, indicating a growth of 35.28% compared to the same period last year. Total imports to Iran have also increased to $24.24b with an annual percentage growth of 22.21%**(2)**. The statistics show that during the same period, China has been the main importer of goods from Iran which amounted to almost $1.809 billion; it accounts for 17.91 percent of Iran's total non-oil exports. The country also imports about 15% of its oil from Iran. In fact, it has found in Iran a permanent partner for its exports and a reliable source for its growing energy demand at home.

In this five-month period, Iran's imports from China represented 8.44% of the total import market in Iran, giving China the second largest share of the market after UAE which accounted for 31.99 percent of Iran's total imports**(3)**. Lastly, it is worth noting that China is projected to sign a $2bn (£1.3bn) deal to build a railway line in Iran in the first stage of a wider plan to link the Middle East and Central Asia to Beijing. Supposing the above data is accurate and reliable, it is estimated that China is Iran's closest trading partner with major construction and energy interests in the country. This might be a cause for concern for the US as Beijing tries to fill the vacuum left behind by Western firms and thus dilutes the impact of sanctions so much international effort has been put into.

More in proximity, Iran's western neighbor, Iraq, has recently become one of the major importers of its commodities. Iran's total exports of non-oil goods to Iraq have now reached 15.99%, placing the latter at the second rank among its other key export destinations, that is, United Arab Emirates, India and Afghanistan consecutively. Additionally, Iran-Turkey trade has been burgeoning in recent years despite international sanctions, rising tenfold from $1 billion in the year 2000 to $10 billion this year, with the bulk comprising of Iranian gas exports **(4)**.

In the domestic political sphere, as tougher UNSC, American and EU sanctions on Iran would harm the people in the first place, it appears naïve to believe that the Islamic Republic will change its behaviour as a result of them. Rather, they can harden the government's anti-West attitude and help it win more domestic support against the West by blaming the country's internal ills on the policies adopted by the Western powers. This in turn can diminish the prospects for establishing democracy in the country, bringing about socio-economic development, and improving Iran-West relations, particularly if a pre-emptive strike is launched against Iran's nuclear sites. The shadow of pessimism over the effectiveness of sanctions is already seen in such European countries as Sweden – which disagrees with them as "an effective foreign policy tool". Cyprus, Spain and, more importantly, Germany whose business firms have considerable involvement in Iran's energy sector, have also expressed reservations about sanctions which they argue will incline Iran towards China at their expense**(5)**.

It seems that unlike the United States which has almost totally severed its relations with the Islamic Republic since the early years of 1979 Revolution, European countries baulk at losing their market share in the country. These explanations might lead one to conclude that hard-headed negotiations are still the only plausible and potentially effective means to resolve longstanding disputes over Iran's nuclear program. It cannot be denied that crippling and comprehensive sanctions on Iran will inevitably adversely affect the government's economic manoeuvrability, but taking their toll first and foremost on the people, the sanctions are likely to fall short of curbing the country's nuclear activities or changing its domestic and international behaviour.

(1) European Trade Commission, "Iran," accessed on September 10, 2010 from http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/iran/.

(2) The Islamic Republic of Iran Customs Administration (IRICA), "Saderat-e Gheir-e Nafti be 11.8 Miliard dolar Resid [Non-Oil Exports Reached $11.8 billion]," (in Persian), September 4, 2010, accessed on September 10, 2010 from http://www.irica.gov.ir/persian/news/newsview.aspx?ID=1784.

(3) China's exports to Iran have experienced particularly rapid growth during the past five years, with China replacing Germany as the world's second largest exporter to Iran.

(4) Wall Street Journal, September 17th 2010: http://online.wsj.com/article/SB10001424052748703440604575496031866586468.html

(5) Ian Traynor, "EU to Introduce New Iran Sanctions," *Guardian*, June 15, 2010, accessed on September 14, 2010 from http://www.guardian.co.uk/world/2010/jun/15/eu-sanctions-iran-nuclear-programme

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Mohammad R. Kiani *is a final-year PhD candidate at Islamic Azad University, Science and Research Branch, Tehran. His research interests focus on Iran's international relations and its foreign policy particularly towards the US. His contact address is mrkianie@gmail.com.*

Maysam Behravesh *is an MA student of British Studies in the Faculty of World Studies (FWS), Tehran University. He works on Iran's domestic politics and its foreign policy, particularly towards the UK. He can be accessed at maysam.behravesh@gmail.com.*

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