



## POSSIBLE IMPACT OF U.S.-IRAN TENSIONS ON CHINA

The long-standing conflict between the United States and Iran, which especially intensified after Donald Trump's accession to power, has passed to a new critical stage with the latest sanctions imposed by Washington. Iran, which is rich in energy resources, argues that its nuclear energy development efforts are for peaceful purposes, while the United States is concerned that Iran's nuclear power capacity can turn into nuclear weapons production. In fact, the United States supported Iran's nuclear program in the 1950s. However, after Iran's Islamic Revolution in 1979, relations between the two countries soured, and after the 2000s, the United States accused Iran of trying to develop nuclear weapons. Although Iran's efforts to develop nuclear energy are regarded as the main cause of Washington-Tehran tensions, it can be said that the basis of this endless tension lies in the strategic interests of both Iran and the United States. The economic development and growing regional influence of Iran, which has an important geostrategic position between Central Asia, Eurasia and the Middle East, is of great concern for the United States, Israel and some of the Gulf countries. On the one hand, Iran seeks to increase its regional influence with its special position in the Persian Gulf and the Hormuz Strait, which are of great importance in terms of global energy production and energy transportation, on the other hand, the United States together with its allies strives to control the region. Moreover, the involvement of the global and regional powers, such as the European Union (EU), Great Britain, China and Russia, brings the tensions to the global level. Although the parties tried to preserve the Joint Comprehensive Plan of Action (JCPOA), signed in July 2015 with the participation of the United States, the EU, Germany, China, France, Great Britain, Iran and Russia, in May 2018, the Trump administration unilaterally withdrew from the JCPOA. Moreover, the Trump administration, which started to implement economic sanctions against Iran in August and November 2018, terminated the exemptions from sanctions for eight countries that import Iranian oil, including China, on May 2, 2019. Iran strongly objected to the U.S. decision on a total ban on Iranian oil exports. Consequently, on May 8, 2019, Tehran stated that it would fully or partially halt its obligations under the nuclear agreement in response to Washington's sanctions. On the same day, Washington imposed sanctions on Iran's iron, steel, copper and aluminum sectors, which has further exacerbated the already growing U.S.-Iranian tensions.

It can be said that the rise of the U.S.-Iran tensions in the Middle East, which has become the center of many global and regional

conflicts in recent years, can affect the whole world with its geopolitical, geostrategic and geoeconomic dimensions. The reason is that the U.S. ban on Iran's oil exports will affect not only the Iranian economy, but also other countries that are in close cooperation with Iran in the trade, economic and, particularly, energy sectors. The total ban on Iran's oil exports, which has one of the largest oil reserves in the world and is the third largest oil producer, will lead to significant deficits in the global energy market. In this context, it can be said that China, which is the biggest oil customer of Iran, will be most affected by the U.S.-Iran tensions.

From the geopolitical and geostrategic points of view, it can be assumed that the rising U.S.-Iran tensions may lead to the development of political relations between China and Iran. In this regard, first of all, we need to briefly review the China-Iran relations. China and Iran, which established official diplomatic relations in August 1971, have been developing bilateral cooperation at the level of strategic partnership in the political, military, commercial-economic and other fields. After the 2000s, the United States has long accused Iran of trying to develop nuclear weapons. In addition to that, the war in Afghanistan in 2001, the Iraq War in 2003 and the Arab Spring movements that started in 2010 have led Iran to pursue an anti-U.S. policy and to have closer relations with China as an alternative power. China, which is trying to increase its regional and global impact in parallel with its economic growth, has been willing to develop its cooperation with Iran, an energy-rich and important Middle Eastern country. In this context, it could be said that the relations between China and Iran are undergoing a new development period after Iranian President Hassan Rouhani visited Beijing in May 2014, and Chinese President Xi Jinping visited Tehran in January 2016. As recently as in February 2019, during the visit of Speaker of Iran's Parliament (Islamic Consultative Assembly) Ali Larijani to Beijing, Xi stated that despite global and regional developments, China would remain committed to developing a comprehensive strategic partnership with Iran. China was one of the first countries to react to recent U.S. sanctions against Iran. For example, on April 23, 2019, Chinese Foreign Ministry Spokesperson Geng Shuang announced at a regular press conference in Beijing that China was strongly opposed to the U.S. unilateral sanctions against Iran. On May 7, 2019, Chinese Foreign Minister Wang Yi, who met with Iran's Foreign Minister Javad Zarif, said that China was opposed to the U.S. introduction of unilateral sanctions against Iran and supported Iran's protection of its own interests.

But Beijing's support for Iran in the U.S.-Iran confrontation is economically damaging for China. The possibility of the Iranian economy shrinking due to the U.S. sanctions may affect China, Iran's largest trading partner. Despite the abolition of sanctions against Iran following the JCPOA agreement, the decline in the Iranian economy due to a sharp drop in global oil prices has led to a decrease in the volume of trade between Iran and China. For example, the Chinese-Iranian bilateral trade volume, which reached \$51.85 billion in 2014, decreased by 34.7% in 2015 to \$33.842 billion and by 7.7% in 2016 to \$31.23 billion. The Chinese-Iranian bilateral trade turnover, which increased by 19% to 37.18 billion dollars in 2017, fell by 5.4% in 2018 to \$35.13 billion. Considering the fact that most of the Chinese-Iranian bilateral trade is composed of raw materials, especially oil, the U.S. oil sanctions against Iran could directly affect the Chinese-Iranian trade.

From the perspective of China, which imports approximately one-fourth of Iran's total crude oil, a complete ban on Iran's oil exports will result in a significant energy supply deficit for China. Currently, nearly 7% of China's total oil imports are provided by Iran. If China continues to import oil from Iran in spite of the U.S. sanctions against Iran, Chinese companies engaged in trade and cooperation with Iran may also be subject to sanctions by the United States. For example, in April 2018, the United States banned the Chinese telecommunications giant ZTE from purchasing U.S. components for 7 years because of its illegal exports to Iran in disregard for the U.S. sanctions against Iran. On May 15, 2019, the Trump administration also imposed sanctions against the Chinese telecommunications giant Huawei.

In summary, the U.S.-Iran conflict may have a direct impact on the China-Iran relations from the political, trade-economic and geopolitical standpoints. Moreover, the rise of the U.S.-Iran tensions at a time when the trade war between the United States and China flares up was a factor that brought China and Iran closer together. In recent years, due to the geopolitical changes, China in Asia-Pacific, Iran in the Middle East, and Russia in Eurasia are forming a tripartite alliance against the United States. However, while China is steadily trying to develop strategic partnership with Iran, how China will continue to import oil from Iran under harsh U.S. sanctions against Iran is a big question. If China's oil imports from Iran decreases in the coming period, there will be significant economic losses for both China and Iran. The U.S.-Iranian tension is a challenging test for the Chinese-Iranian relations and may be a bargain for the China-U.S. relations.

## Politics, Foreign Affairs, and Security

- The EU extended the mandate of its advisory mission in Ukraine until May 31, 2021 and increased its budget by more than 25% to €54 million. The overall objective of the mission with the headquarters in Kyiv and field offices in Lviv, Kharkiv and Odessa is to support the reform of Ukraine's civilian security services.
- The EU adopted an updated strategy on relations with Central Asia outlining its vision for a renewed partnership with the region. The future EU engagement with the five regional countries will focus on strengthening their capacity to overcome internal and external shocks, supporting economic modernization, and promoting regional cooperation in Central Asia.
- The government of Tajikistan, in cooperation with the UN, the EU and the OSCE, organized the high level conference titled "International and Regional Cooperation on Countering Terrorism and its Financing through Illicit Drug Trafficking and Organized Crime" in Dushanbe. The purpose of the event was to strengthen cooperation, identify effective practices to combat terrorism financing and facilitate expert discussions on possible response measures.
- The Seventh Foreign Ministers' Meeting of the "Central Asia plus Japan" Dialogue, which was created 15 years ago, was held in Dushanbe. During the three-session meeting, the participants discussed the development of mutual practical cooperation across regional security, trade, transport, investment and tourism, with special emphasis placed on the efficient use of the region's transit and transport potential.
- During his visit to Turkmenistan, Iranian Foreign Minister Mohammad Javad Zarif met with President Gurbanguly Berdimuhamedov to exchange views on international and regional developments and ways to expand cooperation, including on the Caspian Sea. Zarif also held talks with senior Turkmen officials to discuss bilateral political, commercial, transportation, energy and customs ties, and Afghanistan-related economic assistance projects.
- The delegations of Kyrgyzstan and Uzbekistan headed by their security council secretaries held bilateral consultations in Bishkek. Representatives of the security, defense and law enforcement agencies of the two countries discussed border issues, interaction in the fight against terrorism and extremism, cooperation in emergency response, and measures to strengthen veterinary and phytosanitary safety.
- As part of his working visit to Lebanon, Kazakhstan's Minister of Defense Major General Nurlan Yermekbayev visited the zone of responsibility of the Kazakh peacekeeping contingent, which is deployed there as part of the Indian battalion in the UN Interim Force in Lebanon. The minister was informed about everyday activities of the military personnel related to maintaining peace and security.

## Economy, Finance, and Energy

- During his visit to Kazakhstan, Prime Minister of Georgia Mamuka Bakh-tadze met with President Kassym-Jomart Tokayev and Prime Minister Askar Mamin to discuss prospects of cooperation in trade, economic, investment, tourism and humanitarian sectors. The parties also reviewed opportunities for boosting transit and transport communications, including via the ports of Aktau and Kuryk as part of the Trans-Caspian International Transport Route.
- The 12<sup>th</sup> Astana Economic Forum, themed "Inspiring growth: people, cities, economies", was held in Nur-Sultan. 5,492 delegates from 74 countries, including politicians, experts, businesspeople, and scientists, attended the forum, which received significant interest from foreign and domestic media, with 710 journalists from 30 countries covering Eurasia's annual key business event.
- During the Astana Economic Forum, the Turkic Council member states signed a charter of a joint Chamber of Commerce and Industry of the Turkic countries that will replace the Turkic Business Council. The secretariat of the newly established chamber, which is aimed at further promoting trade and economic cooperation between the Turkic-speaking countries, will be located in Turkey.
- The CIS Intergovernmental Coordinating Council on Seed Production held its meeting in Ashgabat. During the two-day event, the parties discussed a wide range of issues of interstate cooperation in the field of selection, seed production, plant breeding, viticulture and gardening. The CIS representatives also attended an exhibition of agricultural achievements of Turkmenistan and a specialized international scientific conference.
- President of Uzbekistan Shavkat Mirziyoyev received head of the Russian Lukoil company Vagit Alekperov, who visited Tashkent to attend the 23<sup>rd</sup> international exhibition "Oil and Gas of Uzbekistan 2019", to discuss prospective oil and gas projects. Currently, the volume of Lukoil investments in Uzbekistan exceeds \$7.5 billion, and the joint projects include the Kandym gas processing complex and the development of the Khauzak, Shady and South-West Gissar fields.
- The Uzbekistan Railways dispatched its first transit cargo from Kazakhstan's port of Aktau to Uzbekistan on the Aktau-Tashkent freight train with 10 well cars carrying 20-foot containers. This was a result of successful cooperation between the railway administrations of Uzbekistan, Kazakhstan, China, Iran, and Turkmenistan on developing freight transportation along the Trans-Caspian International Transport Route.
- Kyrgyzstan ratified an intergovernmental agreement with Turkmenistan on the elimination of double taxation and the prevention of tax evasion. The document, signed in August 2018 in Ashgabat, protects a resident of one state from discriminatory taxation in another signatory state and prevents tax abuse via information exchange between the competent authorities of the two countries.

## Society and Culture

- The International Turkic Academy held the international forum titled "The Great Steppe: Its Cultural Heritage and Role in World History" in Paris. About 70 leading Turkologists from across the world and UNESCO representatives discussed historical issues related to the Turkic civilization and its contribution to world culture, including the article "Seven Facets of the Great Steppe" by Nursultan Nazarbayev.
- The 14<sup>th</sup> Forum of CIS Creative and Scientific Intelligentsia was held in Ashgabat under the title "CIS common humanitarian space: dialogue in the sphere of culture, science, education". During the event, more than 200 delegates from the CIS countries discussed innovative forms of cooperation in education, youth policy and intercultural dialogue.
- The Kazakh National Geographic Society jointly with the Nazarbayev University scientists launched a scientific and educational expedition to the Aral Sea. The 4,000 km long Aral 2019 expedition will study hydrological water environment in several parts of the Aral Sea, map out tour itineraries across the Aral region and collect unique photo and video footage.
- Singapore's KinderWorld International Group attended the third annual Kazakhstan Global Investment roundtable, held as part of the 12<sup>th</sup> Astana Economic Forum. In accordance with a roadmap signed during the event, the Singaporean company will build a network of world-class schools and colleges, along with educational campuses, in Nur-Sultan, Almaty and Shymkent.
- USAID will allocate a grant of \$19.5 million to support reforms in the field of public education in Uzbekistan. The funds will be used to transform approaches to school management, teacher training, teaching, and the development of teaching materials. The project will also facilitate the integration of modern information technologies into the educational process, as well as increase transparency and accountability at schools.
- The first ever roundtable on the problems related to the development of civil aviation in Central Asia was held in Dushanbe. Top managers of the regional airlines examined the existing impediments for the growth of air connectivity in the region and focused on ways to promote closer cooperation in this field between the Central Asian states.
- During the ceremony held in Sarajevo, as part of the EBRD's 28<sup>th</sup> annual meeting and business forum, Turkmenistan's Hosh Zaman company received the bank's award for its contribution to ensuring environmental sustainability. The company introduced hydroponic greenhouses into its production with a highly efficient technology that allows growing tomatoes without using soil and with reduced water consumption.