



CURRENT STATE OF IRAN-RUSSIA ECONOMIC RELATIONS

Relations between Iran and Russia, which share borders across the Caspian Sea, date back to the 16th century and have experienced both the periods of turbulence and collaboration. However, it is not an exaggeration to say that since the collapse of the Soviet Union the Iranian-Russian relations have improved significantly. Nowadays, Russia and Iran share a common interest in limiting the political influence of the non-regional players such as the United States. Despite the fact that Moscow and Tehran still have conflicting views on a number of issues of global and regional agenda, the parties manage to maintain a long-term strategic partnership, sustainability of which is determined by the geopolitical conditions they find themselves in.

Since the mid-1990s, the Russia-Iran trade experienced a steady increase from \$404.9 million in 1996 to \$1.3 billion in 2003 with a further growth to \$ 2.1 billion in 2006 and reaching its highest point of \$3.7 billion in 2008. After the parties kept their trade turnover stable for the three-year period, there was a dramatic reduction in mutual trade, which decreased from \$3.6 billion in 2011 to \$2.3 billion in 2012, or by 36%. In fact, it was the strongest decline in bilateral trade since 1996. The mentioned decline was mainly caused by the tightening of international sanctions imposed on Iran in relation to its nuclear program, which included cutting off the country from the global banking system, as well as by the economic slowdown in developing countries including Russia in 2012. As a result, the trade volume between Iran and Russia continued to fall amounting only to \$1.6 billion (-31.2%) in 2013 with a further reduction to \$1.2 billion (-23.9%) in 2015. The signing of the Joint Comprehensive Plan of Action between Iran and the P5+1 group (the United States, the United Kingdom, France, Russia, China, and Germany) led to the partial lifting of sanctions against Tehran. As a result, the bilateral trade turnover between Iran and Russia experienced an upward trend exceeding a \$2 billion mark. Russia's exports to Iran amounted to \$1.88 billion in 2016, showing an increase of \$864.2 million, or 85%, compared to 2015, while Russia's imports from Iran increased by 13.4%, or 39.1 million, to \$302.5 million. In 2017, however, the parties were not able to increase their mutual

trade, as the trade turnover decreased by \$477.3 million, or 21.85%, to \$1.7 billion, compared to 2016. Russia's exports to Iran declined by \$567 million, or 30.13%, to \$1.3 billion, while Russia's imports to Iran increased by 89.6 million, or 29.4%, to \$392.1 million.

However, the existing political partnership was not negatively affected by the recent decrease in trade. In fact, Moscow and Tehran continue to develop cooperative ties ranging from economic and military to purely geopolitical ones. Russia views Iran as a strategic partner in the Middle East, while Iran sees Russia as a regional political ally. Cooperating on a number of international issues, most notably in Syria, the two countries try to deepen their relationship, especially after the Western countries imposed economic sanctions on Russia in 2014. Therefore, it is not surprising that the Iranian authorities demonstrate their intention to join the Russia-led Eurasian Economic Union (EEU), the membership in which could help the expansion of bilateral trade and investment between Tehran and Moscow. The aspiration to fully remove remaining economic sanctions and break a political isolation encourages Tehran to become involved in the EEU activities. Since the EEU aims to establish a single market comprising Russia, Kazakhstan, Belarus, Kyrgyzstan, and Armenia, it is quite understandable that Iran is strongly interested in signing a free-trade agreement, which could strengthen economic interaction between Iran and the union members compensating the recent reduction in the Iran-EEU trade turnover.

Indeed, in 2017 the Iran-EEU trade experienced a 12.6% decrease falling to \$2.7 billion compared to \$3 billion in 2016. The recent statistical data shows that the union members currently account for only 2% of Iran's foreign trade. Since Russia is Iran's largest EEU trade partner, it is not surprising that the 30% drop in Russian exports had a significant impact on the overall drop (23.2%) in the volume of EEU exports to Iran, which decreased from \$2.5 billion in 2016 to \$1.9 billion in 2017. As a result, the parties are focusing on the search for solutions to this problem. Since there is still a number of obstacles for signing a full-fledged free-trade deal, Moscow and Tehran have agreed to develop a preferential trade

agreement (PTA), which would form the basis for a future free trade zone between Iran and the union.

After more than a year of negotiations involving other EEU members, a draft PTA between Iran and the EEU was agreed in Yerevan on July 5, 2017. Over 250 categories of products were included in the PTA. According to Deputy Minister of Industries, Mining and Trade of Iran Mojtaba Khosrotaj, Iran's exports of construction materials, including tiles and ceramics, to the EEU will be subject to an 80% customs duty exemption, while petrochemical products, cables and pipes, as well as metal and glass products, are to enjoy a range of tax and duty cuts. It is expected that the parties will sign the PTA, which will be in effect for three years, until the end of 2018.

It is natural that being energy-rich countries Russia and Iran look forward to increasing cooperation in the energy field. After the launch of the second phase of the construction of the Bushehr Nuclear Power Plant in October 2017, Moscow and Tehran concentrated their attention on the oil and gas sphere. In fact, in November 2017 the National Iranian Oil Company and Russia's energy company Rosneft signed a \$30 billion worth agreement on the joint operation of oil fields in Iran. To date, six large Russian companies, including Gazprom, Gazpromneft, Lukoil, and Zarubezhneft, have already signed memorandums of understanding for oil and gas exploration on the Iranian territory, and it is expected that in 2018 they will start conducting feasibility studies at the oil fields.

In conclusion, Iran clearly shows its readiness to cooperate with the regional states, focusing on bilateral relations with Russia. However, it should be highlighted that there is still an asymmetry of political and economic relations between Iran and Russia. Indeed, the intensity of bilateral trade relations cannot match the intensity of bilateral political cooperation. As a result, currently the parties are in the phase of searching for opportunities to ensure sustainable development of mutual economic relations.

Politics, Foreign Affairs and Security

- During his official visit to Dushanbe, President of Uzbekistan Shavkat Mirziyoyev met with President of Tajikistan Emomali Rahmon to discuss longstanding issues related to the construction of the Rogun hydropower plant, border settlement and other issues of bilateral relations. As a result of the visit, the parties signed a solid package of 27 bilateral documents including the Joint Statement on Strengthening Friendship and Good Neighborliness and the Agreement between Uzbekistan and Tajikistan on selected sections of the Tajik-Uzbek State Border. Moreover, the sides decided to introduce a 30-day visa-free entry regime on a mutual basis.
- During the joint session of the Chambers of the Parliament of Kazakhstan, President of Kazakhstan Nursultan Nazarbayev addressed the people of the country and voiced five new social initiatives, including creating new housing opportunities for each family, reducing the tax burden to increase the wages of low-paid workers, improving the accessibility and quality of higher education and improving the living conditions of Kazakhstani students, expanding micro-credits, and ensuring further gasification of the country.
- During his official visit to Baku, Defense Minister of Georgia Levan Izoria met with Defense Minister of Azerbaijan Colonel-General Zakir Hasanov to exchange views on the prospects for cooperation in the military, military-technical, military-educational, and military-medical spheres, including joint military exercises. The parties also discussed cooperation in arms control between the Azerbaijani and Georgian defense ministries.
- During his official visit to Tashkent, Finance Minister of Russia Anton Siluanov met with President of Uzbekistan Shavkat Mirziyoyev to discuss prospects of future cooperation in the financial sector paying special attention to the training of highly qualified Uzbek specialists at the leading specialized educational facilities of Russia.
- According to the Defense Ministry of Azerbaijan, up to 25,000 personnel are involved in the military exercise conducted by the Armed Forces of the country. It was also noted that 250 tanks and other armored vehicles, 1,000 missiles and artillery systems, multiple rocket and mortar systems, and up to 50

army and front-line aviation units would also take part in the exercise.

Economy, Finance and Energy

- According to the Central Bank of Azerbaijan (CBA), the currency reserves of the country amounted to \$5.387 billion in February 2018, which is \$1.018 billion, or 23.3%, more than in the same period last year. During the month, the CBA reserves rose by \$6.1 million.
- According to the Finance Ministry of Tajikistan, at the beginning of 2018 the country's state debt reached \$3.670 billion, which is 51.4% of the country's GDP. It is stated that the state debt growth in 2017 was mainly due to the attraction of Chinese loans for the implementation of the government investment projects.
- According to the National Bank of Belarus, the country's gold and foreign exchange reserves rose by 9.5% in February 2018 totaling \$7.1 billion. According to the country's main monetary guidelines for 2018, the volume of international reserve assets, taking into account the repayment of domestic and foreign commitments in foreign currency, is projected to reach at least \$6 billion.
- According to President of the European Commission Jean-Claude Juncker, the commission adopted a proposal for a new Macro-Financial Assistance (MFA) program for Ukraine worth up to €1 billion. The new program seeks to build on the progress made in supporting economic stabilization and structural reforms. The European Union has so far pledged €12.8 billion to support the reform process in Ukraine, including €2.8 billion through three MFA programs, since the crisis in 2014.
- According to Uzbekistan's state-owned energy company Uzbekenergo, the country will resume imports of electricity from Tajikistan in the amount of 1.5 billion kWh during April-September 2018. It was noted that the supply of electricity from Tajikistan to Uzbekistan for the winter period of 2018-2019 would be considered additionally.
- According to the Ministry of Finance of Kyrgyzstan, in January-February 2018 2.7 billion soms (\$40 million) were spent from the republican budget on servicing the state debt. 1 billion soms (\$15.26 million) were allocated for payments on external debt, while 1.7 billion soms (\$24.9 million) were allocated from the budget to service domestic debt.

Society and Culture

- President of Azerbaijan Ilham Aliyev signed a decree on additional measures to improve the state care for war veterans. Under the decree, 300,000 manats (\$178,000) will be allocated from the President's Reserve Fund to the Organization of Veterans of War, Labor and Armed Forces of Azerbaijan to increase the state care for war veterans and strengthen the material and technical base of the organization.
- Ambassador of Switzerland to Kyrgyzstan Veronique Hulmann and Minister of Health of Kyrgyzstan Talantbek Batyraliev signed an agreement for a four-year project aimed at improving the prevention and management of non-communicable diseases. The project will enhance the capacities of the primary health care system to prevent, manage and treat non-communicable diseases.
- According to the Ministry of Foreign Affairs of Kazakhstan, the agreement on visa-free travel regime between Kazakhstan and the United Arab Emirates (UAE) came into force. Kazakh citizens will be free to stay in the UAE for up to 30 days.
- According to the Ambassador of China to Russia Li Hui, as many as 1.5 million tourists from China visited Russia in 2017. It was noted that 32 tourist routes were established between China's Heilongjiang province and Russia's Far East. Vladivostok was the second favorite Russian city among Chinese tourists, with Moscow topping the list.
- The presidents of Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan and other Eurasian states expressed their condolences to Russia in connection with human casualties as a result of the crash of the An-26 military transport aircraft at the Khmeimim airfield in Syria. About 33 passengers and 6 crewmembers were on the board of the plane, including 27 officers and servicemen. Presumably, the cause of the crash was a technical malfunction.
- According to Deputy Chairman of the Central Election Commission of Azerbaijan Natig Mammadov, 41 polling stations will be set up outside Azerbaijan in connection with the country's upcoming presidential election. It was also noted that as many as 13,820 Azerbaijani citizens would vote at the polling stations to be established outside the country.