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# **Understanding the Sino-Iranian Relationship under the Influence of US Sanctions**

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## Abstract

Iran is facing sanctions that aim to cause economic collapse and pressure the country to give in to US demands. Tensions between the US and Iran are rising steadily since its exit of the Joint Comprehensive Plan of Action in 2018. The Iranian population is increasingly struggling economically while the government contributes to growing domestic imbalances. However, the sanctions cause not only internal fractures but also pose an obstacle for external relations. Due to the US policy of maximum pressure aiming at Iran's economic isolation, trade becomes especially difficult. Iran needs to keep its most significant business partners in order to guarantee a degree of economic stability. While China is Iran's biggest trade partner, it also has to cope with the situation. In various sectors, sanctions are obstacles for the Sino-Iranian relationship such as investment, crude oil trade, or the implementation of projects in Iran. These are challenges that both countries must overcome to maintain exchanges. With sanctions as the main factor to hinder a continuing relationship, this research asks: Why is China willing to maintain a close relationship with Iran despite US sanctions?

Three case studies are employed to answer this question based on geopolitical and geo-economic theory as well as the international political economy of currency internationalisation. These cases include the assessment of Iran's geopolitical importance for the Belt and Road Initiative, China's energy security, and the internationalisation of the Renminbi. The Belt and Road Initiative is China's most prestigious project that includes the construction of infrastructure, investment, and cultural exchanges in the countries along the Ancient Silk Road. However, it is not exclusively limited to these countries. A land route leads from China through Central Asia and the Middle East to Europe while a maritime section connects various harbours around the globe. Iran is part of the Belt and Road Initiative in the Middle East and holds a crucial role in the connection of the New Silk Road with Europe. Analysis of the selected cases shows that the Sino-Iranian relationship is mainly founded upon China's geopolitical and economic goals for the Belt and Road Initiative. The internationalisation of the Renminbi with Iran's help only plays a minor role in the countries' relations. Nevertheless, China continues to internationalise the Renminbi to become independent from the US Dollar. Due to the sanctions, Iran's dependence on the US Dollar becomes apparent as it is the denomination currency for oil. Thus, the Renminbi is attractive for the Islamic Republic as an alternative to the US Dollar for oil trade as China is the biggest importer of Iranian oil.

Keywords: China, Iran, Geopolitical Theory, Geo-economic Theory, Currency Internationalisation, Sino-Iranian Relationship, US Sanctions, JCPOA

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## List of Abbreviations

bpd	<i>barrels a day</i>
BRI	<i>Belt and Road Initiative</i>
CNPC	<i>China Petroleum Corporation</i>
GATT	<i>General Agreement on Tariffs and Trade</i>
GDP	<i>Gross Domestic Product</i>
IMF	<i>International Monetary Fund</i>
IPE	<i>International Political Economy</i>
JCPOA	<i>Joint Comprehensive Plan of Action</i>
PRC	<i>People's Republic of China</i>
RMB	<i>Renminbi</i>
UN	<i>United Nations</i>
UNSC	<i>United Nations Security Council</i>
USD	<i>United States Dollar</i>
WTO	<i>World Trade Organisation</i>

# 1 Introduction

“Pomegranate is well-liked in China for its crimson flower and bountiful seeds, for which it came to symbolize plentifulness and prosperity. Introduced from Iran to China centuries ago, the fruit bears witness to the history of friendly exchanges between the Chinese and Iranians along the Silk Road and augurs even more fruitful cooperation between our two countries.”

- Xi Jinping, 2016

During the time of Chinese explorer Zhang Qian in 126 B.C., trade between China and the Parthian empire already flourished. Exchanges between these two empires continued even after the Islamic conquest of Parthia (Jun & Lei, 2010, p. 41). Today’s diplomatic relationship was established in 1971, which deepened economic interactions in various areas such as the energy sector and construction of infrastructure (ibid., p. 42). Ever since the early 2000s, the People’s Republic of China (PRC also further referred to as China) is the Islamic Republic of Iran’s (from now on Iran) biggest trade partner. However, there are not only trade relations but also cultural exchanges, arms sales and the Belt and Road Initiative (BRI) in which Iran is going to play an essential role as the connection hub between Asia and Europe in Eurasia. During the last thirty years, the relationship between Iran and China deepened in the field of economic and energy cooperation. There is a strong engagement of Chinese firms in the energy sector, not only oil but more importantly, the nuclear sector (Vatanka, 2019). Since the US left the Joint Comprehensive Plan of Action (JCPOA) and re-introduced economic sanctions to Iran, the Islamic Republic is turning Eastward seeking increased cooperation with China. Despite US’ sanctions against Iran, Chinese firms are not entirely pulling back from the Iranian market.

Moreover, the government refrains from joining sanctions against Iran, and diplomatic ties remain. China believes that the JCPOA can be saved and urges the member countries to continued cooperation concerning the Iranian nuclear issue (N.N., 14th JCPOA joint commission meeting due on Friday, 2019). Its increasing presence in the Gulf region emphasises the importance of steady oil supply. Apart from Iran, countries like Saudi Arabia, Kuwait, Iraq, and many more are selling oil to China, whereas the Islamic Republic is not the biggest supplier (OEC, Where does China import Crude Petroleum from?, 2020).

Prior to the JCPOA, Iran’s economy has been suffering under US sanctions. Due to the implementation of the framework, it bounced back and grew 12.3 % in the following year (BBC, 2019). Despite a robust oil sector as one of the most critical parts for economic growth, recovery

was rather slow up to 2017, which led to severe protests. Following the re-implementation of US sanctions, the country's economy is repeatedly suffering. Sanctions have sent the economy into recession and diminished the revenues of oil trade (Hafezi, 2019). In the past year, there have been the biggest unrests since the green revolution in 2009, partly caused by a threefold increase in petrol prices. Hundred-thousands of people protested in the streets, several of them were shot while internet access was taken from the population (Shahi & Abdoh-Tabrizi, 2020, p. 1 f.). These events show how vulnerable the Iranian government is to economic misperformance, which makes China a critical partner since the economy heavily relies on the export of oil and gas. With Iran currently being in a problematic situation, trapped in US sanctions while trying to maintain peace inside the country, the Chinese government has not turned away and still stands by Iran. However, US sanctions could cause difficulties to Chinese companies that invest in Iran and increase the tension between the US and Chinese government. These circumstances lead to the following research question:

### **Why is China willing to maintain a close relationship with Iran despite US sanctions?**

Several sub-questions serve to answer the research question:

- What is China's geopolitical interest in Iran?
- What kind of relationship do Iran and China have?
- How is their relationship maintained?
- What is Iran's role in the internationalisation of the RMB?

To understand the context and development of Sino-Iranian relations, it is crucial to obtain an overview of the relationship's historical background. The following section provides a brief description of how the relationship between China and Iran formed.

#### **1.1 Historical Overview**

The relationship between China and Iran is following a long tradition of exchanges that can be traced back to ancient times. Three periods in the Sino-Iranian relationship can be distinguished: relations during ancient, medieval, and modern times. In ancient times, traces of the first contact between the civilisations can be discovered in the pre-Christian era. However, these relations were not continuous and showed various gaps. Despite the Arab conquest, there have been ongoing dynastic relationships between the countries that continued during medieval times (Abidi, 1981, p. 33).

Modern exchanges with the PRC officially began after the first Iranian embassy was established in 1944 when China and Iran decided to deepen their relationship (ibid., p. 45). Diplomatic relations were officially established in 1971 and since then significantly deepened in various fields such as political, security, and economic cooperation (Jun & Lei, 2010, p. 42). Following the Islamic Revolution, which took place in 1979 in Iran, both countries faced internal changes influencing their relationship. After the establishment of Ayatollah Khomeini as the supreme leader of Iran, ideology and religion came in focus. At the same time, the opening and reform policy was implemented in China, which caused economic growth to overshadow ideological purity. Both countries seemed to develop in the opposite direction of each other.

Nevertheless, through repeating diplomatic visits and the pressure of war on Iran, relations gradually deepened again (Davis, et al., 2012, p. 7). During the Iran-Iraq War in the 1980s, Iran started buying weapons from China. This cooperation continued through 1990 when the Islamic Republic wanted to re-establish its nuclear program with the help of Chinese supplies. After a commitment to President Clinton by China in 1997, the country stopped aiding Iran with its nuclear program and did not sell complete missiles anymore. However, the PRC continued to cooperate with Iran through a tactical missiles program in 2010 (ibid., p. 4).

Due to China's growing economic power and deepened ties with its trade partners, the PRC could not further ignore their opinions on the Iranian nuclear issue. After the release of a report by the International Atomic Energy Agency concerning the advancement of Iran's nuclear program, China joined four other members of the United Nations Security Council (UNSC) and voted for Resolution 1929, imposing a fourth round of United Nations (UN) sanctions on Iran (ibid., p. 5). After the US exit of the JCPOA, China still holds on to the plan, and there are regular consultations between China and Iran concerning the nuclear issue like on December 1st, 2019 (Xinhua, 2019).

## 1.2 Problem Searching

Since the JCPOA had come into effect in October 2015, the relationship between Iran and the other members has been tested. The US withdrew from this agreement in May 2018 and re-imposed sanctions on Iran, which are followed by severe economic problems for the country (BBC, 2019). Since the US refused to lift part of the sanctions, Iran started to enrich Uranium in 2019, which was observed by many European countries and China with great concern. Like the US and the other members of the JCPOA, China is concerned about nuclear

proliferation and does not want Iran to acquire nuclear weapons. Nonetheless, it does not seem like China is willing to use diplomatic tools or impose sanctions against Iran to stop it from enriching Uranium. This approach follows China's foreign policy principle of non-interference with other countries' internal affairs.

Furthermore, the two countries are connected through a long history of trade, cultural exchanges, and intermarriage in various dynasties. Until today, there are trade agreements and partnerships that influence their relations. China's affairs with the US and the sanctions towards Iran make this relationship very complicated. The PRC wants to increase its influence in the Middle East that is now dominated by conflicts between US-friendly states and Iran, but China needs to consider its relations to the US. The People's Republic rose to be one of the major traders and investors in this area. BRI and the steady supply of oil, are the most important reasons for China to invest in the region. Though, Iran is neither the only nor the biggest supplier of crude oil in the area. Other countries in the region have a somewhat complicated relationship with the Islamic Republic, which makes the Sino-Iranian relationship a balancing act between maintaining the status quo and retaining the ability of new investments in the region.

Are close ties with Iran worth the risk of losing the ability to place investments and negotiate trade deals in the area without restrictions? This paper seeks to provide a framework for the comprehension of the Sino-Iranian relationship. China's motivation for maintaining deep relations with Iran, even though this could narrow its chance to invest in various countries in the region and cause diplomatic conflicts with the US, is of paramount importance to the research. Additionally, the author aims to reveal China's geopolitical interest in Iran and whether this interest influences its approach to the country. The author intends to uncover the nature of the Sino-Iranian relationship to understand Iran's significance for China using the following research question:

**Why is China willing to maintain a close relationship with Iran despite US sanctions?**

### 1.3 Literature Review

Iran has been in the spotlight of US attention during the Pahlavi era and increasingly came in focus during the Islamic revolution. Today, the US is interested in preventing Iran from obtaining the capacity to build nuclear weapons. To achieve its goal, the US imposed sanctions before the establishment of the JCPOA and after its exit. Cooperation in sanctioning Iran between the US and other countries such as Germany or Russia is crucial for the policy of maximum pressure to succeed. Furthermore, China is essential for the US strategy in pressuring



Iran since it is the Islamic Republic's biggest trade partner (Harold & Nader, 2012, p. 1). According to Harold and Nader (2012), China refused to participate in sanctioning Iran due to a deep partnership between the countries (p.1). The availability of literature about why China does not sanction Iran or participate in the US policy of maximum pressure is limited. Most research that asks similar questions was conducted before the JCPOA's establishment in 2015.

Consequently, recent policy changes, the US exit of the JCPOA, and the plan itself were not considered to analyse the Sino-Iranian relationship. However, this outdated literature is still relevant for the research since it aids in adding a historical dimension and understanding to the research process. More recent literature is often concerned with the influence of Iran on China-US relations but less with the Sino-Iranian relations. Izadi and Khodaei (2017) analyse Iran's role in the relationship between China and the US, looking at the Iran issue as a high priority for US foreign policy and China's role as the most significant economic partner for Iran and part of the JCPOA. In their research, the authors compare the strategies of soft balancing and guarded engagement, the former being China's and the latter the US' strategy towards the nuclear issue. They found that China, even though it gave in to vote for the UN resolutions in the UNSC, did not do so without negotiating over the text in order to protect its interests (Izadi & Khodaei, 2017, p. 322). Izadi and Khodaei (2017) compared the strategies of the US and China in handling the Iranian nuclear issue, which is also relevant for this research. As long as the nuclear issue exists, there will be the US factor in the relationship between China and Iran. Since US policies towards Iran influence many countries, it needs to seek a reliable partner who can provide support against the US. Similarly, Daniel Johanson (2019) investigates China's role during the JCPOA negotiations. He claims that China acted as a mediator between US and Iranian interests.

Hence, China's role is believed to have changed from the role of a participant to a more active approach in the JCPOA negotiations since Xi Jinping became President and General Secretary. As proof for this hypothesis (Johanson, 2019, p. 164). Johanson's (2019) work is not largely concerned with China's interest in Iran but instead focusses on China's appeal to be viewed as a "responsible power" and active participator in the international community (ibid., 166). China played an important role during the agreement negotiations and afterwards, while the US is also a key player for the JCPOA. After the US exit of the JCPOA, the Congressional Research Service (2018) published an article on the topic (Kerr & Katzman, 2018, p. 22 f.). It explains the provisions and implementation of the JCPOA, the US exit, its implementation, and the reactions to it (ibid.).

The analysis is composed of a case study of the BRI as a geopolitical tool and crude oil trade as a geo-economic factor. Furthermore, this trade and the BRI as a means for the internationalisation of the Renminbi (RMB) with the help of Iran is part of the chapter. It becomes apparent that there is a gap in the recent literature about Sino-Iranian relations since it focusses mainly on China-US relations and Iran's influence on this relationship. Large parts of available research were written before the establishment of the JCPOA and prior to the US exit. Unlike the US, China has not changed its approach to a harsher foreign policy towards Iran after it resumed Uranium enrichment. This research is especially relevant since there is only some recent literature that does not primarily focus on the nuclear issue. Of course, the events around the nuclear issue cannot be disregarded, but the research focus is not on the US-Iranian relationship and China's role in it. This thesis focusses on China's reasons for maintaining the relationship with Iran despite US sanctions in the context of geopolitical and economic reasons as well as the PRC's goals for the internationalisation of the RMB.

#### 1.4 Limitations

The US-Iranian relationship has experienced rapid and ongoing development during the first few months of 2020. Since the research focusses on today's relationship between Iran and China, these events can influence the relations and create a challenge for keeping the research up-to-date even during the process of conduction. New developments could also challenge the research question. There is a vast number of variables and aspects that are relevant in order to understand the relationship between China and Iran fully, such as factors like the compliance with the JCPOA, trade treaties, and the US approach. Such an in-depth analysis of all these factors cannot be provided in one single paper but require multiple types of research. Hence, this research only focusses on three selected cases for the Sino-Iranian relationship which limits the understanding of how the conflict between the US and Iran influences the Sino-Iranian relations and how the US sanctions affect China's behaviour towards Iran

Furthermore, language barriers limit the accessibility of data and sources considerably. This poses the problem of creating a bias through material that is only available in English, which can create a not-China or not-Iran friendly perspective. English literature is usually written from a western point of view and cannot provide an essential insight into non-western thinking. Sources in Chinese will not be part of this research as the author's language skills are not sufficient. Due to the outbreak of the new coronavirus, during the conduction of the research, access to libraries is limited, which further restricts the availability of literature on the relevant topics.

Additionally, there are theoretical aspects that limit the research. For example, researchers pay attention to the political implication of currency internationalisation only recently, which implicates that the theory is not fully developed and lacks structure yet. Likewise, this research focusses on the political aspects for currency internationalisation and not on the economic ones, which limits the insight that an economic perspective may provide. Furthermore, some scholars criticise geo-economics for being a simplified version of international relations realism with an underlying ideology that produces universal truths about state behaviour (Vihma, 2018, p. 3). Geopolitics is often criticised for being suitable to explain the events of the era it was developed but not today's issues (Gray, 1988, p. 10). Several theories could serve as a foundation for the analysis of the Sino-Iranian relationship. However, it is not possible to facilitate the use of all these theories. Thus, only three international relations theories have been selected to build a theoretical framework for this research. The reasons for choosing these theories are presented in chapter two.

## 2 Methodology

The following chapter serves as a foundation for the implementation of this research. It elaborates on important aspects that need to be clarified to conduct scientific research. Central to building a functional framework is the selection of theory and the outline of aspects that form an empirical analysis. A deductive approach is appropriate for this research since several international relations theories provide the basis of this thesis' hypotheses. Hence, the first part of this chapter reasons the choice of theory. In order to understand how the research question is verified using international relations theories, an outline of data selection and an explanation of the chosen method is given.

### 2.1 Theory Selection

Reviewing the literature that was published by various scholars, the author gained an overview of the recent research concerning this paper's topic. Thus, a gap in this research about the Sino-Iranian relationship that this thesis attempts to fill has been identified.

In order to gain a thorough understanding of the research question, three theories are selected: geopolitics with Mackinder's approach, geo-economics as a perspective, and the international political economy (IPE) of currency internationalisation. Geopolitics and geo-economics provide the primary theoretical foundation for this research. It is argued that China is maintaining its relationship with Iran mainly due to geopolitical and economic reasons. Geopolitics can reveal China's motivations behind its relationship with Iran and why the country is of geopolitical importance to the PRC. The theory can explain Iran's significance to the BRI from a geopolitical point of view, which is relevant since the Middle East is one of the most critical parts of this project. However, geopolitical theory is not only concerned with geographical or political factors but also with the historical background of countries' relations. Today, Iran is part of the BRI, which increases the importance of stability in the region for China.

Additionally, Geo-economics serves as a foundation for the analysis of Iran's role in China's energy security concerns. The PRC's crude oil imports are mainly supplied by the Middle East, which influences its energy security. Oil trade and energy security are where geopolitics and economics relate to the internationalisation of the RMB. Since the US Dollar (USD) is the main currency in the oil business, it would be valuable for the Chinese government to replace it with RMB.

The internationalisation of currencies plays a vital role in China's relations with various countries since it attempts to continue the internationalisation of the RMB. There are various ways for conceptualising international currencies such as defining international currencies according to their monetary functions. This thesis focusses on the IPE approach that aims to understand the political functions and use of international currencies.

The USD is the most important and widely used international currency on the globe. Thereby, the US has an opportunity to influence other countries and institutions and maintain a high-power position as a hegemon in the international system. However, the international system is changing, initiated by the economic and political rise of China. To gain independence from using the USD, the PRC is actively trying to promote the internationalisation of RMB as an alternative currency. An internationalised currency would make China less reliable on USD in terms of international transactions such as its import of vast amounts of crude oil. In the oil business, the USD is the main currency that is used for transfers and the determination of value. It is not only a reason for China to internationalise the RMB but also one for Iran to look for an alternative to the USD: Due to the sanctions, trade is harder for the Islamic Republic since the USD is the main currency used in international trade. This research aims to show that Iran also plays a role in the PRC's internationalisation goals and that it is one factor why the relationship is maintained. The internationalisation of the RMB can provide China with even more power in the international system and Iran with an alternative to the USD.

China's rise began in 1978 when the country underwent economic reforms concerning Deng Xiaoping's "Open Door Policy". This policy offered the possibility to become a major international actor and an important manufacturing hub in Asia (Ogunnoiki, 2018, p. 48). In 2003, the notion of the "peaceful rise" was introduced by Zheng Bijian which was exchanged for "peaceful development", since other nations could feel threatened by the word "rise" as a reference to the growth of national power. In 2005 Hu Jintao introduced the idea of a "harmonious world" which symbolises China's wish for the maintenance of a peaceful international environment, stability, and its as well as other countries' economic growth and development (ibid., p. 65). The most recent project to encourage economic development in and outside of China is the BRI, which can further increase the PRC's power in the international system.

Power transition theory could be used to gain a deeper understanding of how China's rise and its competition with the US influence its relationship to Iran. It could show that China's rise enables it to resist the US lead in the international system. The trade war is one sign that

shows how important it is to the US to stay the most powerful actor in the international system by challenging China's economic power and making it aware of the interdependence between the two countries. Still, China can prove to be powerful enough to resist the US in some aspects in order to fulfil its interests. Possibilities for resistance include alliances with US enemies, in this case, Iran, which enables it to balance the international system as an alternative to the US as a partner for many countries. However, since the utilisation of this theory would only indirectly explain why China is maintaining its relationship with Iran, it will not be employed in this research. It can be assumed that China's rise and its increasing power in the international system mitigate the influence of the US' approach to Iran. The connection between the Sino-Iranian relationship and the effectivity of US sanctions could be investigated in alternative research to include additional viewpoints and broaden the picture of the Sino-Iranian relationship. Regardless, the US will play a minor role in the analysis due to the imposed sanctions. This approach is justified since the US is not the main focus of this research but the relationship between China and Iran.

## 2.2 Empirical Analysis

This subchapter gives an overview of selected data and why it is regarded to be suitable to use this material. Furthermore, it explains how the data is analysed and which methods are used to empirically test the material in the analysis section of this thesis. In correspondence with the theoretical framework and the methods, the author collected data that illustrates the economic and geopolitical connections between Iran and China.

### 2.2.1 Choice of Data

The gathered material includes information about the import and export of crude oil and gas as well as trade agreements. Newspaper articles of Iranian as well as Chinese state media, speeches, policies, statements, and trade data provide an insight into the Sino-Iranian relationship, including diplomatic as well as trade relations. It is the aim to mainly use data from the establishment of the JCPOA to the most recent material since the research focusses on today's relationship between China and Iran.

As mentioned above the data implies that there are thorough relations between China and Iran. However, it needs to be clarified why China is holding on to Iran as a partner in the region while there is the US policy of "maximum pressure" which could cause Chinese State-Owned-Enterprises and other companies to be sanctioned as well as increasing political tension in times of the trade war between the US and China. To reveal the reasons behind China's approach, the

author chooses to analyse the country's geopolitical interests and economic and its currency internationalisation efforts.

## 2.3 Data Analysis

The following subchapter briefly describes the method that is used to answer the research question. It includes an outline of how to conduct a case study and the case selection. Using theories as a basis for arguments implies the application of a deductive approach. They are to be proven right or wrong through the application of the following research methods. In order to analyse the chosen data scientifically, the researcher must choose appropriate methods.

### 2.3.1 Case study

A case study approach is used as a method to gain a holistic or in-depth understanding of a social phenomenon, usually a contemporary one, in various areas such as international relations. It is possible to obtain comprehension of why decisions were taken, how they were implemented and what the outcome is (Yin, 2009, p. 17). Therefore, this method is suitable as a foundation for the application of theory that helps to understand the Sino-Iranian relationship. After the establishment of a research question, three steps need to be taken to design a case study. Firstly, the case must be defined; secondly, the necessary and relevant data must be identified. Lastly, the collected data needs to be analysed to answer the question (*ibid.*, p. 4).

The cases are analysed based on a framework that is composed of international relations theories which enable an in-depth understanding of underlying processes. In conclusion, this research uses a deductive approach where the arguments are rooted in the core assumptions of selected international relations theories and supported by selected cases.

### 2.3.2 Case Selection

Cases may refer to an event, an entity, a group of individuals or a unit of analysis. The case study approach investigates a phenomenon in its real-life context, whereby there is a possibility to use multiple sources of evidence (Mohd Noor, 2008, p. 1602). The literature review indicates a lack of research on why China is maintaining its relationship after the US exit of the JCPOA. There is only some literature on Iran's role in the BRI and no research on Iran's significance for RMB internationalisation. Based on the theoretical framework, the author wants to prove that China's relationship with Iran is mainly rooted in geopolitical and geo-economic reasons. Nevertheless, various additional factors influence their relationship. Still, the focus of this research lies on geopolitical and economic reasons and RMB internationalisation. A case study

approach is selected to prove that reasons for China to maintain a relationship with Iran are geopolitical and economical as well as influences by the internationalisation of the RMB.



## 3 Theoretical Framework

The following chapter outlines the main assumptions of theories that are utilised in this research, starting with geopolitical theory followed by geo-economic theory, and the IPE of currency internationalisation. The resulting theoretical framework provides a basis for the analysis of the phenomenon in question.

### 3.1 Geopolitical Theory

Geopolitics can be defined as an analysis of the interaction and the relation between political processes, geographical settings, and perspectives. It addresses the consequences of the interplay between these factors in the relations of states or a state's foreign policy (Cohen S. B., 2009, p. 12). Thus, it attempts to understand and draw attention to geographical patterns of political history. It tries to connect relationships of locations with historical causation. In geopolitical theory, political predominance is not only formed through material power and human capabilities but also geographical context. States are not entirely controlled by geography; it also provides opportunities for policymakers and can be strategically exploited (Sloan & Gray, 1999, p. 2 f.). A country's geography can influence not only its policies but also the policies of other countries (Dodds, 2007, p. 4).

#### 3.1.1 Geography

Geopolitical theory connects global power to the geographical setting. It considers the impact of geography on warfare, trade, and interstate relationships. Not only topographical features, but also population density is influencing decisions during warfare. This way, the location of important cities or facilities can shape diplomatic ties (*ibid.*, p. 4). In times, when the consequences of global warming become increasingly perceptible for various countries, it also influences geopolitics. Water shortages, flooding and sea-level rise are negative impacts of climate change; nonetheless, some developments can benefit countries such as the access to resources that have previously been sealed by ice or the availability of new shipping routes. These new features can lead to conflict and effect geopolitical decisions.

The distribution of ethnic and religious groups like in Afghanistan or Iraq showed the implications of geography for war and politics. As is the international system, also the geopolitical perspective is dynamic since each state has its interests and geopolitical goals. It is influenced by changes in the international system (*ibid.*). Geographical terms that are used as

labels by people, the media and governments can influence the way a country is perceived by others because these labels generate meaning, thus influencing policies (Dodds, 2007, p. 4).

### 3.1.2 Mackinder's theoretical approach

Mackinder's approach to geopolitics incorporates the theory of the heartland, which is located in Eurasia. The most crucial argument is that whoever controls the heartland, has the potential to control world affairs. He distinguishes between land- and sea powers while claiming that the latter is declining due to the development of economic and industrial areas (Knutsen, 2014, p. 837). Maritime settings are characterised by exposure to the open sea through being surrounded, in the form of coastal reaches or inland access such as fjords. This setting has provided people with moderate temperatures and enough rainfall. It has made it easy to maintain contact with other civilisations which enabled a flourishing economy, exchange of culture, goods, and languages. This setting sped up the process of economic specialisation and contributed to opening and politically liberalising effects. Often natural barriers serve as protection from marine attacks towards the inland (Cohen S. B., 2009, p. 34). On the contrary continental settings are characterised by a vast distance to the sea and harsh climate. These settings can suffer from the lack of interaction between cultures of civilisations due to natural barriers such as mountains, deserts, or plateaus. Economies in continental settings tended to be more self-sufficient and closed than in maritime ones. Moreover, their political systems often seemed to develop autocratically. Historically, maritime areas were able to profit from urbanisation and industrialisation much earlier than continental settings (ibid.).

Unlike other territories, the heartland was never pressured by sea powers since it is protected by land. However, historically it was dominated by empires that came from the steppe in Central Asia. Mackinder argues that the heartland would become more important due to its resource-richness and strategic geographical location in the future (Gray, 1988, p. 7). It is surrounded by the marginal lands, which consist of Europe, the Middle East, Southeast and East Asia. Furthermore, there are islands and outer continents that comprise the remaining parts of the world with countries like the US or Australia (ibid., p. 8). Europe and Asia are called the world island that makes up the most significant part of the terrestrial area. Who commands the world island, commands the globe (Knutsen, 2014, p. 843). One fundamental assumption of Mackinder's geopolitical heartland theory is that a great power attempts to achieve even more power as far as internal circumstances and external factors permit it to do so. Albeit, a heartland power does not necessarily strive to control the entire heartland but may gain a foothold in the marginal lands (Gray, 1988, p. 8).

### 3.1.3 Geo-economics

Geo-economics is a branch of geopolitics that considers military power to become less and less critical in today's world while being replaced with a new kind of power tool, economics. States are trying to replace their geopolitical agency with geo-economics since a country's economy is gaining rising international importance (Luttwak, 1990, p. 17). Luttwak (1990) claims that states will act geo-economically because they want to outdo each other, and economics is a new tool they can use which is far less costly than war (p. 19). Their actions aim at providing security and maintaining power, while internal economic actors may try to influence political outcomes to suit their needs. Besides, Luttwak (1990) states that the logic of commerce dictates competition while the logic of conflict dictates the necessity for cooperation (p. 20). Thus, states tend to maintain alliances despite economic competition or conflicts and settle these quarrels to prevent damage to political relations.

Countries can use economic means as a weapon against their enemies. If states need a common threat to retain internal cohesion, today, this threat would be an economic one (ibid.). As soon as states interfere in economics, to help firms to gain access to the market or provide investment, it can be called geo-economics. This investment can be compared to the firepower of an army, subsidies for product development to weapon innovation, market access by state support to military bases on foreign territory or diplomatic influence (Luttwak, 2000, p. 129).

In conclusion, the central assumptions of geo-economics are that material power is no longer the main guarantor for a state's security and that states are not the only powerful actors in an international setting anymore since big companies gain more and more importance and are able to influence states.

## 3.2 The International Political Economy of Currency Internationalisation

International trade and the global economy are based on an international monetary and financial system. In short, it makes it possible to exchange currencies at a low price and relatively stable rates and enables international trade (Oatley & Kindred Winecoff, 2014, p. 1). In terms of international currency, the IPE approach is concerned with policy implications of using international currencies and underlying reasons for under which circumstances these currencies are used.

### 3.2.1 The Concept of International Currencies

The IPE approach tries to understand the political functions of international currencies. There are various definitions for international currencies by different scholars. In this research,

the following categories will be used: master currencies, top currencies, negotiated currencies and neutral currencies. A master currency is issued by a hegemonic state and used by other states while top currencies belong to a dominant state. Its value is, mainly determined by economic factors since it is favoured for monetary purposes by the international market. There are negotiated currencies that are used by states that offer incentives like diplomatic support in return for the use of its currency by other countries. A neutral currency is internationally utilised due to the economic strength of the issuing state who is not actively trying to promote its use. These categories are not mutually exclusive and tend to overlap (Chey, 2014, p. 41).

There are various political determinants for currency internationalisation. Politics can directly influence currencies, mainly master, negotiated and top currencies since the other types generate their relevance through economic factors. On the international levels, different forms of power like soft and hard power can encourage the use of currency (ibid., p. 47).

### 3.2.2 Hierarchy and Power

International currencies provide a hierarchy among all existing currencies since not all of them are used globally or to the same extent (Cohen B. J., 1998, p. 93). Internationalisation provides the opportunity to safe money from cross-border activities. Through the possibility of only using one or a few currencies, the likelihood of losses due to variations of exchange rates is minimised. An essential role in the financial system can increase a currency's value as a commercial medium for exchange as well as a unit of account for invoicing (ibid., p. 95). With increased value, international currencies can serve as an asset for people who want to protect their savings from high inflation in their home countries. (ibid., p. 96) This usage shows an asymmetry in the use of currencies which results from an international hierarchy that is based on a power structure where states with internationalised currencies and strong economies are powerful. Through their currencies, they can influence the political and economic relationships of states (ibid., p. 97). This influence stems from an increase in soft, hard, and structural power. Additionally, a state can gain autonomy since it is achieving greater policy control by being able to delay adjustments and deflect its cost upon others (Chey, 2014, p. 43). This power can only be maintained if an international currency can uphold its position in the IPE system. The likelihood of a currency to prevail in a competitive system is shaped by demand. For instance, demand for a currency is rising if it is likely that it remains stable, which means that there is no history of high inflation or fluctuations and if the political situation in the country of origin is stable. Furthermore, predictability of asset value and the transactional liquidity, as well as a broad acceptance, increase a currency's demand (ibid., p. 97)

Due to the resulting liberal exchange and openness to the flow of goods, money and other exchanges, the international economy is thriving. Such growth is possible through a hegemon in the IPE system that can manage, stabilises and promotes the system unilaterally to the extent that others in the system do not matter and provides a stable internationalised currency as a foundation for the financial system (Sobel, 2014, p. 18). IPE regards international currency as a factor that increases a state's monetary power which can be used to influence another state's behaviour through their financial relationship. Using an international currency, a state can increase its policy autonomy since it is possible to avoid adjustments due to external imbalances. Thus, a state can delay changes by deflecting the consequences of external influence. For example, it can depreciate its currency to denominate debts that are issued in its currency towards other countries (Chey, 2012, p. 56).

### 3.2.3 Finance and international politics

International trade and globalisation are essential drivers of economic growth worldwide. Several steps have shaped the international political-economic system to become what it is today. After the Great Depression in the 1930s and 40s and World War II, an era of protectionism came to an end. Under the leadership of the US, Canada and the United Kingdom, the negotiation of the General Agreement on Tariffs and Trade (GATT) started (Brown, 2009, p. 11). In order to reduce trade barriers and facilitate international trade, GATT came into force on January 1<sup>st</sup>, 1948 (General Agreement on Tariffs and Trade, 1986). The main goal was to ensure political and economic stability in the post-war period to avoid the repetition of mistakes in the recent past. For instance, tariffs that contributed to an increasingly hostile economic atmosphere. Until 1994, the participating countries completed eight separate negotiation rounds which led to further voluntary liberalisation of trade. The leaders of these negotiation rounds were developed countries with a supplying interest like the US. For these participants, the negotiations aimed at reducing import barriers for exporters in countries of interest. In the following year, the World Trade Organisation (WTO) was founded, which incorporated GATT and includes 150 signatory countries (Brown, 2009, p. 11 f.).

Prior to GATT, the Bretton Woods System, which is beneficial for an international system dominated by the US, was established in 1944. This system was created to cope with the effects of the Great Depression. After countries abandoned the gold standard, which meant that they would redeem their currency's value in gold, to print money in order to keep pace with the rising cost for war in World War I, hyperinflation followed. This inflation caused countries to revert to the gold standard again. The Bretton Woods Conference served critical conditions

for the USD to become a top currency and the US to establish hegemony. It led to the creation of the International Monetary Fund (IMF), the World Bank, and the adoption of the USD as the global reserve currency, together with the attachment of the USD to the gold standard (Costigan, Cottle, & Keys, 2017, p. 106). This system, together with GATT was an opportunity for the US to defend national interests and security.

In conclusion, national security and economics became interlinked, whereas the USD turned into the core of this new strategy. The US gained a strategic advantage over the war-ridden Europe that needed economic growth by being able to compensate deficits through printing and lending money abroad (*ibid.*, p.107). It was the stated objective of the Bretton Woods Conference to ensure the expansion and balanced growth of international trade. The founding members wanted to prevent another Great Depression; they were convinced that international trade and a high rate of production could not be maintained on the foundation of currency fluctuations. For the USD, this meant to serve as a stabilising currency in the international financial and trade system.

Due to military spending during the Korean War, the USD came under pressure since the country's gold reserves shrank to USD 10 billion which was far less than the liabilities that European countries held (*ibid.*, p. 108). As a result, Nixon removed the USD from the gold standard. After this detachment, the USD became increasingly attached to the value of oil. The relationship between the USD and oil was established through bilateral deals between the US and the Saudi Arabian governments in 1974 (*ibid.*, 109). Until today, the USD serves as an international currency for trade and financial exchange. The US was able to uphold its position as a hegemon in the international system by providing a reserve currency. After the global financial crisis of 2008, there have been discussions on establishing multiple reserve currencies. Since China is aiming at internationalising the RMB in the long run, this was an opportunity to lay the first foundations. Since 2009, the People's Bank of China is taking measures to promote internationalisation. This process gains increasing importance since the establishment of BRI, which can serve as an accelerator for China's currency plans (*ibid.*, p. 74). Furthermore, the reliance on the USD for crude oil imports due to its attachment to the oil price, which may influence China's energy security.

## 4 Analysis

The analysis includes three cases concerning the relationship between China and Iran and is split into two sections. The first section comprises the case of Iran's significance for the BRI; followed by China's focus on energy security and Iran's role in it. The second section is concerned with the internationalisation of the RMB. These cases were selected to fit the theoretical framework described in chapter three, considering the research question and aim of this thesis. Furthermore, the first two cases were chosen to provide an understanding of China's geopolitical and economic scope in its relationship with Iran while the third case serves to understand Iran's role in the internationalisation of the RMB.

Analysis of the three cases aims to prove that Iran's geographical and economic importance entices China to maintain its relationship with Iran as well as that Iran serves as a tool for the internationalisation for the RMB through the BRI and crude oil trade as another reason for China to keep close ties with Iran. In the third chapter, the theoretical framework for the analysis of the chosen cases has been described. This framework is applied to answer the research question and sub-questions.

### 4.1 China's geopolitical and economic motives behind its relations with Iran

The Sino-Iranian relationship has been ongoing for centuries. This relationship has been maintained even after the Islamic Revolution that changed Iran as a country entirely. China was one of Iran's most important allies in the UNSC during the negotiations for the JCPOA. Despite the US exit, the PRC holds on to the agreement as it becomes apparent by regular meetings about the JCPOA, held between China, Iran and other countries that are part of the plan. In December 2019, Chinese foreign minister Ma Zhaoxu and Iranian deputy foreign minister Abbas Araghchi held a consultation on the Iranian nuclear issue and the implementation of the JCPOA. They agreed to enhance strategic cooperation and to continue the full implementation and its promotion (Ministry of Foreign Affairs of the People's Republic of China, 2019).

However, the Sino-Iranian relationship is not exclusively based on China's role in the negotiations for the JCPOA or its further dealings with it. The nuclear issue and US sanctions contribute to a situation in which Iran has limited options for cooperation with western countries since foreign companies can also be sanctioned if they maintain business with Iran. This makes China an important partner for the country, as China's BRI project includes Iran. The following subchapter elaborates reasons that can explain the maintenance of the Sino-Iranian relationship despite US sanctions that are related to geopolitics.

#### 4.1.1 Iran's significance for BRI

In order to understand Iran's importance for China's BRI, one must take a closer look at the geopolitical possibilities the Islamic Republic offers and at geography itself. Iran is located in the Middle East, an area with various ongoing conflicts and contrasting countries that are connected through complicated relationships. Additionally, climate change is making water shortages and droughts a potential factor for future conflicts. Iran is surrounded by Iraq, Turkey, Armenia, Azerbaijan, Turkmenistan, Afghanistan, and Pakistan while it borders the Persian Gulf as well as the Caspian Sea. After Saudi Arabia, Iran is the second-largest country in the Middle East. The countries share a sea border along the Persian Gulf. Due to its topography, the Iranian territory includes natural defence lines such as the Zagros mountains or the Dasht-e Lut, a desert plateau. Nonetheless, the dry climate makes it difficult for the country to cope with climate stress. Big rivers like the Zayande Rud that flows through Isfahan and creates a lush valley are now dammed up to provide drinking water for the population.

This region not only provides rich oil and gas supplies but also connects three continents, namely Asia, Europe, and Africa. Its location makes it a strategically important place for trade. Furthermore, through the Persian Gulf Iran is connected to the Mediterranean Sea, the Red Sea, and the Pacific Ocean via the Indian Ocean. Geographically, Iran has an advantage by being able to ship goods through the Gulf to all over the world but also transport by land to Europe via Turkey and Asia through Turkmenistan (Sajedi, 2009, p. 77).



Figure 1 Map of Iran and the surrounding countries, Source: Google Maps, 2020

Iran's location makes it a strategically important actor in the region and draws the attention of global powers. For instance, the US and China that are interested in having access



to the region. Its vast oil reserves further enhance the geographical and political importance of the Persian Gulf region. Over 63 % of the world's crude oil and 40 % of gas reserves are located in this area (ibid., p. 77). In 2010, oil revenues made up 24 % of Iran's gross domestic product (GDP) and 76 % of government earnings (ibid.). This makes the oil business vital for the Iranian economy, which is a blessing and a curse because it creates dependence on oil sales. The country's geopolitical importance does not only draw from its location but also from these rich oil and gas deposits which is congenial to Mackinder's heartland theory. According to this theory, Iran is located in the area covered by the heartland, making it of great importance to a rising power that wants to gain access and control of the marginal lands and the heartland. In this research, the rising power is the People's Republic of China. The PRC is part of the marginal lands as well as the heartland. Mackinder claims in its theory that the landmass protects the heartland and that it did not have to withstand attacks by sea powers which is historically valid for China and Iran. He also claims that empires historically dominated the heartland from the Central Asian Steppe (Gray, 1988, p. 7) As in Iran, which was conquered by Mongols and ruled by Ilkhanates after the final conquest from 1251 to 1259 (Aigle, 2008, p. 67). The same accounts for China which was under Mongol rule during the Yuan dynasty, starting in 1272 (Langlois, 1981, p. 3).

China and the US use different strategies to achieve control over the heartland and Iran. China is using BRI projects for energy and infrastructure and provides an alternative to the US while the US prevents Iran from becoming a regional hegemon and exercises power in the region through interventions, sanctions and influencing oil trade. Iranian crude oil exports are declining since the re-imposition of sanctions by the US. They fell from about 2.8 barrels a day (bpd) in May 2018 to 0.4 bpd in the first months of 2020 (Barbuscia, 2020). Additionally, the US imposed sanctions on seventeen Iranian metal producing and mining companies after an attack on US troops in Iraq. This assault served as retaliation for the killing of Qassem Suleimani by a US airstrike (ibid.). Even before this attack, Iran was influenced by the wars around it, not only the Iran-Iraq war but also the US invasion of Afghanistan and Iraq. Over two million refugees settled in the country, which is a contributing factor to an unstable political and economic situation (Morady, 2011, p. 76). Several internal unrests in the last decade show the Iranian government's struggle for control.

The Middle East is of crucial importance to China's BRI that was launched in 2013. Iran's location makes it the gate to the Middle East, which provides an essential link for the BRI to Europe and other countries in the region via land and seaways. One of the primary documents that are concerned with the PRC's geopolitical goals in the area is the 2015 "Vision

and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”. Despite tensions in the Middle East, China cooperates with countries that have quarrels with each other. In order to achieve peaceful and undisturbed cooperation with these countries, the “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road” emphasises the PRC’s Five Principles of Peaceful Coexistence: “mutual respect for each other’s sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other’s internal affairs, equality and mutual benefit, and peaceful coexistence.” (NDRC, MOFA, MOFCOM of the PRC, 2015). This framework only briefly mentions security cooperation but focusses mainly on mutual benefit and understanding of all participating nations. China is careful, to avoid the repetition of mistakes that Western countries made in the area and is trying to use its approach to foreign policy and international cooperation in the BRI (Lons, Fulton, Sun & Al-Tamimi, 2019). The cooperation with these countries in the Middle East provides the possibility for China to increase power in this area, which correlates with the heartland theory as great powers thrive to achieve even more power in the heartland area or the marginal lands.

The BRI could further connect the region to Asia, utilising infrastructure projects and cooperation. Iran is a crucial part of the BRI due to its location. It is a strategically vital link in the Middle East that forms a geographic corridor between South East Asia, South Asia, Central Asia, Africa, and Europe. Due to the Persian Gulf, there is quick access to the Indian Ocean, and from there on it is possible to advance towards South Asia or Africa. A considerable amount of oil and gas from this region is transported to the Indian Ocean via the Strait of Hormuz to its final destinations. In Mackinder’s geopolitical model, Iran can be regarded, first, as a land power and second, as part of the heartland that borders marginal lands. Subsequently, through the BRI China can increase control of the marginal lands and the heartland and gain power if it possesses great influence in the link between the heartland, marginal lands, and the world island. According to Mackinder’s theory, this results in control over the world island, which could be compared to today’s US hegemony.

Since the US is pulling back from the Middle East, China can emerge as a new strong actor in the region. By using the BRI, the PRC can connect the Middle East and Central Asia with East Asia to achieve its geopolitical goals. This means that BRI can attach parts of the heartland or even the entire heartland to the marginal lands while China is thought to be the centre controlling the connections. As mentioned above, Iran plays a crucial role as a link between Asia, the Middle East and Europe. Thus, there are ongoing infrastructure projects that are related to BRI. In 2016, 17 documents and memoranda of understanding, some of them part

of BRI, regarding the establishment of a maritime Silk Road and a Silk Road scientific cooperation fund were signed by the Islamic Republic and China (The Islamic Republic of Iran, 2016).

In October 2019, China and Iran signed a memorandum of understanding on agricultural cooperation under the framework of BRI that included a beforehand visit of Iranian officials to China (Business Reporting Desk, 2019). Due to the outbreak of COVID-19, some projects in connection to BRI were temporarily put on halt. Despite US sanctions and the global Coronavirus pandemic, China insists on continuing these projects. They include the China National Nuclear Corporation's redesign of the Arak heavy-water nuclear reactor and the construction of a high-speed railway that connects Tehran, Qom, and Isfahan with the involvement of the China Railway Engineering Corporation (Belt & Road News, 2020). China is the biggest investor in Iranian transportation projects like the high-speed railway or the electrification of the Tehran-Mashhad railway with an estimated cost of about USD 4.2 billion. These railway projects are essential parts of the BRI corridor connecting Central Asia to the Middle East. According to Mackinder's theory of the heartland, if a single power controls the gateway between Western Europe and the Eurasian heartland, it can pose a significant threat to Western powers, especially to the US (Knutsen, 2014, p. 843). Iran is precisely where this corridor connects the BRI through Turkey to Europe until Germany. This is one reason why Iran is crucial for the success of BRI and China's geopolitical goals in the region. It can increase China's power in the long run by, at least, economically controlling the countries along this land route of the BRI.

In Iran, there will be an east-west corridor, entering the country from Turkmenistan and a north-south corridor leading up to the Persian Gulf (Shariatinia & Azizi, 2019, p. 6). The third project, signed by Iranian officials and Chinese company Sinomach in 2018, connects Tehran, Hamadan and Sanandaj through a 470 km railway. Sanandaj is one of the few provincial capitals that was not connected to the national railway grid. According to Sinomach, the project cost about USD 836.9 million (Sinomach, 2018). These projects can reduce traffic density in the region and are possibly beneficial for economic development in the area.

In April 2018, the China Petroleum and Chemical Industry Federation signed an agreement to build a petrochemical park near the southern Iranian port city Chabahar (Belt & Road News, 2020). Due to the global pandemic, there is only scarce information about the status of these projects. China is using the situation for diplomatic efforts in strategically essential countries that participate in the BRI such as Iran and spreads the idea of a "Health Silk Road".

Since the US sanctions pose a major challenge for buying medical supplies and importing them to Iran, the country turns towards China for help in this crisis. The European Instrument in Support of Trade Exchanges mechanism that is supposed to protect companies from punishments by US sanctions was found to work insufficiently for the supply of medical goods. This was China's chance to help Iranians by donating over 400,000 masks, a waste disposal facility, and 500 prefabricated rooms equipped with chairs, beds and desks (Gupta & Singh, 2020). These and further donations highlighted China as an alternative and stable partner to Western countries for Iran.

According to Shariatinia and Azizi (2019), not only China profits from BRI in terms of its geopolitical efforts in the region but also Iran (p. 4). The area is known for conflicts and poverty – BRI can help to stabilise Iran's periphery and reduce poverty which also opens new possibilities for the Islamic Republic by discovering new markets in neighbouring countries and reducing risks posed by conflicts (ibid., p. 4). Iran sees the chance of being an essential part of BRI. Since China is already financing projects for railway and port construction in Iran, there are no plans for integrating the country into a network of airports for BRI. Despite, the parliamentary research centre of the Islamic Republic wrote a report on how to make Iran a hub for aerial transport. This effort is not officially part of the BRI but could be used by China to increase investment in Iran, built airports or sell planes. The report suggests that the country must modernise its air fleet to be able to conquer the local market:

“تقویت و نوسازی ناوگان هوایی کشور با خرید هواپیماهای نو با رویکرد در اختیار گرفتن بازار حمل و نقل هوایی مسافر و بار در منطقه و جلوگیری از خروج ارز از کشور.” (Iranian Diplomacy, 2020).

According to this report, Iran wants to prevent the loss of foreign capital by attracting additional foreign airlines and passengers to the country. These plans pose a chance for China to conquer the Iranian market through BRI after the completion of the single-lane passenger jet C919 by state-owned company Commercial Aircraft Corporation of China (Qiu & Hephher, 2020).

Of the five areas of cooperation that the BRI focusses on – infrastructure and facilities connectivity, unimpeded trade, smooth financial flows, coordinated national policies, and increased people-to-people and cultural exchanges – it is mainly infrastructure and connectivity projects, that are implemented in Iran (Li, 2020, p. 169). As President Xi Jinping mentioned in his article, he feels home in Iran due to cultural ties, which underlines the importance of history in geopolitical theory (Xi, 2016). Within the framework of Tsinghua's Student Association of the Belt and Road Initiative, there are cultural events concerning the countries participating in

BRI. One of these events included the screening of “Qasr-e Shirin” (قصر شیرین) that earned three awards at the 2019 China film festival (Islamic Republic News Agency, 2019). The resulting close partnership between China and Iran influences not only trade relations between the countries but also foreign policy issues and the dealings with the nuclear issue.

In 2016 Chinese president Xi Jinping published an article in an Iranian newspaper ahead of his state visit that emphasised the ancient connections between China and Iran and today’s cultural ties, quoting Saadi, a famous Iranian poet. Moreover, it highlights the importance of the JCPOA as an opportunity to deepen the Sino-Iranian relationship and Iran’s geographical significance for the BRI (Xi, 2016). Thus, it is of China’s geopolitical interest to maintain the JCPOA that provides a foundation for smoother business relations with Iran. The PRC relies on Iran’s assurance not to build nuclear weapons (ibid.). On December 31<sup>st</sup>, 2019, Chinese foreign minister Wang Yi and Iranian foreign minister Mohammad Javad Zarif discussed challenges and the implementation of the JCPOA along with the Sino-Iranian relationship (MOFA, 2019). China is taking Iran’s side and condemns the withdrawal of the US from the JCPOA and its policy of maximum pressure towards Iran. Foreign Minister Wang stated this is the main reason for rising tensions concerning the Iranian nuclear issue (Fulton, 2020).

On February 14th, both ministers met again in Munich, where Wang said: “The fact that Minister Zarif was the first foreign minister to send sympathies to the Chinese people over the novel coronavirus outbreak speaks volumes about the profound friendship between the peoples of the two countries, who have always supported each other in difficult times.” (MOFA, 2020). These regular meetings demonstrate the close relationship between the PRC and Iran. China is an essential partner for Iran in the group of countries that are part of the JCPOA. It is vital for the Islamic Republic to have a reliable partner among the signatories to maintain the plan. Thus, also Iranian foreign minister Mohammad Javad Zarif emphasises the relationship between Iran and China that can be traced back until ancient times (Zarif, 2019).

Additionally, he mentions the BRI and the countries’ cooperation in many projects as well as Iran’s support for China’s stance in the trade war with the US, the One China Policy and non-interference in internal policies (ibid.). This can be regarded as part of BRI’s coordination of national policies and the PRC’s increased influence in the Islamic Republic. In turn, China sided with Iran on the killing of Quds leader Qassem Soleimani by telling the parties involved that they should follow the basic norms of international relations. In a phone call with foreign minister Zarif, Wang stated that the US military operation would further increase tensions in the region (Fulton, 2020). This shows China’s emphasis on non-interference and its

opposition to the use of force in international politics. As BRI shows, the country instead focusses on the development and economic-based approach to international relations and to increase power. It is in China's geopolitical interest that the region remains as stable as possible to complete the BRI and make use of it to open new markets in the Middle East in order to tackle its economic issues over productivity.

It may be necessary for China to take some sort of security role in the Middle East to be able to maintain its geopolitical interests such as the BRI and its connection to Eastern Europe, energy supplies and opening new markets. From late December 2019 to the end of January 2020, Russia, China, and Iran held joint naval exercises. Saudi Arabia and the PRC held naval exercises only one month earlier (*ibid.*). This does not necessarily mean that China would help Iran in a military confrontation with the US, but it can be interpreted as a signal for a deeper involvement of the PRC in the region. Already in 2017, defence minister Chang Wangquan said that China is willing to cooperate with Iran and make new contributions in terms of military ties between the countries (Xinhua, 2017).

China is the biggest supplier of arms to Iran, which faces an embargo. These kinds of wargames may lead to increased sales of arms from China due to their demonstration to other countries (Greer, 2019). This way, the PRC can increase its presence in the market of global arms sales and demonstrate its military capability. The stability of the Middle East guarantees a steady supply of crude oil, gas and petrochemical products to China. Due to a large number of oil imports and storage in the region, it is in the PRC's interest to contribute to a peaceful climate. By connecting the countries through the BRI and lifting people out of poverty through economic development, the region can flourish, and the PRC can deepen its influence over the marginal lands and parts of the heartland.

As mentioned before, the Gulf region is of vital importance to China's energy security when it comes to crude oil. China has emerged as the fastest-growing consumer of energy during the last decades. This makes energy security a substantial element for the country and its foreign policy goals (Davis, et al., 2012, p. 12).

#### 4.1.2 China's quest for energy security

From 1993, China's energy security concerns changed when the country became a net oil importer for the first time (Trough, 1999). Previously the PRC was able to supply enough petroleum for the local market self-sufficiently. Since then, China's demand for energy has

been increasing. Iran was the third-largest supplier of crude oil to the PRC in 2006 (Alterman & Garver, 2008, p. 42). China is still by far Iran's biggest trading partner with 31 % of its exports going to and 37 % of imports coming from China in 2017 (OEC, 2020).

The PRC is exporting 0.76 % of its goods and importing 1.1 % from Iran (ibid.). Mineral products make up the biggest part of Iranian imports to China with 77 %. Crude oil accounts for 64 % of the overall amount of imports, making it the most crucial element of the Sino-Iranian trade relations (OEC, China, 2020). Iran is the fourth biggest exporter of crude oil making up 7.5 % of Chinese imports (OEC, Where does China import Crude Petroleum from?, 2020). The supply of crude oil to China is crucial to meet its energy demands. However, there has been a change in the composition of countries supplying oil to China. The percentage of Iranian crude oil in Chinese imports dropped from 7.5 % in 2017 to 3 % in 2019 (Workman, 2020). This shifts Iran from the top five crude oil-exporting countries to number nine. Trade between China and Iran also dropped by one-third in 2019 compared to 2018. Chinese exports to Iran dropped by about 31 %; nevertheless, the country is still Iran's biggest trading partner (Radio-Farda, 2020).

The US sanctions against Iran can explain this drop in crude oil imports. These sanctions are a geo-economic tool that the US is using to put pressure on Iran. In several instances, in 2019 and 2020, the fear of war between the US and the Islamic Republic was rising. However, war would be very costly for both sides, especially for Iran, regarding the capacities of the US military but also for the whole region. Since costs for war are too high the US results in a geo-economic strategy of sanctions and economy as a power tool. This shows that economic means are becoming more and more critical for states to exercise power. Using sanctions as a form of an economic weapon against Iran also means that it is possible to show other states, that there will be consequences if they refuse to obey the US strategy to punish Iran. Thus, the US initially gave out sanction waivers which made crude oil imports from Iran possible without being subject to penalties. On April 22<sup>nd</sup>, 2019, it was announced that the waivers will not be renewed. They were granted to eight economies among them China. If economies continued to buy crude oil from Iran after May 2<sup>nd</sup> – not complying with the sanctions – they can be subject to US penalties (Bollino, Efird, Hasanov, & Hatipoglu, 2019, p. 3).

In 2017, these eight countries received more than 75 % of Iran's registered crude oil and condensate exports. Despite this development, China, in contrary to other countries, has not stopped to purchase crude oil from Iran (ibid., p. 5). Several Chinese companies were blacklisted by the US the second time in three months in September 2019 for importing oil from

the Islamic republic. It is notable that Chinese oil imports kept rising towards the closure period of the waivers in 2019 and shrunk drastically after the waivers expired. After the expiration of the waivers, imports dropped from over 800.000 bpd in April to less than 300.000 bpd in May (Katz, 2019). During the January-February period of 2020, the crude oil imports dropped even further to about 81 % less than in 2019 (N.N., China oil imports' details in Jan-Feb 2020, 2020). This development is encouraged by the US' policy of maximum pressure. It is the aim to bring Iran's oil business to a halt which would likely cause a massive economic crisis since a significant part of the Iranian economy relies on revenues from oil exports. According to geo-economic theory, conflicts are dictated by the logic of cooperation. This means that conflict enhances the necessity for cooperation with an enemy. The case of China's energy security clearly shows, that in this conflict with the US, Iran is willing to cooperate with a country that became a challenger to US hegemony. In this regard, China could be described as an enemy while China's cooperation with Iran clearly implies the partnership with an US enemy.

By trading with Iran, China needs to balance its interest in the US and the Middle East in order to prevent a conflict with states such as Saudi Arabia that has a difficult relationship with Iran. From a geo-economic perspective, this area is attractive for the PRC due to its vast oil reserves; especially, since Iran owns the biggest gas field and the second-largest conventional oil and gas deposit in the world (Rempel, 2005, p. 2). By continuing the import of Iranian crude oil and ignoring US sanctions, China secures its energy supply and shows economic strength. It can outsmart and challenge the US by finding ways to circumvent sanctions and increase its economic influence in Iran and the region using geo-economic tools. Despite the riches in resources, the Islamic Republic is becoming isolated through US sanctions to a greater extent. The selection of the Middle East for the BRI, where China's primary energy suppliers are located, is a strategic geo-economic decision that brings it closer to the region with the vastest oil and gas reserves.

Due to further withdrawal from the Middle East by the US, which manages security issues, China will face greater responsibility in this area in the future. Given the incidents in the Strait of Hormuz in 2019 that mostly concerned oil trade, it is in the PRC's interest in terms of energy security, to maintain peace between the rivaling countries, mainly Iran and Saudi Arabia (Lons, Fulton, Sun, & Al-Tamimi, 2019). Still, there is no Chinese escorting or protection mission in the Strait of Hormuz until today. Even though there are experienced crews from anti-piracy missions around the port of Djibouti that are part of the BRI, the country did not send escorts for ships with crude oil that pass through the Strait of Hormuz (ibid.). In 2018,



when Iran threatened to block the Strait of Hormuz, China did respond, stating that the Islamic Republic should contribute more to stability and peace in the region (Blanchard, 2018).

Since Iran can, only with enormous difficulties, turn to Western countries for trade, it increasingly seeks a partnership with the PRC. The struggle to access Western markets makes Iran even more attractive as an external market for Chinese companies. After the imposition of sanctions by the US, many companies like French Total withdrew from Iran in fear of being punished due to the violation these sanctions. China Petroleum Corporation (CNPC) and Total formerly worked together on a project to develop the South Pars gas field. In November 2018, Total withdrew its shares because of US sanctions. CNPC likewise withdrew from the contract for the development of the South Pars gas field one month later (Katz, 2019). As stated by Iranian oil minister Bijan Zanganeh, unit eleven of the South Pars oil field will now be developed entirely by Petropars (Deghanpisheh, 2020). The increasing isolation of the Iranian economy provides a unique chance for China to gain market access and exercise its geo-economic power by doing so. As Marketos (2009) states in his book, China needs a secure investment environment and wants to minimise the US influence on Chinese oil supply (p. 105).

Iran is often regarded as a threat to Middle Eastern peace, especially by US politicians, which creates a security related geo-economic importance for China since the biggest share of its oil supplies comes from this area. According to geo-economic theory, security and power are the main aspects that countries seek to provide. Stabilising Iran and influencing it poses the chance to secure energy supplies and get a foothold in the region. This way, the PRC can emerge as an alternative to US power in the Middle East. The country must secure its oil supply in order to serve demand over the next two decades, for which the Middle East will play a crucial role. Until 2035, the share of global net oil trade held by China will increase from 14 % in 2011 to 24 % (Odgaard & Delman, 2014, p. 109). The country may account for 54 % of growth in global net oil trade until 2035, mainly due to the rise in car ownership by the population (ibid.). To cope with possible challenges to oil imports such as the US sanctions against Iran or conflicts in the region, China is continuing to diversify its these imports as a geo-economic strategy (ibid., p. 110).

Moreover, in 2007 the State Council published “China’s Energy Conditions and Policies” which includes strategies to safe energy and to increase domestic production of coal, gas and oil but also state how the country will use foreign energy resources. The paper states that external energy resources will remain an integral part of the country’s energy mix for a long time to come (State Council, 2007, p. 43). Therefore, it is necessary to boost international trade

and maintain the stability of the international energy market. In contrary to spot trading of crude oil, the PRC focusses on signing long-term supply contracts with foreign countries and promotes the diversification of exporting partners. Additionally, it encourages overseas investment in energy infrastructure and international cooperation for the exchange of technology and services (ibid.). This shows China's geo-economic approach to the diversification of crude oil imports and overseas investments to achieve greater energy security.

Despite the drop in Iranian oil exports to China and the pulling back from projects, the Islamic Republic is still of geo-economic interest to the PRC. In September 2019, the comprehensive strategic partnership between Iran and China was updated, it was first signed in 2016. According to this comprehensive strategic partnership, the PRC will invest USD 280 billion in the development of Iran's oil, gas and petrochemical sectors (Watkins, 2019). As a part of this comprehensive strategic partnership, Chinese and Iranian officials signed a memorandum of understanding concerning Chinese investment in various sectors of the Iranian economy over the following 25 years that amounts to about USD 400 billion (Tasmim News, 2019). The main interest of Chinese companies in this comprehensive strategic partnership is that they have the right to accept and decline petrochemical projects in Iran and provide technical assistance before other actors are involved. This gives market power to these companies, which is part of the geo-economic aim to provide market access for Chinese companies abroad. According to an Iranian source, there will be 5.000 Chinese security guards to protect Chinese projects in Iran and to secure oil transfer if necessary. Additionally, the PRC is able to buy Iranian crude oil, gas, and petrochemical products with a discount of 12 % for six months that due to currency exchange rates sums up to a 32 % discount in total (ibid.).

This investment provides Iran with an alternative to the US geo-economic power game of strict sanctions. Moreover, it challenges US geo-economic power in Iran and shows that China can outdo the US by providing relief for the Islamic Republic's economy. As geo-economic theory suggests, the economy gains growing importance in terms of surpassing other nations instead of using military means. This is not restricted to relations with the country that is to be outdone itself but can also happen through investing in other countries or making it more difficult for the rival country's companies to access markets. With its infrastructure and energy investments in the Islamic Republic, China is an attractive geo-economic partner for the country to circumvent sanctions. The stability of Iran is important to China since a severely unstable Iran could cause conflicts in the region, endangering the PRC's oil, gas, and petrochemical supplies and BRI. Looking at China's energy security issues, it becomes clear that the country is using investment and trade to build alliances with nations that are important

for the maintenance of energy supply. Using investment and trade with Iran is not only a matter of security for China but also a power tool that enables the PRC to manifest its position in the Middle East and challenge US policies in the area. The US policy of maximum pressure and sanctions towards Iran provide a unique opportunity to use this vulnerability for China's advantage. By using interconnectedness, economic ties and -asymmetries, the People's Republic can conduct power politics. Though, it must be careful since there is a danger of falling under US sanctions (Scholvin & Wigell, 2019, p. 2).

As mentioned above not only China's energy security makes Iran attractive for partnerships, but also its isolated market that poses a chance for increased trade of commodities. Already during the US nuclear-related sanctions that were imposed during the Ahmadinejad era, China discovered the Iranian market (Scita, 2019). Today, Iran is increasingly isolated politically and economically due to US sanctions and policy of maximum pressure. This provides China with the opportunity to continue the internationalisation of the RMB. The oil trade is a possibility for the country to expand its efforts.

## 4.2 Internationalisation of the Renminbi

After China acceded to the WTO, it began to reform the financial sector based on the domestic market in order to fulfil WTO commitments. Following Deng Xiaoping's reform and opening policy, this was the first step towards integration in the international financial system and increased economic strength through China's going global 1.0 strategy. Financial institutions have expanded and encouraged the internationalisation of the RMB and restrictions for Foreign Direct Investment in China have been lowered significantly (Zhang, 2018, p. 183).

China's aspirations to internationalise the RMB have been upgraded to a new level when the IMF included the currency into the special drawing rights basket on October first, 2016. Other international currencies like the USD, the Euro and Japanese Yen are already part of this basket. This inclusion is not of practical importance for the RMB but instead adds legitimacy to the currency which could, according to the IPE of currency internationalisation, lead to an increased demand (Bryson, 2018, p. 2). There have been several developments that are benefitting the internationalisation of the RMB. However, the number of international transactions has been shrinking quite sharply in 2016 and 2017 compared to 2015 (ibid.). The deceleration of the Chinese economy and increasing capital outflows were the main reasons for this drop (ibid., p.3). Still, the number of trade invoices increased up to USD 1.1 billion in 2015 while there was barely any in 2009. Foreign holdings of RMB peaked in 2014 and then decreased until they spiked again in 2017. They have risen fivefold since 2011 (ibid.). In March

2020, the RMB is the fifth most active currency for global payments by value (SWIFT, 2020, p. 2). Its share as a currency in international trade and finance increased from 1.85 % in March 2018 to 2.4 % in March 2020 (ibid., p. 8). However, compared to China's place in the international system and its economic power, the RMB is far from being valuable, stable, and thus powerful enough to challenge the USD, yet. According to the IPE of currency internationalisation, international currencies can create a kind of hierarchy that is influenced by its status and usage. While the RMB is still rather weak as an international currency, China's economic rise equipped it with political and economic power in the international system.

According to Chinadaily, China aims to internationalise the RMB to reduce exchange rate risks, transaction costs of international trade, and increase the number of financial transactions using the currency through increasing global use by its major trading partners (Yesmin, 2019). Given China's large economy and a significant volume of international trade, the internationalisation of the RMB is still slow. Since 2009, the People's Bank of China is taking measures to accelerate this process (Liu, Wang, & Woo, 2019, p. 74). There are several ways in which the Chinese government could promote the internationalisation of the RMB, such as through oil trade. Due to shrinking oil sales, the Iranian economy is slipping deeper into recession. Foreign currency reserves dropped to USD 73 billion amounting to a loss of about USD 40 billion within two years (Barbuscia, 2020). According to the Institute of International Finance, the reserves could fall to USD 20 billion within two more years of sanctions. If sanctions are lifted, they could increase to an amount of USD 143 billion (ibid.).

Iran is desperate for foreign currency while facing difficulties in oil sales, partly caused by the use of the USD as oil currency. China is pursuing the internationalisation of the RMB, which makes the Islamic Republic in its current situation a possible location to increase the use of the Chinese currency. Since 2012, Iran is accepting RMB for some of its crude oil shipments to China which can be traced back to US sanctions (Sender, 2012). The earlier mentioned strategic, comprehensive partnership that was renegotiated between China and Iran also includes that Iranian oil will be priced in RMB and other currencies that were accumulated by China's trade with other countries to circumvent US sanctions (Rapoza, 2019). This is also part of the BRI that is used as a means for internationalising RMB. In the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road, it is stated that: "We will support the efforts of governments of the countries along the Belt and Road and their companies and financial institutions with good credit-rating to issue Renminbi bonds in China. Qualified Chinese financial institutions and companies are encouraged to issue bonds in both Renminbi and foreign currencies outside China, and use the funds collected in countries

along the Belt and Road.” (NDRC, MOFA, MOFCOM of the PRC, 2015). Thus, it encourages countries to buy bonds issued in RMB, which contributes to the internationalisation of the currency.

This shows that the People’s Republic and its currency are becoming more powerful in Iran by increasing the use of RMB. In the IPE of currency internationalisation, countries with an internationalised currency are more powerful and have stronger economies. China’s RMB is still far less used than, for example, the USD but the PRC is working toward further internationalising its currency. By providing RMB to Iran, China challenges the power of the US in the Middle East. Using its maximum pressure approach towards Iran, the US wants to pressure the country to comply with its demands by restricting the possibility for oil and other exports as well as imports of goods to the Islamic Republic. Being the hegemon, the US has economic and political power that it can also use by utilising its currency to influence other state’s behaviour as suggested by the IPE of currency internationalisaiotn. As China is providing a possibility to ease Iran’s economic situation and make crude oil exports possible, it is indirectly using the RMB to influence Iran’s behaviour.

For instance, in December 2019, foreign ministry spokesperson Sayyed Abbas Mousavi condemned the US interference into Chinese domestic affairs (Islamic Republic of Iran: Ministry of Foreign Affairs, 2019). He criticised the US role in the China-US trade war, saying that this method of maintaining its position in the international system will fail and is not consistent with the ongoing developments (Islamic Republic of Iran: Ministry of Foreign Affairs, 2019). This suggests that Iran regards China to become more powerful than the US and possible take-over its position as a hegemon in the international system.

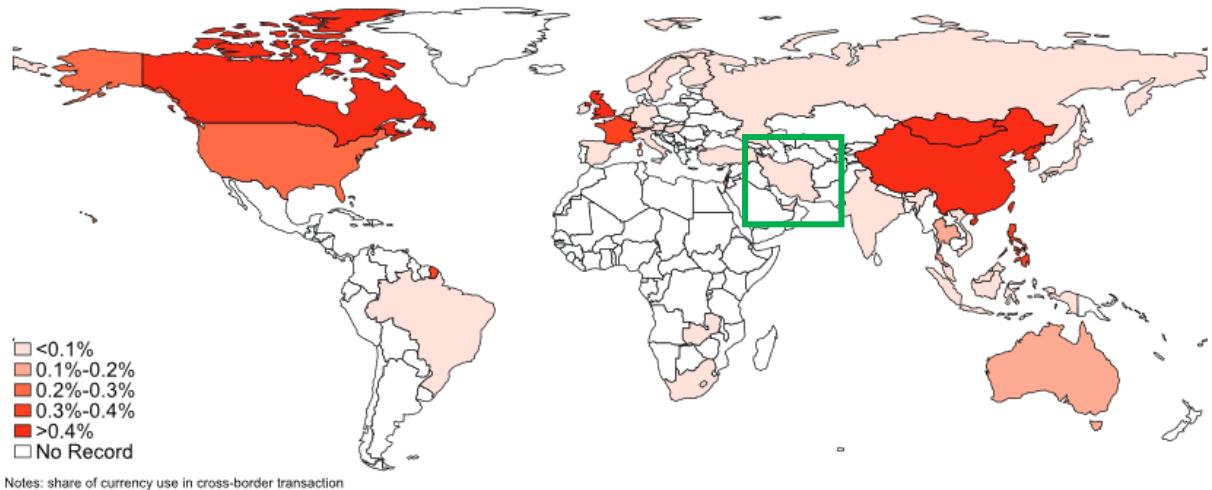


Figure 2 The global use of RMB in October 2010, Source: Liu, Wang, & Woo, 2019, p. 79

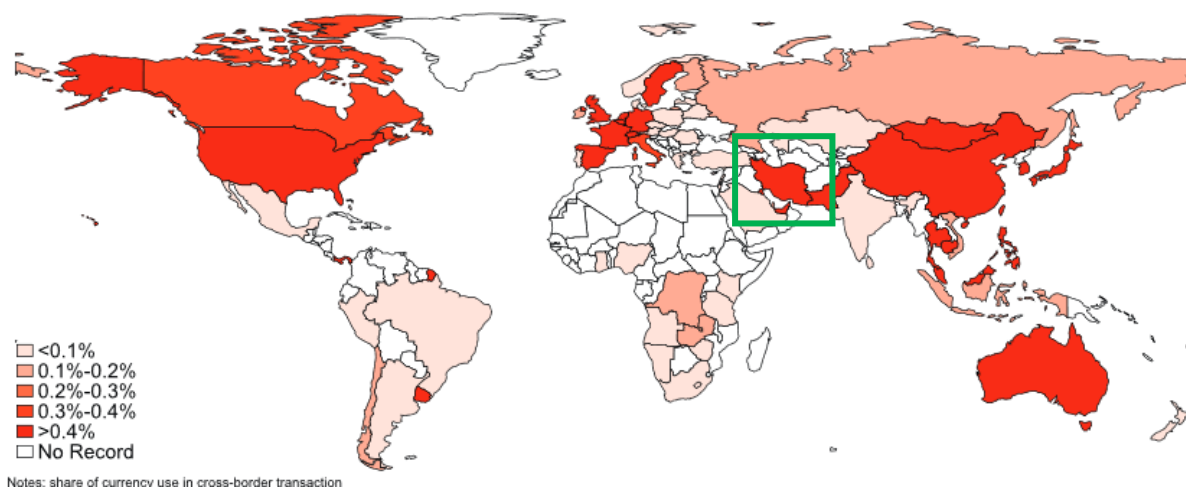


Figure 3 The global use of RMB in August 2014, Source: Liu, Wang, & Woo, 2019, p. 79

Figure 2 and 3 show the global use of RMB in cross-border transactions in October 2010 and August 2014. There is a significant rise in the utilisation of RMB in Iran from 2010 to 2014, which could be related to the above-mentioned acceptance of RMB for crude oil shipments to China. The cross-border transactions grew from less than 0.1 % to more than 0.4 % within four years. In 2018, Iran even replaced the USD in its official currency rate reporting platform (Sanarate) with RMB (Asia News, 2018). This further emphasizes Iran's eastward orientation its so-called looking east policy. The importance of USD in the international financial system is a disadvantage for Iran, which makes the RMB even more attractive. It is in Iran's interest to find an alternative to the USD, especially to circumvent US sanctions and keep its oil sales on a substantial level. Also, China is eager to increase the use of RMB for oil sales to speed up the internationalisation of its currency. In 2018, China launched a new crude oil futures contract which is the first of its kind in the People's Republic and the first which is denominated in RMB (Kamel & Wang, 2019, p. 1132). This will encourage buyers and sellers of oil, especially in the Asia-Pacific region, to use the RMB as a settlement currency for crude oil trade to avoid risks in currency exchange fluctuations (ibid., p. 1145). As Kamel and Wang (2019) state, there are several obstacles for the Shanghai crude oil benchmark to become established globally. These issues include strong international competition among established benchmarks, the intervention of the Chinese government with the market, which could lead to a loss in credibility, the lack of liquidity despite China's growing role in the oil market, and the inadequate amount of international participation in the contract. Functioning benchmarks require a well-working financial system to cope with all the players that speculate with oil on the market (ibid.).

Nonetheless, Iran did not choose to use the RMB because it is a valuable or very reliable currency; it instead switched to focus on the RMB due to its looking east policy and US

sanctions. Despite the increase in RMB usage, it cannot be considered a top currency, yet. In fact, the term negotiated currency is more suitable concerning Iran since China is not only offering it the possibility to sell crude oil in RMB but also provides political support for the maintenance of the JCPOA and against US sanctions as mentioned above. However, there is no security cooperation between Iran and China when it comes to the military. It can be argued that China is giving Iran diplomatic support in terms of the JCPOA, which is shown by several statements and the regularly held meetings. Moreover, there are various occasions on which the foreign ministers of both countries met in 2019; thus, it can be assumed that these exchanges are part of the reason for Iran for the above-mentioned replacement of the USD by RMB in Iran's Sanarate. This hints at the RMB to be a negotiated currency since it is not chosen by Iran due to its value and economic purpose only. It could be the case that Iran will reduce the use of this currency as soon as it has access to international financial markets again (*ibid.*, p. 1144). At present, China is using banks that are not exposed to the US financial system and sanctions such as the Bank of Kunlun to facilitate trade with Iran (*ibid.*, 1446).

To further facilitate trade between Iran and China and continue the internationalisation of the RMB, the Central Bank of Iran's Governor Valiollah Seif tried to reach a currency swap agreement during a meeting with Vice Chairman of the Chinese People's Political Consultative Conference Chen Yuan in Tehran in 2017 (Financial Tribune, 2017). Anyhow, there is no record that such an agreement has been reached. It would be necessary for Iranian banks to maintain access to other banks worldwide. Before the JCPOA, the number of banks working with Iran was limited to merely 35 (*ibid.*). Considering the US sanctions, it may have been too difficult for the two countries to reach a currency swap agreement.

With its currency internationalisation strategy, China is trying to undermine the USD's global power as a reserve currency. Still, the RMB is far from being considered a reserve currency. Such a currency creates an enormous political and financial potential for the issuing country such as the reduction of transaction costs, seigniorage which enables it to produce money cheaply, macro-economic flexibility, and greater influence and reputation (Codeço, 2018, p. 829). It is still a long way until the RMB will be ready to become a reserve currency. China attempts a reduction of dependency on the USD and also decreases Iran's dependency with its approach. As mentioned above, the status of the RMB does not yet match China's new economic and political role in the international system, as international financial institutions through lacking reforms do not acknowledge China's position (*ibid.*, p. 831). By internationalising its currency, it aims at establishing an international order that reflects its rise. Thus, the internationalisation of the RMB is challenging the USD's dominance to diversify

competition in global trade. To do so, it is suitable to back an enemy of the US and continue financial, trade and diplomatic relations despite the sanctions that are imposed on Iran. This behaviour challenges the US authority in the region and provides a chance for China to establish a new power structure in the Middle East by introducing RMB, especially when it comes to crude oil trade.



## 5 Discussion

There have been rising tensions between the US and Iran since the country left the JCPOA in 2018. In the meantime, China remains a strong supporter of the nuclear deal. This becomes obvious considering the regular meetings between Chinese and Iranian officials on the nuclear issue. Still, US sanctions pose a problem for the Sino-Iranian relationship, especially when it comes to crude oil exports and Chinese investments in Iran. Nevertheless, these two countries maintain their relationship to the greatest extent possible. The analysis confirms that the ongoing Sino-Iranian relations can be explained mainly by Iran's geopolitical significance for the BRI that is important for China's geopolitical and economic goals and its quest for energy security. Though, the internationalisation of the RMB seems to play only a minor role for China in the relationship between the PRC and Iran.

In the analysis, it became apparent that China's geopolitical and geo-economic goals and the internationalisation of the RMB in Iran are connected. Investment for BRI can be considered part of the PRC's geo-economic strategy to gain a bigger economic influence in Iran and the region and to provide the possibility for easy market access to Chinese companies. This creates an interweaving between geopolitics and geo-economics. It broadens the understanding of China's geo-economic advances in Iran from only considering energy supplies to also incorporating market access, investment and challenging the US hegemony. Of course, China's energy security issues are also connected to geopolitical goals, such as increasing its influence in the Middle East. Chinese energy security also connects geo-economics and the internationalisation of the RMB since this internationalisation aims to achieve greater independence from the USD, especially when it comes to oil trade. It must ensure to maintain stability in the region since various countries such as Saudi Arabia have a complicated relationship with Iran. China is importing oil from both of these countries, while Saudi Arabia is the top exporter of crude oil to the PRC in 2019 (Workman, 2020). The analysis discovers that China is aiming to challenge not only the USD but also increase its influence in the region, considering the use of the RMB and its internationalisation. Thus, it is trying to use the RMB as an oil currency to circumvent US sanctions and enable a more secure investment environment in Iran. Using BRI, it connects several countries in the region through infrastructure projects and trade, which can facilitate stability in Iran by providing a possibility to prevent the failure of the Iranian economy. Furthermore, with China's rising political and economic influence in Iran and its support for the JCPOA, the PRC found a partner that joins its counterbalance to the

US hegemony. Iran supported China in the trade war against the US and many other attempts when China was criticised.

Geographically, Iran's role in the BRI is crucial as it forms a corridor between Central Asia, the Middle East, and Eastern Europe. China connects its geopolitical, economic and currency internationalisation goals through the BRI. To increase its influence in Eastern Europe using BRI, China needs Iran to participate and to provide a stable environment for trade and the implementation of infrastructure projects. By connecting the countries along the BRI from China to Europe, the PRC can gain greater influence in the heartland and is increasing its power in the international system through geo-economic and political means. While doing so, it can pursue the internationalisation of the RMB. The usage of RMB in Iran gives China certain power, for example, to import crude oil that is denominated in RMB instead of USD. Moreover, Iran continued to emphasise RMB by replacing the USD with RMB in its official currency rating system. This replacement is a political statement, that clearly shows the US that China's influence in Iran is growing and its currency is increasing in value for other countries.

Despite the ongoing cooperation between Iran and China, the analysed data shows that trade and oil exports to China have been drastically shrinking since 2018. The decrease is a result of sanctions that were imposed on Iran by the US. However, it is a clear signal toward the US that China refuses to stop importing oil from Iran and supports the JCPOA. By helping Iran through the US policy of maximum pressure, China shows that it is refusing to follow the US as a hegemon. It also does so by trying to establish the RMB as an international currency. Furthermore, it challenges the US position in the region by supporting a country that is sanctioned by Iran and criticised by US allies such as Saudi Arabia.

The data contributes to a clearer understanding of the Sino-Iranian relationship and why China is still maintaining this relationship despite US sanctions. It becomes apparent that there is much more to the Sino-Iranian relationship than China's role on the JCPOA or Iran's influence on China's relationship with the US. This research fills a gap in the literature that mainly focusses on China-US-Iran relations and has often been written before or right after the establishment of the JCPOA.

The findings in this research point towards confirmation of the hypothesis that China is mainly pursuing geopolitical interests in Iran, which was discovered by using Mackinder's heartland theory. China can increase its influence in and around the heartland, and Iran plays a crucial role in this aim. It has been challenging to verify Iran's role in the internationalisation of the RMB. The data reveals that these efforts are mainly limited to crude oil exports from Iran

to China. Due to the lack of data about the usage of RMB in Iran, it was only possible to review evidence from agreements between China and the Islamic Republic that are concerned with this currency. The results prove that there is an ongoing activity in this field between Iran and China.

## 6 Conclusion

By analysing the cases of Iran's significance for the BRI, China's energy security as well as the internationalisation of the RMB, this thesis provides an answer to the research question: **Why is China willing to maintain a close relationship to Iran despite the US sanctions?** This question indicates that the US sanctions pose a problem to the Sino-Iranian relationship which has been proven by providing examples of Chinese projects in Iran that have been abandoned and Chinese companies that were punished due to the sanctions for trading with the Islamic Republic. The analysis also answered the following sub-questions to the research question:

- What is China's geopolitical and economic interest in Iran?
- What kind of relationship do Iran and China have?
- How is their relationship maintained?
- What is Iran's role in the internationalisation of the RMB?

It is the aim of this thesis to discover what motivates China to keep its relationship with Iran alive. The connection between Iran and China has existed for centuries. This research paints a picture of what their relationship is like today. It became clear that the US is a factor in this relationship that cannot be disregarded. However, it is not the focus of this thesis to assess the Sino-US relationship and Iran's influence on it. By imposing sanctions and exiting the JCPOA, the country made it significantly harder for Iran to sustain economic growth and stability. These events influenced Iran's foreign policy orientation and motivated it to look east for cooperation.

China and Iran share a long history of relations that continue until today. For the PRC, Iran is not only a supplier of crude oil and gas but also a possibility to build geopolitical power. In the course of this research, it became clear that it is mainly China's geopolitical and economic aims that guide its relationship with Iran. The application of this framework of geopolitical and geo-economic theory to the research gave an insight into Iran's geopolitical significance. Due to the use of a case study, it is possible to reveal that the Islamic Republic is an essential factor for the aim to connect the BRI to Eastern Europe and the increase of China's geopolitical power. This research also reveals the connection between China's geo-economic and geopolitical motives in its relationship with Iran. It shows that the Sino-Iranian relationship is mainly based on economic relations. One of the most important incentives for the PRC to maintain strong relations with Iran is the BRI. This initiative connects its geo-economic as well as political aims

by providing a framework for economic partnership and political cooperation to maintain their relationship. This economic partnership can also secure China's energy needs. Its investment in Iran's energy sector is characterised by the development of oil fields and facilities. The BRI can contribute to providing a safe investment environment for Chinese companies by stabilising Iran's economy to the greatest extent possible and connecting it to neighbouring countries. Iran being the link between Asia and Europe, makes it crucial for the land route of BRI and the increase of China's geopolitical and economic influence along the New Silk Road and the Middle East. By implementing projects for the BRI and preventing the Iranian economy from collapse due to the US sanctions, it challenges the US position and policies towards Iran. Thus, Iran not only serves as an energy supplier and important connection spot for BRI but to challenge the US control over the country, which in turn questions it as a world leader.

With China's support for Iran, it provides an alternative to the US worldview. For Iran, this is a chance to have a partner to maintain the JCPOA and against the US position. In turn, it supports China, for example, in the trade war against the US. This means, that their relationship is also maintained through mutual support. As the analysis showed, China's strengthened position in Iran provides its support and a strategically important place for BRI. By increasing its power in Iran, and connecting the BRI through to Europe, it can also increase power in the heartland. This challenges the US position as hegemon, since who rules the heartland, rules the world island and the world. A historical review of the Sino-Iranian Relationship showed that China turned to the US with its commitment to Clinton in 1997 and abandoned Iran when its economic growth only began. Now that the PRC rose to be a power that can challenge the US politically and economically, it is backing Iran against the sanctions and condemns US attacks on the Islamic Republic. The Sino-Iranian relationship is not only based on economic and strategic considerations but looks back to a long history of cooperation and trade. Both countries are land powers that have been ruled by dynasties from the Central Asian Steppe and were connected through the Silk Road. The Sino-Iranian relationship is also deepened when it comes to cultural exchanges, as stated in the analysis, primarily through the OBOR forum created by Tsinghua University.

The analysis shows that Iran's role in the internationalisation of the RMB is mainly related to crude oil. China is the biggest importer of Iranian oil, but these imports only make up a relatively small percentage of its overall oil supplies which indicates that Iran plays a minor role in the internationalisation of RMB through crude oil trade. Iran's change from USD to RMB in its currency evaluation system is a symbolic step to show that RMB is becoming a more and more powerful international currency and a signal towards the US that the position

of the USD is increasingly challenged by the RMB. Hereby, Iran serves as a tool to show the US how China's international power increased. While the availability of data limits the understanding of Iran's role for the BRI, it provided an insight into why the RMB is vital for Iran in its current situation.

This research updates the already existing literature on the Sino-Iranian relationship and gives it a new dimension that focusses mainly on these two countries. It can be further deepened in additional research that creates an understanding of the relations between China and Iran is only one of the aspects that this thesis analyses. However, it gives a proper overview of essential issues in this relationship that will continue to evolve. It is crucial to do further research on the topic since it is continuously changing field of research that is influenced by US policies and tensions in the region. There is a great potential for the Sino-Iranian relationship to last and flourish, especially if there is a solution to the nuclear issue that includes the lifting of sanctions. China's companies already have a foothold in Iran and the government's influence is continuing to grow through initiatives such as the Medical Silk Road and the maintenance of the JCPOA.

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