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The reorientation of iranian trade from west to east since 1979

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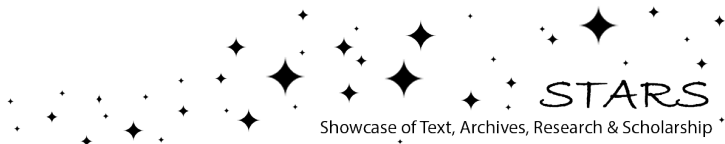
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THE REORIENTATION OF IRANIAN TRADE
FROM WEST TO EAST SINCE 1979

by

LESLIE MARIANNE BILGER

A thesis submitted in partial fulfillment of the requirements
for the Honors in the Major Program in Political Science
in the College of Sciences
and in The Burnett Honors College
at the University of Central Florida
Orlando, Florida

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Thesis Chair: Dr. Houman Sadri

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ABSTRACT

Iran, with its attractive geographical position and its abundant natural resources, has had an undeniable attraction for the world's greatest powers over the history. Well before the creation of the Islamic Republic of Iran, this country established high level of economic interactions with a great variety of political partners. In recent years, the country's change of regime has had a crucial impact on those relationships.

By analysing the trade data between Iran and Western countries (the U.S.A., Canada, the U.K., France, Germany, and Italy) as well as the major Eastern countries (China, Russia, and India), it is possible to establish a better understanding of how political events have impacted Iran's commerce with the world's major economic players. It is also possible to understand how the change of direction of the Iranian's imports and exports can impact the behavior of the other nations studied. This research focuses on the analysis of Iranian trade since 1969, ten years before the revolution and until 2009.

DEDICATION

To my Friends & Family

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I. INTRODUCTION

This research analyzes the Iranian trade from the 1979 revolution until 2012. Beginning in this period, Iran's overall trade significantly increased while it was also reoriented from West to East.

Hypothesis

In 1979, the Iranian revolution terminated the Pahlavi dynasty and put an end to the reign of the Shah. This event provoked a rupture in the political and thus economic friendship between the new Iranian government and the Western states, i.e. the United States of America (U.S.A.) and Europe. Iran being a newly Islamic regime, its views conflicted with the Western values and ideals, which further the alteration of its relations with its past allies. Along with many other negative events, which occurred successively, the gap between the culturally diverse regions widened deeper.

When the clerics took control of the government, Iran was seriously weakened and in turmoil. The inexperience of the new leaders severely damaged the political stability and aggravated its apparent weakness. As a result, Iran's old opponent, Iraq, took advantage of the situation. For the belligerent Iraqi leader, Saddam Hussein, this was the perfect opportunity to militarily invade its neighbor¹.

The Iraq-Iran War, from 1980 to 1988, set the foundations on which would be built the new Iranian government and the public opinion of its citizens on domestic and foreign policy. This war forced other countries to openly choose a side. The U.S.A. and, globally, the Western countries supported the Iraqi invader. They made it official by both selling advanced weapons to

Iraq and by organizing several meetings between their leaders. As a result, the animosity between the newly-installed Islamic Republic of Iran (IRI) and the West grew stronger.

When the Iran-Iraq war ended, great tensions remained but the level of trade slowly increased up to 1995. In 1989, Ayatollah Khomeini died letting a new leadership to replace him and his severe ideology. Under the moderate and more pro-capitalist Iranian president Akbar Hashemi Rafsanjani (1989-1997), trade with the U.S.A. and Europe resumed and warmer relationships between the West and Iran re-emerged. During this period of time Iran was focused in its reconstruction as well as its reintegration of the global economy².

In 1997, when Mohammad Khatami was elected as president, trade increased the following years but then dropped soon after. Even having a more moderate government did not help the economic exchanges between the tougher Western states and Iran. This trend pattern would remain unchanged up to 2009 under the second mandate of the last president, Mahmoud Ahmadinejad.

Opposing views and goals are at the source of the disagreement between the Western countries and Iran. As an alternative, Iran directed its trade toward the East: Russia, but especially India and China. This tendency continued as a consequence of the increasingly more severe economic sanctions imposed by the United Nations.

Three independent variables will be address to explain the reorientation of the Iranian international commerce. These three causes have the same overall effect, in that it influence Iranian trade and ultimately directs it to the East.

Leadership is the first variable. Leaders have a direct influence on the politics of a country and

on the perception it projects to the world. Diplomacy is strongly affected by the legitimate leaders as they represent their country and speak for it and its people. As a result, the trading partners of a country will react and respond to this political variable. This variable has the most direct and powerful causal effect on trade. In the case of Iran, religious leaders are forming the government and are shaping its domestic and foreign policy. Their views and opinions have a deep impacts on the decision making process and the expectations the Republic will have regarding its trade and the imposed choice of economic partners. Its main leader also is the image of the country at the international level and outsiders will form their opinion of Iran based on its speeches.

The second variable is the foreign policy of the trading partners. In a global world where all countries are interdependent, every actor has a relative impact on others, their policies and development. In the case of Iran, its policies and trade development were heavily affected by powerful states such as the U.S.A. and Europe, but also Russia and China. The foreign policy those countries adopted, the interests they pursued, their choices on what direction to take and their decision on how to do it, pressured the Iranian government and thus its behavior. This second variable also shaped Iran's objectives and helped it to decide which ways to take in order to attain its goals, such as the pursuit of improving its nuclear capacity. This effect will be shown when analyzing the direction these countries took for their imports and exports as well as the alternatives found.

International organizations are the third independent variable analyzed. Over the time their role and power has increased. Different inter-governmental organizations (IGO) have directly been involved with Iran and have tried to shape its behavior by using several economic

means. During the last few decades, several IGOs made Iran their focus for several reasons. IRI's lack of civil rights as well as its affront in its pursuit of nuclear development are two important reasons why the attention has been turned toward this country in such an extent. IGOs used economic sanctions such as the freeze of assets abroad in order to bend Iran's will. This last variable had an immense impact on Iran, its trade, but also influenced its trading partners to adopt a similar behavior.

The strong correlation between these three variables and the Iranian trade is observed by analyzing the import-export data³ of Iran with other countries throughout the years. After every major political event, it is possible to see an immediate change in the trade pattern of Iran. For example, before the revolution, in 1979, the U.S.A. was a major trading partner with Iran. According to the International Monetary Fund (IMF) Direction of Trade Statistics Yearbook, in 1979 the Iranian exports to the U.S.A. represented close to 21.3% of Iranian's total export. This percentage dropped to 3% in 1980 and fell to 0.6% in 1981. As for Iranian imports from the U.S.A., they represented close to 15% in 1979, but fell to a percentage close to null the year after. The Iranian revolution ended the reign of the Shah and also terminated its friendly relationship with the West. The new government, in opposition with Western doctrines pushed the U.S.A. to cut its commerce as a sign of condemnation of Iran's behavior. With the war declared by Iraq in 1980, and the American support, trade between the two states plummeted. The event previously mentioned is just one very clear example amongst others of the influence this independent variable has on Iranian commerce.

The data show that Iran's trade has been uneven but increasingly shifting to the East in the long

run. By analyzing the percentage and not the volume of trade with independent variables, it is possible to understand the real impact of political events on the country's opinion and behavior. Trade and percentages are objective tools that can be used to determine the power of the domestic leadership, the trade partners' foreign policy, and the international organizations. By examining the patterns of recurrent events it is also possible to better understand the reaction and the behavior of Iran as well as to comprehend other nations' agenda.

The correlation between the variables can be either negative or positive, depending on the economic partner involved. In some cases, especially with the Western States, the relationship is most of the time negative. The three independent variables studied in this document lead to a decrease in the amount of trade between the two partners. On the other hand, it can be positive, especially with the Eastern countries. The political events that harmed Iran's relationship with countries such as the U.S.A., led to an increase in trade between Iran and other trading partners, such as China.

Significance

Iran is one of the major regional powers in the Middle East. It is also one of the state that can threaten the most the peace of the region. In just a century, Iran's economy and thus importance grew considerably⁴. The Middle East is one of the most diverse and dynamic regions in the world but its history made it an extremely complex and conflictual region⁵. In this region, one country can threaten the whole stability of the area. By studying Iranian trade and associating important events that shaped its foreign and domestic policies, it is possible to

understand the direction it now takes economically and politically. It is also possible to determine what role Iran will take in the area and what position it will have with its neighboring states.

Iran has a considerable importance for the richest nations, being Western or Eastern. This country is an integral part of their foreign policy and none of them can afford to ignore it if they want to increase its political and economic development. The tension that exists between the West and Iran resides principally on the fact that each side feels threatened by the other one. As Iran has leverage because of its natural resources and its importance in the region, the West has the military and economic advantages. This constant uncertainty of what one might do to change the other one's behavior and this complete lack of trust are far from being favorable to build political or economic relationships.

The relationship between the West and Iran is mostly the result of the adoption of both sides' realist perspective. The West is afraid that Iran would develop nuclear capacities and will use it to threaten the states that would disagree with its radical views. Iran is angry at the West for using its military and economic advantages as a way to dictate to Iran and the Muslim community their behavior. By reorienting its trade, Iran is increasing its independence from the Western hemisphere and creating a gap with its old trading partners, such as the U.S.A., Great Britain and more generally the European Union. This break is intended to end the Western influence and domination over Iran's domestic policies and as a consequence raising its importance on the international scene. Such behavior also provides Iran with more freedom to pursue its own goals without the intervention of external actors with very different agendas. To palliate this decrease in trade and income imposed by the international community's sanctions,

Iran had to find other strong allies. Iran came economically closer to states like Russia, India and China. Those countries offer many other advantages than economic ones. Indeed, they are not threatening Iran's sovereignty by imposing their views and values, and they are not demanding a total political restructuring of Iran to make it a Western democracy. This independence generates a shift in balance of power in the region as Iran's sovereignty is reinforced by other powerful states that share its same feeling toward the West. This amiable feeling is manifested through trade and even reinforces the alliance of Iran with other states undermining the Western influence.

Iran is one of the most important producers of natural resources in the world⁶, being for instance the second largest oil exporter of the Organization of the Petroleum Exporting Countries (OPEC). It is also an important regional actor who has many friendly relationships with influential states and new emerging powers. Iran is geo-strategically determinant and is a crucial trading route for its neighboring countries but also for the international community. Iran has access to the Caspian Sea, the Persian Gulf and the Sea of Oman. Its neighbors are also important, like Turkey, or polemical, like Afghanistan.

Studying trade is a significant objective way to know the actual and real health of a country. By looking at the evolution of a country's commerce it is possible to understand the direction it takes regarding its foreign but also domestic policy. Numbers are a reliable source of information. Knowing who is involved in such economic exchange and to what extent enables comparisons between each respective country over a certain period of time. Trade can also be a powerful leverage tool useful to force a certain actor to behave in a certain way. If analyzed

jointly with political events and theories, events and their repercussions can be correctly analyzed and understood.

Since the appearance of the new theocratic regime in 1979, Iran's trade situation has been uneven because heavily influenced by its unstable political environment. Observing to what extent Iranian trade has changed since the 1979 revolution is the first step to understand the current position of Iran and its future behavior. Iran's reactions and decisions are heavily shaping the market of natural resources and can both deeply impact in a positive but also dangerously negative way the economy of great powers. By heavily and negatively affecting the economy of a country, there is a great risk for provoking instability as well. As for Iran's military, its alliance with certain countries makes it possible for Iran to achieve its goals and thus makes it more threatening for the region but also globally.

IRI's extreme position towards the West and Israel directly threaten the stability and peace of the region. By being provocative and open about its intentions towards international actors it increases the tension with its neighbors. As a result, their behavior changes and become more defensive.

Iran has the capacity and the help necessary to pursue the goals of its uranium enrichment program. Sanctions seem to be rather inefficient at cancelling its nuclear goals. So far, the international community, and especially the West, is pursuing a zero-sum game approach and is using threats and severe sanctions aimed at harming Iran. They desperately try to prevent it to achieve nuclear power capabilities by making Iran's comply with their exigencies.

The result is worsening the situation and is pushing Iran to continue and even increase its research and development. The pressure created by the West also pushes Iran to find economic

partners that are not only on its side but also against the U.S. and Europe. Alliances are formed against of a common enemy.

This topic aimed at better understanding Iran's past alliances and its current position. It also tries to understand the circumstances that would accelerate or slow down Iran's trade reorientation. This research has been done to better understand the behavior of Iran, as well as to find out what were the most successful approaches to collaborate with this nation.

Literature Review

This literature review chronologically presents the research that has been done and which relates to the topic of the reorientation of Iranian trade.

In March 1976, before the Iranian revolution, Keith Watson wrote that Iran is gaining strategic importance in the Middle East. He argues that it became over the last few years a dominant country in the region that increases its reforms to grow in power at the international level⁷.

In 1981, the Canadians Jean Pelletier and Claude Adams reported the true events that occurred during the 1979 Iranian revolution, which held hostages many Americans. They describe the successful collaboration of the American and Canadian governments to rescue and repatriate 6 Americans⁸.

Seven years later, in 1988, Said Arjomand wrote about the Iranian revolution and with how much surprise it came to happen. He emphasizes on historical events to examine the reasons and impacts this revolution provoked domestically and internationally, in the short and long term

as well⁹.

One year after, Anthony Parsons studies the conditions in which the revolution in Iran happened, why it happened and how this change of regime impacted the domestic and foreign policy of the country¹⁰.

In 1994, Geoffrey Kemp talked about the bilateral relations between Iran and the U.S. He wondered if those two nations would ever stop being at odds with each other and gave some advice on how to ameliorate them¹¹.

In 1995, Anoushiravan Ehteshami wrote about the period after Khomeini's death, called the Second Republic. The author compared the periods before and after the leader's death, and examined the difference of the structures and politics of Iran. The defense strategy of this country is mentioned as being controversial and weapon driven¹².

During the same year, Charles Lane wrote about the German-U.S relationship and of its importance for the Western alliance during the post-cold war era. He mentioned also the difference in foreign policy that the two states shared when dealing with Iran, even though they agreed on the same goal, which was the prevention for Iran to develop nuclear weapons¹³.

In 1998, Wood wrote about Chirac and his 'New Arab Policy.' He talked about the French president's speech in Cairo and about the importance the Middle East has for France. The author contrasted the French and American policies as well as the strategies to achieve an important position in the region¹⁴.

In 1999, Robert Busby wrote about the Iran-Contra Affair that happened during the Reagan administration. He talked about the implication of such a political failure and the repercussions at the domestic and international level¹⁵.

In May 1999, Adam Tarock wrote about the relations between Iran and Western Europe. He analysed the economic policies that the region undertook but also about the difficult situation that Western European states had to go through, which explains why the commerce between the two regions is so negatively affected¹⁶.

In 2000, Moin Bager wrote about the life of the influent and powerful Ayatollah Khomeini. He explained Khomeini's vision and beliefs and contrasted them with his behaviour and actions. He analyses why this important leader was such an influential figure before, during, and after the revolution in Iran in 1979¹⁷.

During the same year, Hossein Alikhani analyses the sanctions imposed on Iran. The author explained why they were so important for the U.S. foreign policy as well as why they were such failures¹⁸.

The following year, Daniel Elton wrote a summary of Iran's history. He talked about the great diversity that exists in Iran as well as the richness of the country and cultures that lives there. He emphasized on the events that lead to the revolution of 1979¹⁹.

The same year, Zahedi Dariush wrote also about the Iranian revolution. He compared and contrasted several analysis as well as used many theories to understand such a crucial event as well as its important repercussions at the global level²⁰.

Three years later, in 2001, Shah Alam explained that Iran represents 5% of the oil and 14% of natural gas production in the world and thus why this state is one of the most important owner and seller of natural resources both in the Middle Eastern region and in the world. He added that Iran's production is inefficient because of domestic and foreign influence²¹.

In 2001, Ali Jalali wrote that Russia was an important partner with Iran thanks to its arms

and technological trade with Iran. Both states were great producers of natural resources and both shared some animosities against the USA and Europe. Even though they had the same feelings towards the West, Iran and Russia came through conflicting situations with each other, mainly regarding the interests and influence in the region²².

Two years later, in 2003, Eva Rakel wrote that Iran had always been an influent country at the international level due to its great capacity in producing and exporting its natural resources. It is also part of several important organizations that help promote its interests. Though, because of domestic issues, Iran is quite unstable politically, preventing it to be even more active and powerful²³.

In 2004, April Summit wrote about the Shah's white revolution as well as his political influence over president Kennedy. The author argued that this period is one of missed opportunities for Washington as the government had passed incoherent policies towards the Middle East and Iran²⁴.

In 2004, Mahmood Monshipouri analyzed the US foreign policy after the September 11 events. He talked about the changes that occurred after the terrorist attack, the declaration of war against terrorism by the U.S.A., the strong support for a change of regime in Iran. The author also expressed the U.S. disapprobation of Iranian's goals to obtain nuclear capacities²⁵.

The following year, Gawdat Bahgat wrote about the negative consequences provoked by the Iranian revolution. At the international level, and especially between Israel and Iran, such events were very dramatic and created an environment of hostility between the two nations²⁶.

In September 2005, Sharif Shuja explained the efforts that China was putting to be to closer to Iran and its natural resources. China, with its increasing demand for oil, has huge

interests in the Middle East, especially Iran, and is using all its diplomatic capabilities to get access to these resources²⁷.

The same year, Medhi Khalaji examined the proposition of Canada to the UN to condemn Iran for its human right violations. The article also mentioned another similar resolution that was passed as well and argued that since them, the current state of human rights in Iran has worsened²⁸.

In 2006, Rollie Lal wrote that the U.S.A. had a crucial impact on the economy, security and stability of the Middle Eastern region and that depending on its foreign policy it would be able to influence the region's future²⁹.

In January 2006, Oliver Thranert wrote about the demand to the U.N., from Germany and the European Union, to firmly condemn Iran for its nuclear policy and to force it to shut down its aim in producing nuclear weapons. He focused on Germany and its foreign policy and diplomatic goals in regard to Iran and its ambitions³⁰.

In 2006, Farzin Vahdat wrote about the election of Mohammad Khatami and about his presidency that started in 1997. He added that, right after his election, this president promoted Western values such as freedom, equality, and justice. He tried to explained the failures but also the achievements of Khatmi's presidency³¹.

During the same year, Lawrence Wolf analyzed the Hostage crisis that happened in Tehran during the 1979 revolution. The author also explained the consequences of the American held hostage for more than a year at the U.S. level but also at the global level³².

In Autumn 2006, Sanam Vakil analyzed the strategies of China, Russia, and India as those countries are gaining more power and influence on the international scene, directly

counterbalancing the U.S.A. and the European Union³³.

A year later, Daniel Heradstveit and Matthew Bonham wrote about president George W. Bush's speech categorizing Iran as part of the Axis of Evil. The authors explained the consequences of such a metaphor, that it ended up strengthening the religious connotation of the conflict between the two sides³⁴.

In March 2007, Mustafa Kibaroglu wrote about the nuclear ambitions of Iran from a historical perspective. He argued that such desires are not new and that Iran's strategy to befriend powerful Western nations has not been innocent³⁵.

In 2007, Alexander Lennon analyzed the strategy of France in regard to Iran during the presidency of Jacques Chirac and his successor Nicolas Sarkozy. He said that the official reports are not showing the true changes that occurred for France in regard to Iran and especially its nuclear ambitions³⁶.

On December 2007, Sergey Smolnikov analyzed EU's fear of Iran developing weapons. He argued that such actions are perceived as being the greatest threat to national and regional security. He explained the European strategy to counter Iran's goals³⁷.

The same month, Flavia Zanon wrote about the Italian's view on Iran and its parliament conferenced on the topics of Iran and its development of nuclear weapons³⁸.

On March 2008, Timo Behr argued that Europe's lack of influence and policy inconsistency in the Middle Eastern region was a major flaw in the peace and stability process. He added that Europe's hesitation between its short term and long terms goals were a source of failure in what it tried to achieve³⁹.

The same month, Hanns Maull wrote about Germany and its facility in coalition building. He argued that this state is very successful and effective at such tasks⁴⁰.

In 2008, Mark Katz wrote that Russia and Iran share the same animosity towards the U.S.A. and that the disagreement they have regarding nuclear issues widens the gap between the two sides. He added that Russia and Iran saw an improvement of their diplomatic relations thanks to Putin's visit to Iran in 2007, even though serious discords remain⁴¹.

In 2008, Manochehr Dorraj analyzed the foreign policy of China and Iran as well as the economic relations they share. The trade in natural resources is vital for both economies and the authors argued that it is also of great influence for both nations' foreign policy, stability and development⁴².

In 2009, Grace Nasri argued that Iran has a great influence due to its geography and its abundant natural resources. The author examined the different situations for Iran in the future, as an important actor by its natural resources but also a heavily criticized and condemned state by its support of terrorism. She added that Iran is also under great pressure domestically and that this can also determine in what direction it will go⁴³.

In March 2009, Bruce Byers wrote that due to their complicated and tumultuous history, Iran and the U.S.A. developed a fear of each other. He added that they do not understand each other, and share very different points of view, which creates animosity between each other. Nonetheless, the author believed that it is still possible for the two nations to build on their shared interest⁴⁴.

In April 2009, Hadi Esfahani and Hashem Pesaran explained the economic development of Iran through the 20th century. The authors argued that it had at the beginning of the century a

poorly developed economy but that it changed and was now considerably more important, especially in the Middle Eastern region. They added that Iran is nowadays extremely influenced by both domestic and external factors⁴⁵.

In July 2009, Kenneth Katzman wrote that since 1995 the U.S.A. voted regulations that would have for goal to pressure the Iranian economy. He added that in 1996, the U.S.A. voted the Iran Sanctions Acts in order to cut their energy investments in Iran⁴⁶.

In October 2009, Andrew Parasiliti wrote that the U.S.A. was not being successful in preventing Iran from developing nuclear weapons. Soon they would have to accept this nation as being a nuclear one. He added that the use of force to prevent Iran the continuation of its program is not possible, as it would make the situation worse and that the only leverage the U.S.A. and international community had on the issue was through diplomatic means⁴⁷.

A year later Fakhreddin Soltani analyzed the foreign policy of the new Iranian government. He explained the changes of foreign policy by the new government right after the revolution and during the following governments under the president Ali Akbar Rafsanjany, Mohammad Khatami, and Mahmoud Ahmadinejad⁴⁸.

In 2010, Jalal Alavi reminded that it took 14 years for Iran to be part of the World Trade Organization (WTO) from the moment it applied due to demanding negotiations. He added that the WTO has not been transparent in the case of the Iranian application, changing the term of contract while the details were still in negotiations⁴⁹.

In 2010, Mahmood Monshipouri criticized the Bush administration for the way it dealt with Iran. He wrote that by condemning Iran so openly, it diplomatically failed in its mission to remain in good terms with Iran. The author added that this behavior was a mistake preventing

any important diplomatic exchanges that would have helped both countries to have peaceful relationships. On the contrary, it upset Iran and brought a bad image on itself. Iran, having such an importance in the Middle East, contributed to the negative image of the U.S.A. in the region⁵⁰.

Keiger wrote in June 2010 about how the French president, Nicolas Sarkozy, differed from the previous French president and how his policies were closer to the U.S. ones. The authors talked about the reintegration of France in NATO and how difficult it was for French leaders to alter in such ways the foreign policy of this country as well as its defense policy⁵¹.

In August 2010, Christian Emery wrote that the effectiveness of the sanctions imposed on Iran by the international community couldn't be strictly measured by looking at the economic consequences. He added that outside factors, such as the Russian intervention in Afghanistan and the determination of the European Union to prevent any military action in Iran had a great impact as well on Iran's policy and behavior⁵².

In 2011, Kaussler Bernd⁵³ wrote about the case of Mr. Rushdie, his book, and the violent reaction his book provoked in Iran but also internationally. Diplomatically, he argued, this piece of literature engendered an unparalleled hatred and incomprehension from both sides, which altered the peace process between the West and the Middle East even more complicated.

During the same period, Caroline Patsias and Dany Deschenes analyzed the bilateral relations between the U.S. and Canada. They argues that even though those two states have been at peace for generations their foreign policies have often been at odds. Their added that this peace can be explained by the concept of democratic peace, that states which are both democratic will not go at war against each other⁵⁴.

At the same time, Robert Bookmiller wrote about the decision of Canada to engage in

exchange with Iran only on certain topics. The 'Controlled Engagement' strategy put in place in 1966, specified the topics that would also such diplomatic exchanges⁵⁵.

In 2011, Michelle Brunelli analyzed the two different policies the U.S.A. and the European Union have regarding the Persian Gulf. The authors viewed the E.U. is considering the economy as a major way to increase the development in this area and is promoting the adoption of a common currency in the Persian Gulf and by increasing negotiations and cooperation. Brunelli explains that, unlike the European Union and its liberalist position, the U.S.A. opts for a more realist one. For the United States, the adoption of Western views by the Persian Gulf is the only way for them to keep this feeling of security and stability they are so eager to have⁵⁶.

In April 2011, Quinton Farrar wrote about the different economic sanctions the U.S.A. used to influence the Iranian economy since 1979. The author argued that the sanctions did not work the way they were supposed to, as in 2010 Iran was close to be a nuclear power and was sponsoring terrorism internationally. Farrar explains the new direction taken by President Obama and adds that the last and best way to interact with Iran is by imposing strong and multilateral sanctions on Iran⁵⁷.

In May 2011, Joseph St Marie and Shahdad Naghshpour wrote that the USA and Iran are rivals and are using all the political, military, and economic tools they have to influence and counterbalance each other⁵⁸.

In June 2011, Dmitry Shlapentokh wrote about the relations between Russia and Iran and how Russia is helping Iran's rebellion against the West by selling its weapons⁵⁹.

The same year, Andreas Etges explained how the coup against Mohammad Mossadegh came to happen, and how the C.I.A. was involved in this situation. He added how this event lead

to other U.S. interventions through ought the globe, such as the Bay of Pigs one⁶⁰.

In 2011, Mohsen Sahriatinia explained the changes that occurred in the bilateral relation between China and Iran. Since their establishment in 1971, even though both countries shared many disagreements, the cooperation has been reinforced. The author added that in the recent years, China has also decided to get closer to the West and that juggling with both sides put it in a difficult situation⁶¹.

In September 2011, Alam Anwar wrote that the relations between India and Iran have been damaged since the September 11th terrorist attack. The author explained that it is a challenge for India to both get closer to the U.S.A. and to keep Iran has a close partner⁶².

In November 2011, Barbara Slavin explained why the United Nations sanctions and the growing importance of China have damaged Iran's economy and have isolated this country. The author argued that Iran is getting more and more dependent on China's market even if Iran has a preference for the European market⁶³.

In 2012, Parvin Dadandish wrote about the ups and downs of the bilateral relationships of Iran and Europe. He takes an historical approach to explain how they developed over the year and proposes solutions on how to improve them⁶⁴.

The same year, Pirooz Izadi emphasized his analysis on the France-Iran relationship though history. He talked about the different approaches to foreign policy as well as the consequences of such demarches. He tried to explain why the two countries are in the position they are at this point in time, which is quite conflicting⁶⁵.

During the same time, Edward Posnett wrote about the British policy right before and during the Iranian revolution. He covered the 1977-1979 period uses official documents to

understand the extend to which the Shah had leverage over Britain⁶⁶.

Also in 2012, Gholozadeh Shadi and Derek Hook examined the social movement that occurred in 1978 and 1979 in Tehran that ultimately lead to the revolution and the abdication of the Shah. The authors studied the new leader of the revolution' s speech, behavior, and strategies⁶⁷.

In March 2012, Jordan Smith wrote about the foreign policy of Canada, how it has changed over the years and why it has become more proactive and strict, very much like its neighbor the U.S⁶⁸.

Not any state and government can afford to use only the violence and threat to obtain what it wants. Poor capabilities of adaptation are synonym of failure. Iran, by its rigid opinion and by its will to never compromise is doomed to lose some of its important allies but its position is also attracting several new partners. Iran's religious leaders do not have the proper capacities to successfully manage a country at the global level. By trying to cut themselves and their country from globalization they are preventing Iran from developing and modernizing successfully. They do not wish to adopt the idea of democracy in their country and find themselves at odds with their citizens and with some of the most powerful states. Their wish to have access to nuclear capacities translates their positive view they have of violence. Violence is for them the only real and worthwhile leverage a state can possess. Iran believes that nuclear capabilities will allow its leaders to pursue their own agenda without having to worry about others. They tend to forget that no matter what capacities they own, they do not live in a vacuum and will have in some ways or another comply with outside exigencies.

The period covered by this study will start from 1979 (the Iranian revolution) to 2009. It will cover events up until 2012 and will assess eventual outcomes for Iran, its trade and influence both in the Middle East and at the global level.

This research proposes to analyze the relationships Iran had with most of the major world players and over three decades. It uses data taken from the IMF Direction of Trade Statistic Yearbook and from the Virginia's Geospatial and Statistical Data Center. Those data will be juxtaposed to crucial political events that occurred around the same period of time to see how both are linked. By chronologically looking at thirty years of Iranian trade, in what amount, and with whom the Iranian's trade reorientation is made clear.

Conclusion

This research document will contain five parts.

The first one, Chapter 1, is the introduction. It is presenting the research, its goals, and methods of analysis.

The three following chapters will analyze three regional areas, North America, Europe, and Asia. Each section will contain three sub-sections focusing on the three independent variables: Iranian leadership, trade partners' foreign policy, and international organizations.

Chapter 2 will study Iran's relationships with North America (Canada and the U.S.A.). This study will use data from the 1969 to 2009 period but will use events that occurred after 2009.

The research will focus on the 1979 to 2012 period. This part will use history and current events in parallel with data to understand the trade changes that occurred over this period. Chapter 3 will focus on European countries, namely France, Germany, Italy, and the United Kingdom.

Chapter 4 will study Iran's trade pattern in regard to Eastern countries, focusing on Russia, China, and India.

The fifth and last part of this research, Chapter 5, is the conclusion where Iran's trade evolution previously studied will be summarized, compared and contrasted. As a result of this research, it will be shown that observing this shift and describing it as purely geographical is a wrong approach. This shift must be apprehended as a change caused by ideals as well as a reaction to those that try to impose their will on Iran. Its new partnerships are formed around a common enemy and convenience. Those partnerships continue to thrive as they involve countries that are purely interested in economic exchange and do not want to intervene with any of their allies' domestic policies.

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II. NORTH AMERICA

THE UNITED STATES OF AMERICA, CANADA

This second chapter focuses on Iran's relations with North America, the United States of America and Canada. This longitudinal study will principally use data from the 1969-2009 period but the analysis will include events that occurred before and after those dates.

The United States of America

History

Since 1969 and up to now early 2010, the U.S.-Iran relationship has gone through four major phases. Each of them clearly shows an abrupt change in the bilateral trade, as the overall pattern of the economic exchanges undeniably regresses between the two states. Those phases correlate with Iran's leadership, its foreign policy¹ and its respective trading partners' philosophy. Iran and the U.S.A. are two countries that do not share the same system of beliefs and the difficulty for them to interact make them fear each other². The changes of trade patterns show also the importance of the U.S.A.'s foreign policy as it is heavily influencing Iran and its behavior³.

The Pahlavi Dynasty

The departure of the Iranian monarch, Mohammad Reza Shah, in January 1979 and the revolution in November 1979 concluded the first major phase. According to the data⁴, this period was the most prosper between Iran and the U.S.A. Their weighted trade accounted for up to 25%.

Such a great percentage signifies that up to this date the two countries' leaderships were growing allies. Indeed, in 1953, the American government became directly involved in Iran's political affairs. To keep its influence in the region, and to undermine the Soviet presence, the American and the British governments helped in the organized *coup d'état* to overthrow the Iranian Prime Minister, Mohammad Mossadegh, and his government⁵. In 1969, the data show that the U.S. was a small trading partner with Iran. Though, trade increased for the following years. The American government directly helped, through the CIA, Mohammad Reza Shah from the Pahlavi dynasty, to take the power in Iran⁶. Although Iran was not one of the major states of interest at this point in time, in 1963, ten years after the coup, the friendship between the West and Iran was reinforced through the Shah's imposed White Revolution. The Shah's reforms were advertised as a step toward modernization and development. He promised more equality at both the economic and social level. He wanted to improve the living condition's standards as well as facilitate the access to quality education⁷. Iranians took another forced step toward the Americanization, and more generally the westernization of their government with those reforms. The Shah undertook many official visits to the U.S.A., symbolically representing a strong political and economic bond. Another interpretation can be given of such a diplomatic strategy.

This White Revolution gave the poorer land possession. The Shah gave 1.6 million farming families the ownership of their land. This measure greatly displeased the Islamic Clerics as they were landlords and thus lost precious privileges⁸. Along with some other reforms, the influence of the clergy greatly decreased at every level. A greater independence and freedom was given to the individual. Such resolutions were not in favor of the religious community, which lost its influence and control over the population.

During the middle of the Cold War and during the Cuban missile crisis, the Shah understood the U.S.' fear of the spreading of Communism and could have used it to their own advantages for receiving foreign aids, both financially and militarily.⁹ This might indeed have had an impact on the Shah's willingness to adopt a more Western position but does not explain entirely the direction Iran was taking. With the increasing power of religious leaders and a growing anger against the West domestically, the Shah was not just using the U.S., he also relied heavily on the American political support¹⁰.

As a direct manifestation of this rapprochement, trade imports and exports increased. The data for the first period, 1969-1979, taken from the I.M.F. Direction of Trade Statistics Yearbooks, shows that for Iran, the U.S.A. was becoming a crucial market. During this period, Iranian export to the U.S. increased by nearly 20%. It went from 3% to more than 20% in 10 years. As for the volume of trade, it also increased dramatically from being less than \$1 billion in 1969 to \$4,345 billions in 1978 and \$3,904 in 1979. Iran's imports from the U.S.A. shows a different trend. Although the volume of imports increased from \$196 to \$1,311 billions, and peaked at \$2,347 billions in 1977, the proportion of Iranian imports from the U.S.A. decreased somewhat during this period. In 1969, Iran's import from the U.S.A. represented close to 20% of its total imports. In 1971 it peaked at 24% but dropped to 14% in 1979. Domestically, the Shah's regime became more and more repressive toward its citizens. The SAVAK and its use of torture¹¹ was tarnishing the Shah's image both domestically and internationally.

The Arab-Israeli war, in 1973, was also an important factor that contributed to the rapprochement of the two nations. Under the Shah, Iran had an excellent relationship and respect for the Jewish population¹² but when the war broke down, the U.S.A. was unsure of the position

Iran would take in the conflict. At this point in time, the data show that commercial exchanges dropped for the U.S.A. It greatly reduced their exports to Iran. But Iran ended up refusing to be part of the oil embargo against the West, unlike its Arab neighbors, and thus opted to take the American's side. As the data show, sales went up again the following year. From 1973 to 1974, Iran's exports to the U.S.A. went from 344 billions of dollars to \$2,133 billions, which represented 11% of its exports and 17% of its imports. Its imports from the U.S.A. more than doubled.

This tendency continued until 1979. The volume of trade increased slowly and at the dawn of the revolution, Iran's exports were around \$4,000 billions and its imports around \$1,500¹³. The American market represented at this time more than 20% of Iran's total exports and almost 15% of its imports from the U.S.A.

With the growing repression and the increasing discontentment of the population, in January 1979 the Shah left Iran never to return¹⁴. A few weeks after, the powerful leader of the opposition, Ruhollah Khomeini, returned from exile. Citizens were in the streets protesting against the monarchy, and the westernization of their country. They felt the Shah was just a tool of the great Western powers. They also complained about all the repression imposed by their monarch and its secret police, the SAVAK. In November 1979, the tension increased dramatically between Iran and the U.S.A. when students took the American Embassy in hostage¹⁵. They felt gravely betrayed to know the Shah was under the protection of the American government and demanded his return in exchange of the hostages. The U.S.A. did not want to cede and the hostages were released more than a year later.

Such violent tensions between the two nations severed all political and economic relations. On one side, Iran, with its legitimate demand, decided to use violence as its way of leverage. On the other side, the United States, the hegemonic state, could not abdicate to Iran's demand. The intensity of the dramatic situation is perfectly shown by the IMF data¹⁶. In just a year, Iran's exports to and imports from the U.S.A plummeted. Iran's overall commerce was greatly affected as well. In general, Iran imported from the U.S.A. \$10,000 billions less in 1979 and 180 than in 1978. The American market for Iran's export dropped from 21% in 1979 to 3% in 1980. Its imports from the United States went from 14% of its global import to less than a percent the following year.

The revolution announced by the growing anger of the citizens, forced the old monarchy to change abruptly and drastically. There was not only a new government with new leaders that was installed to rule the country, but also specific values and ideals were emphasized. A new constitution was drafted and approved by vote¹⁷. This complete shift in direction from the new Iranian government created this diplomatic and economic separation between the U.S.A. and the new Islamic Republic of Iran. It prevented the two states to remain as closed as they used to be and emphasized their differences. It was not very much the drastic change of regime, from a westernized monarchy to an Islamic theocracy that reinforced the animosity between the two states. It was from one part the use of violence along with the way the U.S. refused to comply with Iranians' request of repatriating the Shah that confirmed the break up of diplomatic relations. With a heavy history of manipulations and abuses of power, it was impossible for Iran to trust that the U.S.A. was acting reasonably.

To summarize, both sides were hurt. The attack of innocent people deeply touched America's pride and the feelings of oppression angered Iran. From that moment on, friendly relations and trade between the two nations would remain low. Economic and political relations will never recover entirely from those events, on the contrary, they mark the beginning of a continuous downward sloping trend.

The new Islamic Republic of Iran

The second phase starts after the Iranian revolution in 1979 and last up to 1989. This phase is often explained using the Ideology perspective¹⁸. After being condemned under the Shah¹⁹, the leader of the 1979 revolution, Ruhollah Khomeini, had the ambition to recreate a version of the past he idealized²⁰. Thus, the guidelines he imposed to Iran were deeply influenced by Islam, or at least some radical interpretation of it. Along with the Grand Ayatollah Khomeini, the new leaders of the country were also powerful religious figures, and all aspects of daily and political life revolved around Islamic laws. The dependency theory can also serve as a lens to understand the political situation of Iran at this time. Resentments as well as the feeling of being used as tools and exploited by Western countries made Iranians craved independence and recognition. This exasperation pushed them to violently revolt against the West. The diplomatic breakup with the U.S.A. was even more severe as the Shah was protected by this state and was refusing to send him back to Iran to be judge by its peers. Tension escalated to the point when the U.S. embassy was taken hostage with many American citizens.

As the U.S.A. continued to refuse sending Mohammad Reza Shah back, the embassy stayed occupied. 444 days later, in 1981, the Iranian government finally decided to set those 52

diplomats and soldiers free²¹. After the revolution, the trade between the two countries suddenly vanished. In 1980 and 1981, imports from the U.S.A. were null. Exports to the U.S.A. crashed by \$3,500 billions (21.28% to 3.08%) from 1979 up to 1980. They went from being 4.354 billions in 1978 to 435 millions two years later. In 1981, exports were \$60 billions (0.6%). After the Shah's death in 1980, anger against the American government stayed strong but diminished. A year later successful negotiations resumed the economic exchanges. To this day, the U.S.A. did not reopen their Embassy in Iran.

From 1980 to 1987 Iraq invaded Iran. Several Western countries, including the U.S.A., backed up Iraq, even though the latter started the invasion. The participation and help from the Americans to Iraq was another manifestation of the grave hostility it has against an Islamic regime and was understood as yet another betrayal²². Iran opinion about the U.S.A. and the West continued to be damaged. Immediately following the attack in 1981, and as a consequence of it, Iranian's export to the U.S.A. crashed to 60 millions, a drop of 375 millions in a year. For the remaining of the war the exports will remain very low but will slowly increase up to \$1,592 billions (14.5%) in 1987. Iran import form the U.S.A. will stay insignificant for the entire period. The data confirmed the realist approach of Iran and the U.S' foreign policy. It also states clearly the negative position of the U.S.A. towards Iran. Both states' trade relations were non-existent, which means that both countries' diplomatic relations are non-existent as well. At this point in time, Iran was at war against a powerful country and has lost its old Western allies. Isolated, Iran had to defend itself both geographically and economically for survival. For this purpose, it had to find new trade partners that would not only help it financially but that would not question its regime.

In 1987, exports dropped as Iran cut back on its exports to the U.S.A due to the serious diplomatic failure of the Reagan administration. In 1986, the U.S.A. sold weapons to Iran. Instead of staying there, those weapons were sent by the Iranian government to Latin America. From a diplomatic point of view, Iran-Contra scandal was a major failure for the U.S. government to monitor Iran and its behavior²³. American government felt embarrassed both internationally and domestically, damaging the problematic situation at hand²⁴. In 1987 and 1988, several attacks from the U.S.A. against Iran occurred. Some were caused by careless mistakes such as the shooting in 1988 of an Iranian Air Airbus by the U.S. cruiser Vincennes, which killed all the 290 civilians on board. Such operations aggravated the situation and were negative blows to the damaged bilateral relations. Economically, while exports were increasing again and went up to close to \$1,600 billion (14.47%) in 1987, in 1988 it fell to less than \$200 thousand (around 1%) in 1988 and 1989, a drop of more than 10%.

Iran's Reconstruction

The third major phase started in 1989 and lasts 8 years, until the new president Khatami was elected. At first the economic recovery of the bilateral relations remained inexistent. The Rushdie affair created a considerable rage on the Iranian side²⁵, which influenced trade negatively. Even as of today tension about this event remains. During this period both imports and exports increased by more than 10%, until 1995.

Generally though, after 1989, Iran became a more moderate country and its leader tried to open up to the outside as a way to help the country recovering from the war and reconstructing the state²⁶. This period promoted more pragmatic, or realist, policies as a way to counter Iran's isolation²⁷. Iran's less aggressive and strict position towards the West as well as its greater

tolerance and openness helped the commerce between the two nations. As it can be expected, in 1994 Iranian exports to the U.S.A. were more than \$2,500 billions, representing 15% of its global trade. As for its imports, they increased since 1980, being 5%.

Even though this period is one of restructuration, the Iran Foreign Oil Sanctions Acts of 1995 and 1996 voted by the U.S.A. did not help Iran in its pursuit of openness. As a method to counter Iran's ambitions to become a nuclear power, the U.S.A. targeted its oil exports²⁸. During this period, Iran's exports to the U.S. disappeared. Along with its imports, Iran's trade with the U.S. came closed to being null (both in volume and in percentage) and would remain unchanged for more than a decade.

Institutionalization of a Radical Country

The last major phase started in 1997 and still last up to today. In 1993 President Clinton was elected president and took office, and in 1995 imposed sanctions on trade and mostly on oil trade²⁹. Over the following years trade became even more restricted and sanctions increased. In 2000, while we can see diplomatic effort to resume friendly relations, the 2001 September attacks on the U.S. soil annulled all the efforts previously done but also all future possibilities of collaborations. The history that Iran has with supporting terrorist groups³⁰ and the 9/11 events increase the negative feeling the U.S.A. had toward Iran and pushed the Washington to support a change of regime in this country³¹. Iran is being categorized as part of the 'axis of evil' by President Bush and is being accused of sponsoring terror in the world³². In 2008 with the new president Obama, there is again a tentative to negotiate trade between the two countries. One more time, they are crushed by the United Nations sanctions in result to the fear that Iran is unofficially developing weapons of mass destruction.

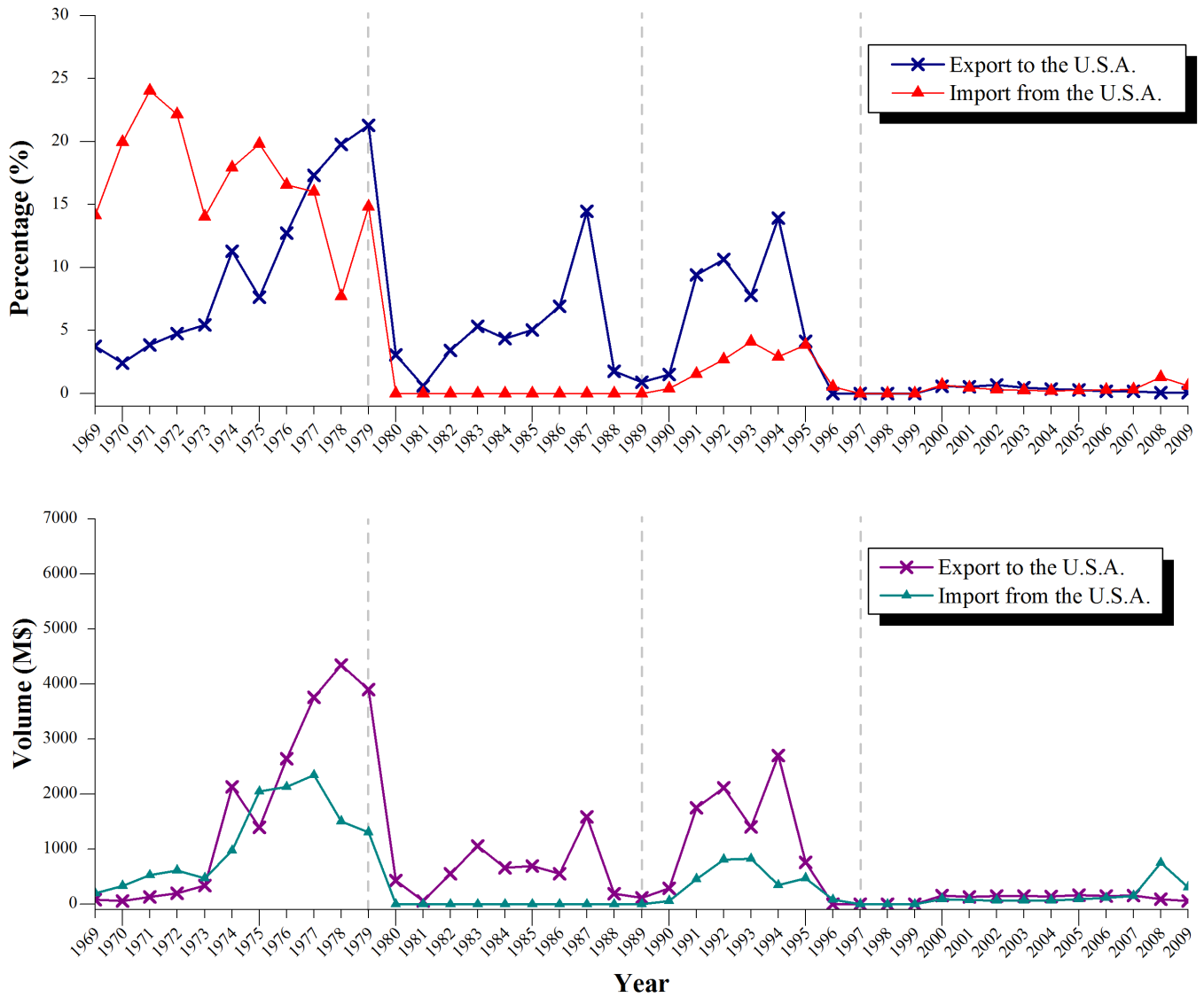
The Iranian behavior toward the U.S.A. can be analyzed and understood as being only a reaction triggered by this state's overpowering influence on the trade market. Each American statement provokes a direct and immediate reaction from the Iranian government and people. The hostage crisis clearly demonstrates that Iran will not follow the direction imposed by the U.S.A. and that it will use every mean to make itself heard. Both countries have opposite ideals and understanding of the world. The U.S.A., with its military and economic power has more weight and believes it is more capable to pursue its goals and influence others in doing what it wants. Its goal is also ideological as it is the pursuit of implementing democracy and freedom³³. Iran, on the other side, has the natural resources that other nations desire and need. It uses its exports as a way to reinforce its position and to break free from the U.S.A.'s exploitation and domination. It strategically searches to find trade partners that would need its natural resources but which would not have any say in Iran's domestic and foreign policy. Not having much concerns about human rights, some states do not hesitate to use the situation to their advantage. In return, the non-compliance of Iran to stop its nuclear program, or simply to adopt a more western and capitalist ideology, is viewed as an imminent threat to American security, and thus, as it thinks, the security of the world and its interests.

The conclusion that Iran draws from this cycle of events with the U.S.A. is that Americans will fear but also respects only powerful states. In order not to be the exploited but the exploiter, Iran needs power. That power must be military above all. They understand the power of commerce and the economy but to the extent of serving the military. The American government is clearly the military hegemony. The Americans and the Iranians both share a realist approach toward states they distrust. As a result, Iran seeks to increase its power to finally

stop surviving but start developing their identity independently from others. This arm and military race creates a vicious cycle. Both states are trying to gather as much military force and power as they can. As a result, their fear and feeling of threat increases and their distrust grows to the point where they stop all diplomatic exchanges and have to find alternative ways to trade. Both nations try to gain leverage against the other to finally follow their own agenda. By losing such a major partner over the last 30 years and by being so heavily pressured to adopt another culture's values and ideology, Iran is trying to find new allies to trade with. They turn to the growing Eastern powers, which need above all energy to respond to their gigantic domestic demand. Its Eastern partners, not only do not try to intervene in Iran's state of affairs, but they indirectly help Iran achieving more military and economic power.

Graphics

Figure 1 - Iranian Trade with the United States of America (in Volume and Percentage)



Canada

History

Canada is a federal state part of the British Commonwealth and is situated North of the United States. Canada is the second largest country in the world in area and has a low population density with near 35 million inhabitants³⁴. Its history was shaped and influenced by two of the greatest powers, the United Kingdom at first and the United States later on. It shares with them a similar culture and language. It is also bond by its history and the deep relationship it developed over the years. Canada is considered a friend of the U.S.A. even though both states had shared many disagreements in the past³⁵. Unlike the United States and the U.K., Canada is relatively quiet on the international scene. It is undoubtedly a great player but it does not raise its voice as loudly as its two neighbors³⁶. Canada can be heavily influenced by its friends' judgments, but it often shares the same opinion as most Western states toward Iran, which is why Canada's trade pattern somewhat follows the same four phases. Canada is the Western country that has the least amount of trade with Iran. Since 1969 Canada's percentage of exports and imports has stayed under 5%. In comparison to the U.S.A.'s commerce, Canada has also more fluctuations in its exchanges with Iran. Its trade is more polarized. Overall, the import and the export show a decreasing trend from 1969 to 2009. As Canada can rely on its own natural resources and energy it doesn't import much from Iran.

The Pahlavi Dynasty

The first phase is from 1969 up until the Iranian revolution in 1979. During this time, Iran's had extremely good relationships with the Western countries. The data shows that both states were sharing good economic relations as their trade increased from 1969 up to 1979.

During this period, Iran and its ruler were especially close allies of the U.S.A. and both had high degree of economic exchanges. The West and Iran were protecting their national interest and wanted their economy to grow. Differences in ideology existed but were not a source of issue between the governments and cooperation was high. Canada, being his closest friend, was enjoying the benefits of the alliance between the U.S.A. and Iran. Unlike the U.S.A., Canada is a smaller economic player for Iran and its imports during this period never increased above 5% (in 1975). Exports from Iran to Canada went from under \$100 million dollars up to \$750 millions in 1975 then dropped to \$500 millions in 1979. Iranian imports from Canada remained stabled and staid around the 1% level. The data shows that both states were sharing small but good economic relations as their trade increased slightly from 1969 up to 1979.

The new Islamic Republic of Iran

Like its close ally, the U.S.A., after Iran's change of regime, Canadian's trade with Iran fell to its lowest level. The change in ideology and the institution of a theocratic state, along with the public break up with Western values, had an impact on Canada as well. Before the 1979 revolution, Imports and exports started to drop as Iranian started to manifest against the Shah. In 1979 the decrease continued and in 1980, with the new government in place and the Iraq-Iran War started, trade ceased. Another major event at the roots of the break-up of the two nations and the closing of the Canadian embassy in 1980 is the hostage crisis. In 1979, 60 Americans were held hostage in the American embassy in Tehran. The Canadian government helped six Americans to escape³⁷. This mission, also called the 'Canadian Caper³⁸', was directly followed by the closing of the Canadian embassy in Tehran and for 8 years³⁹.

In 1980, Iraq invaded Iran. At the start of the Persian Gulf War and for a year, until 1981, both imports-exports revolved around 0. Iranian imports started to increase up until 1989. Exports to Canada slowly increased from 1982 through 1986, with a drop in 1984. In 1987 and 1988, they dropped to less than \$100 millions (less than 1%). During the Iraq-Iran war, Canadian relations with Iran are severed but not null since low levels of trade existed between the two countries.

In 1988, Canada fully resumes its diplomatic relations with Iran, and its Embassy reopens in Tehran. At this time, Iranian imports from Canada spiked to \$400 millions, representing 2% of its global imports.

Iran's Reconstruction

This period covers the data from 1989 up to 1997. The end of the War helped Iran and Canada to rebuild their diplomatic relations. As a sign of it, Iran opened its Embassy in Canada in 1991. Exports would still remain low during that period, representing only 1% of Iran's global exports. Unlike its exports, Iran's imports from Canada increased, but with lower levels of trade from 1990 to 1994. Since the end of the war, exports were at a minimum and generally stayed under \$100 millions (which is less than 1% of Iranian export globally).

Over the following years though, Canada had severely restricted its diplomatic talks and its relations because of Iran's position on human rights policy, its aims at developing nuclear weapons and its threat to the peace in the Middle East. In 1996, the Canadian government voted for a policy of "Controlled Engagements."⁴⁰ This policy is still up to date, and drastically restrict diplomatic exchanges.

Institutionalization of a Radical Country

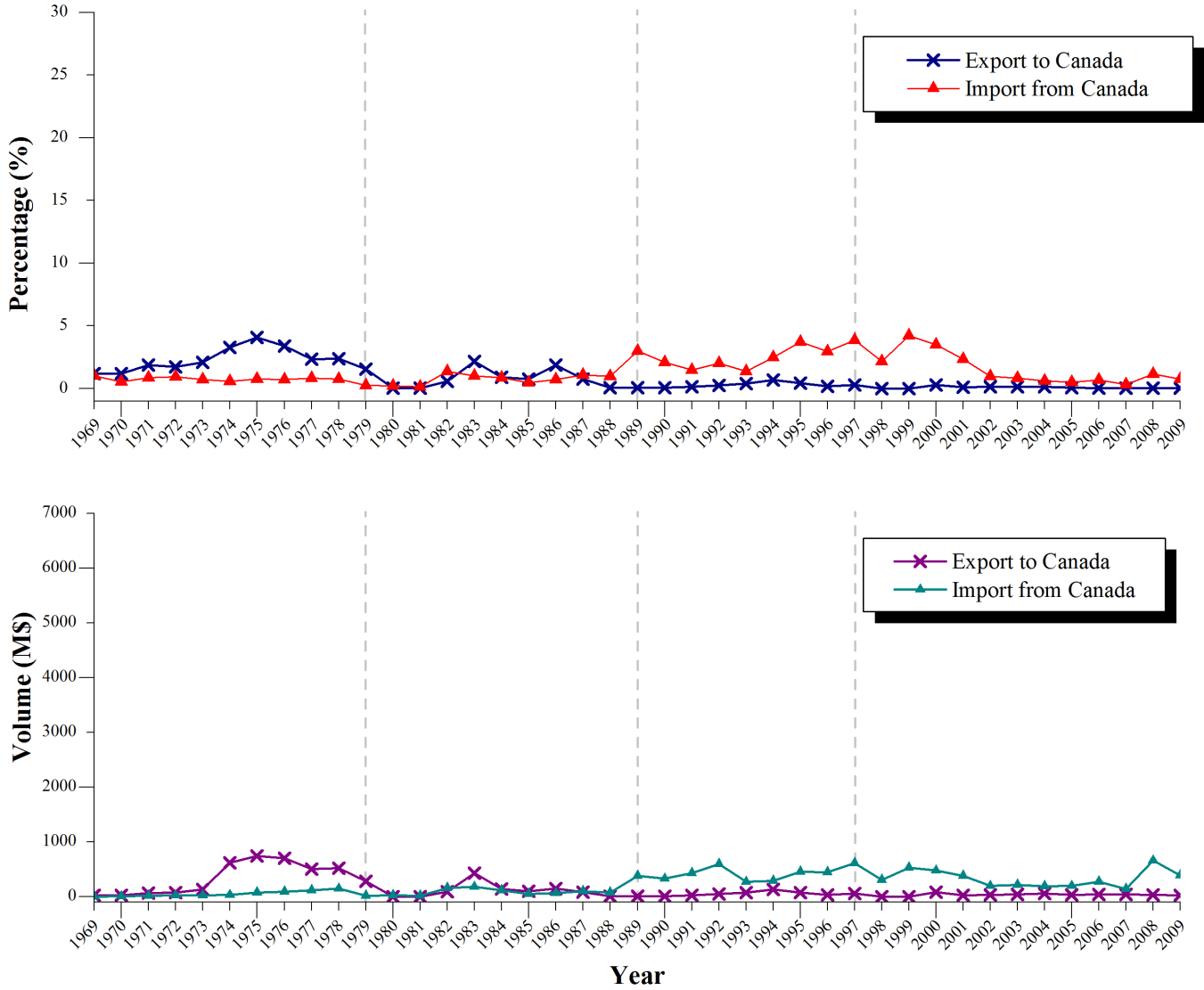
The 1997-2009 period saw the slow radicalization of Iran. In 1997, Khatami was elected president. He was a moderate and a reformist⁴¹ political figure and tried to open up Iran⁴². The Canadian government permitted the discussions between the two states to resume. As a result, his election had a little bit of a positive effect at the beginning. Imports increased from less than 1% to 4% and exports staid relatively insignificant, and stagnated under the 1%.

In 2001 the attacks on the U.S. soil did not help the increasingly positive relations between the two nations. After those events, trade decreased. In 2003, the tensions between the two states plummeted because of the situation around the Zahra Kazemi case. Ms. Kazemi was a Canadian-Iranian citizen who was held hostage by the Iranian government. Iran was heavily suspected of having savagely tortured the photographer, and because of its non-truthful cooperation with the Canadian state, Canada decided to call back its ambassador. Since then the situation is still a source of tension between the two nations and matters are still unresolved⁴³.

Following the election of President Ahmadinejad in 2005, and his position regarding the Jewish community, Canada decided to further take its distance from Iran and increased its position regarding its Controlled Engagement Policy. According to this policy the two states can only interact in four areas, the human rights, the nuclear proliferation, the torture and murder of Zahra Kazemi, and its position and influence toward the region's peace. In 2008, Canada backed up the UN with its sanctions. Iran and Canada cut short their economic exchange as a result, which were going up since a few years before. In 2012, Canada once more cut its diplomatic relations with Iran when it decided to close its Embassy in Iran and asked the Iranian diplomat departure.

Graphics

Figure 2 - Iranian Trade with Canada (in Volume and Percentage)



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III. EUROPEAN UNION

FRANCE, GERMANY, ITALY, THE UNITED KINGDOM

This third chapter focuses on Iran's relationship with the European Union and Iran's four major trade partners, France, Germany, Italy, and the United Kingdom. The data analyzed came from the same period used for Chapter 2, which is the 1969-2009 period. This part will also include events that occurred before and after those dates.

Europe has been a longer trade partner with Iran than it has been the U.S.A. and Canada. It has always been an important and influent economic friend as well. Europe tends to be relatively lax *vis à vis* Iran, unlike the U.S.A., which is more intransigent¹. As a result, Europe has not only a greater taking advantage regarding the Iranian market neglected by the U.S.A. but is seen as a more reliable trade partner. When the American government started to enforce too many restrictive economic policies, an increase in trade was observed with some of the European countries. As a result, in 2006, Europe was Iran's first trading partner for its imports and exports². Over the years the commerce between the two regions has changed but a few. With the more recent events and the sanctions imposed and enforced by the West, the last decade has seen more dramatic changes in the commerce between Europe and Iran. According to the 2009 data, in 2009, Europe represents close to 20% of its imports but less than 10% of its exports³.

France

History

Since 1969 and up to the late 2000 and early 2010, France's economic exchanges went through five stages, unlike any other Western states, which have four. France's trade with Iran is not as polarized as the one from the U.S. and Canada. Even though its trade pattern is quite linear, five phases can still be distinguished. Those phases correlate with Iran's leadership, its foreign policy, and France trading's philosophy. France's policy reflects its enduring dilemma between its long-term goal, which is the democratization of the Middle East, and its short-term ones, security and commerce⁴. Out of the three other major European players, France is the smallest economic partner, but the most consistent one.

The Pahlavi Dynasty

Iran was a monarchy up until the 1979 revolution. At first the 1979 revolution, as discussed above, diminished the Iranian imports (but not the exports). Under the Pahlavi dynasty, France and Iran shared friendly relations. Both countries have a long history of cultural and commercial exchanges that goes back to the Middle Age. Both countries have heavily influenced each other at the cultural level⁵. The French language was commonly used in Iran, and France always welcomed Iranian political figures⁶. In recent years, the different changes that happened at the government level in Iran and the different direction the country took impacted somewhat their trade, meaning that the diplomatic relations between the two nations were damaged. But France never appeared as a threat like the U.S. and the U.K. did, and thus was not considered an enemy⁷. Overall, France represents around 5% of Iranian's commerce.

From 1969 until 1974 France was under President Pompidou. His successor, President Giscard d'Estaing took office for 7 years until 1981. Both were right wing presidents. Iran under the Shah was seen as a rather stable country, as well as a great source of investments⁸. Under Giscard d'Estaing exports slightly increased by 2%, imports remained the same.

The new Islamic Republic of Iran

In 1980, once the new theocracy was installed, Iraq invaded Iran. During this 8-year war France supported Iraq at the expense of Iran. France always had a policy that supported Arab states⁹. This position had a huge impact on Iranian imports, which fell to less than a percent, and was closed to null in general. In 1988 the level of import came almost back to the one before the war, while the export fell sharply. During this time, the president of France, François Mitterrand, held office. Up to this date he was the only left wing president. During his first mandate, exports slowly but consistently dropped. Imports, on the other hand, dropped by 3% and fell almost to zero.

Iran's Reconstruction

The period between 1989 and 1997 shows a desire for Iran to rebuild the country. After the war, the state was especially damaged economically. During this period, French president Mitterrand was in his second mandate. With the desire for Iran to develop, France introduced several major companies to the Iranian market, such as Peugeot, Renault, and Elf. There is an inverse trend in commerce between the two nations compared to Mitterrand's first mandate. According to the data, in 1997, under President Chirac, France was the third largest Western country importer for Iranian's goods, behind Italy, and the U.K. and fourth exporter, behind

Germany, Italy and the U.K. Even though the issue regarding Iran's nuclear goals, French President Chirac, was favorable for a dialogue between the West and Iran. He positioned the Middle East as a priority for French foreign policy¹⁰.

Moderate Iran

In 1997, Khatami was elected president in Iran. The overall diplomatic situation between the two states is progressing and encouraging economic exchange under the presidency of Jacques Chirac (1995-2007) and Mohammad Khatami (1997-2005).

Unlike other Western countries, France had an increase in its trade with Iran during this period. Iran's imports to France went from 5% to more than 8%. As for Iran's imports they dropped by 2% the year following the 1997 election, and were at 2.7% in 1999. Imports increased again and went up to 4.4% in 2005. As the data shows, this period was rather beneficial for both countries as suggested by the upward economic exchanges' trend. This increase in trend can be explained by first the direction president Khatami was taken, which is a more moderate and open country. Then, it can also result from the decision of president Chirac's new Arab policy toward the Middle East. He heavily criticized the U.S.A. for their embargo of Iran, and was in favor of improving the dialogue between Iran and the West¹¹. The individual level of analysis is very useful here to understand this increase in trade during the Chirac-Khatami period. Chirac valued the Middle East and believed that an increase in interaction between the two regions was crucial to the peace process. France was an outlier in the West during this period as it was the only state that took advantage of the moderate position of the Iranian leader, but also was the only which did not shut down the Middle East and Iran, but tried to make it an ally.

Institutionalization of a Radical Country

In 2005, there was a new election and the radical Mahmoud Ahmadinejad was elected president. The promise that the previous president brought to the public was seen shut down by the most extremist political actors, as well as Ahmadinejad's unwillingness to take risk to implement a more democratic regime¹². Strongly supported by the religious leaders, Ahmadinejad has deep radical views, an open hatred for Israel, and a serious desire to develop the country's nuclear armaments. The threat to peace, he was encouraging, severely damaged the diplomatic relations between Iran and the Western countries, including France. The volume of trade increases up to 2005. In 2005 there is a sudden drop the French exports to Iran. Imports from Iran are still increasing but at a much slower rate. Though, the weighted trade is decreasing in both categories, both largely dropping under 5%. With the new president in office, the concerns about nuclear development increase dramatically. In 2006 the IAEA passes a resolution and the Security Council becomes involved¹³.

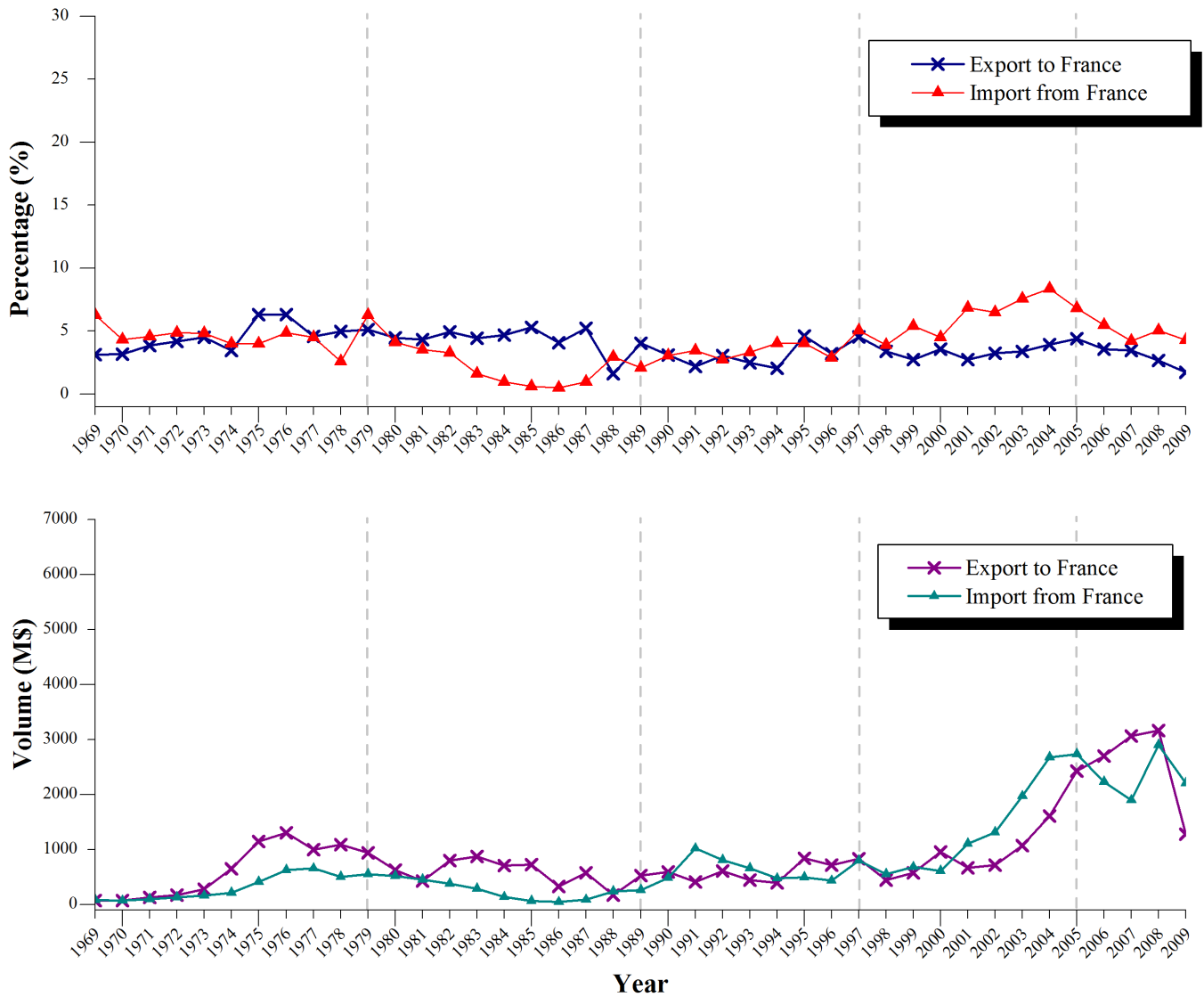
In 2008, the successor of president Chirac, President Nicolas Sarkozy expressed its will to get closer to the U.S.A. To do so he brought back France into NATO and adopted a stricter tone by condemning Iran and its desire to acquire the nuclear power¹⁴. In 2007, after the election of President Sarkozy, exports to France dropped further more, and imports while increasing in 2008 decreased in 2009. The graphs show that the two governments do not share relations that create a favorable environment to trade.

Leadership has a great influence in the direction each country takes regarding its economy and commerce. The graphs show that political events clearly affected the relationship between the two countries, which resulted lately in a significant decrease in economic

exchanges. When France tried to open up to the Middle East it created an environment favorable for discussion and economic exchanges. On the other end, when France was more radical in its views, Iran was as well. The rapprochement of France to the U.S.A. and its adoptions of severe sanctions had the opposite effect of what they wished for in the first place, which was to eliminate threats coming from Iran.

Graphics¹⁵

Figure 3 - Iranian Trade with France (in Volume and Percentage)



Germany

History

Also close friends during the post Cold-War era, Germany has been at odds with the U.S.A.'s politics regarding the case of Iran. While the U.S.A. has tried to cut Iran economically and politically, Germany has enjoyed high degrees of trade with Iran¹⁶.

The Pahlavi Dynasty

Germany is the country, in the European Union, that has the highest amount of trade, and thus the most impact, with Iran¹⁷. Similar to France, Germany is a long time economic partner with Iran and its neighbors. Bilateral relations between Iran and Germany were established to counter the growing influence of Russia and Great Britain but the ties between the two countries go beyond the affluent commerce that exists between the two nations. During the Pahlavi dynasty, Mohammad Reza Shah enjoyed Germany for personal reasons and, although close to Israel, was an admirer of this nation and its leadership.

In 1972, West Germany signed an agreement with Iran that would facilitate and encourage Iran to export its oil and natural gas. A few years later Iran invested in German's industries such as Krups. Until the 1979 revolution, both exports and imports to and from Germany represented 20% of Iranian's total trade¹⁸.

The new Islamic Republic of Iran

After the revolution, exports to Germany dropped and followed the same depreciation that it did with France. There is a significant decrease in trade with the start of the Iraq-Iran war

and exports are at their lowest three years after, in 1983. Germany was part of the Western countries that supported Iraq. They focus their trade with the Iraqis instead of the Iranians.

Iran's Reconstruction

A year after the end of the Iraq-Iran war, in 1990, Iraq invaded Kuwait. It is during the invasion of Kuwait that Iran traded the most with Germany. In 1990, export to Germany represented more than 10% of Iran's total exports (\$2 billions) and in 1992, imports from Germany were close to represent 25% of Iran's total imports (\$7 billions)¹⁹. The reunification of the Eastern and Western Germany along with the election of Khatami in 1997 helped the two nations economically. It created a favorable background for bilateral trade.

Institutionalization of a Radical Country

With the new Iranian president Ahmadinejad, the relations between the two nations grew colder. First, Germany did not support the nuclear program that Ahmadinejad tried to reinforce and defend so vigorously²⁰. Even if exports to Germany dropped since 1994 they are still at their lowest since 2005. At this point in time they represented less than 1% of Iranian's overall exports. The volume of imports from Germany increased, passing from 1.5 billions in 2000 to 6 billions in 2008, but the weighted imports decreases from almost 13% to 11%. Germany formed a strong alliance with the U.K. and France as a way to counter Iran's nuclear plan. They worked closer at building a strategy that would manage the ambitions of Iran, while reinforcing security and peace between the two regions²¹.

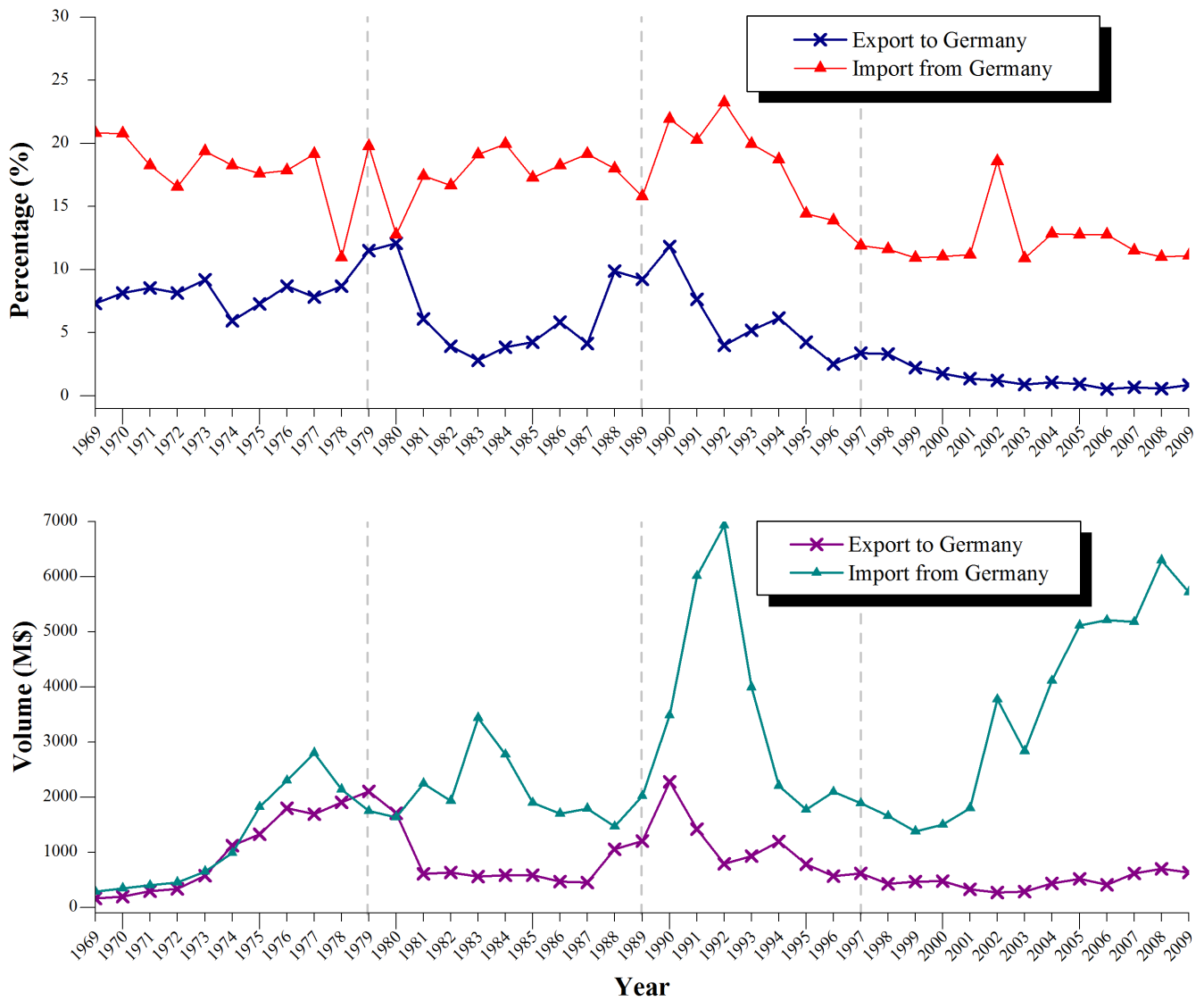
More recently, a clash occurred between Germany and Iran when the Iranian president announced publicly his hatred for Israel. Chancellor Angela Merkel vividly condemned

Ahmadinejad's comments and positioned Germany against those declarations. This added to Germany's negative feelings toward Iran and did not help the commerce between them.

Similar to any Western countries, the pursuit of nuclear power by Iran and the sanctions imposed by the UN and the EU had for purpose to greatly damage Iran's economy and trade. It was successful in this measure as the economic relations between Germany and Iran dropped significantly²². Even though until 2008 both imports and exports were decreasing, after 2008 trade continued its decline. As of today, Germany, in accord with Europe, is pressuring its firms to reduce investments and economic partnership with Iran due to Germany's condemnation of Iran's behavior, its total lack of transparency, and its human rights issues.

Graphics²³

Figure 4 - Iranian Trade with Germany (in Volume and Percentage)



Italy

History

Italy and Iran are also two great economic partners and have been for a long time. Italy is the second most important trade partner with Iran in the European Union²⁴. Most of the trade are focused around the natural resources Iran possesses, which are oil and natural gas. Italy is influent in Iran in the automobile domain, where it has its Fiat industries.

The Pahlavi Dynasty

The negative consequences of the 1979 revolution in Iran did not spare both nations' trade. As a result, Iranian exports to Italy dropped severely in 1979 and staid low until 1981. From 1969 up to 1978, trade increased by 4%. Up until 1979, imports from Italy increased slightly by 1%.

The trade with Italy, under the Shah, was relatively important since it remained around the 5% for both its imports and exports. The revolution had a negative impact for a year though. In 1978 imports fell and the following year exports also decreased severely to 2%.

The new Islamic Republic of Iran

Less than a year after the change of regime, Iraq took advantage of the situation and invaded Iran. During the Iraq-Iran war exports drastically increased in volume passing from less than \$500 millions to 2.5 billions and from 2% of the overall Iranian exports to 16% in a couple of years. As for the imports, during this period of war, it can be noticed that even though the curve is somewhat flat, it has the same convex shape that France and Germany had for the same

period from 1981 to 1986. Overall, after 1982 and up until the end of the war, exports remained high but decreased while imports slightly increased.

Iran's Reconstruction

After the war, both imports and exports are increasing. After 1990, exports dropped until 1993, and then went back to 10% in 1995. They will remain stable until 1998 when they will start to decrease slowly. Imports on the other hand, remained stable until 1994 and then dropped in 1995. They increased once more in the following year and came back to 10% in 1998.

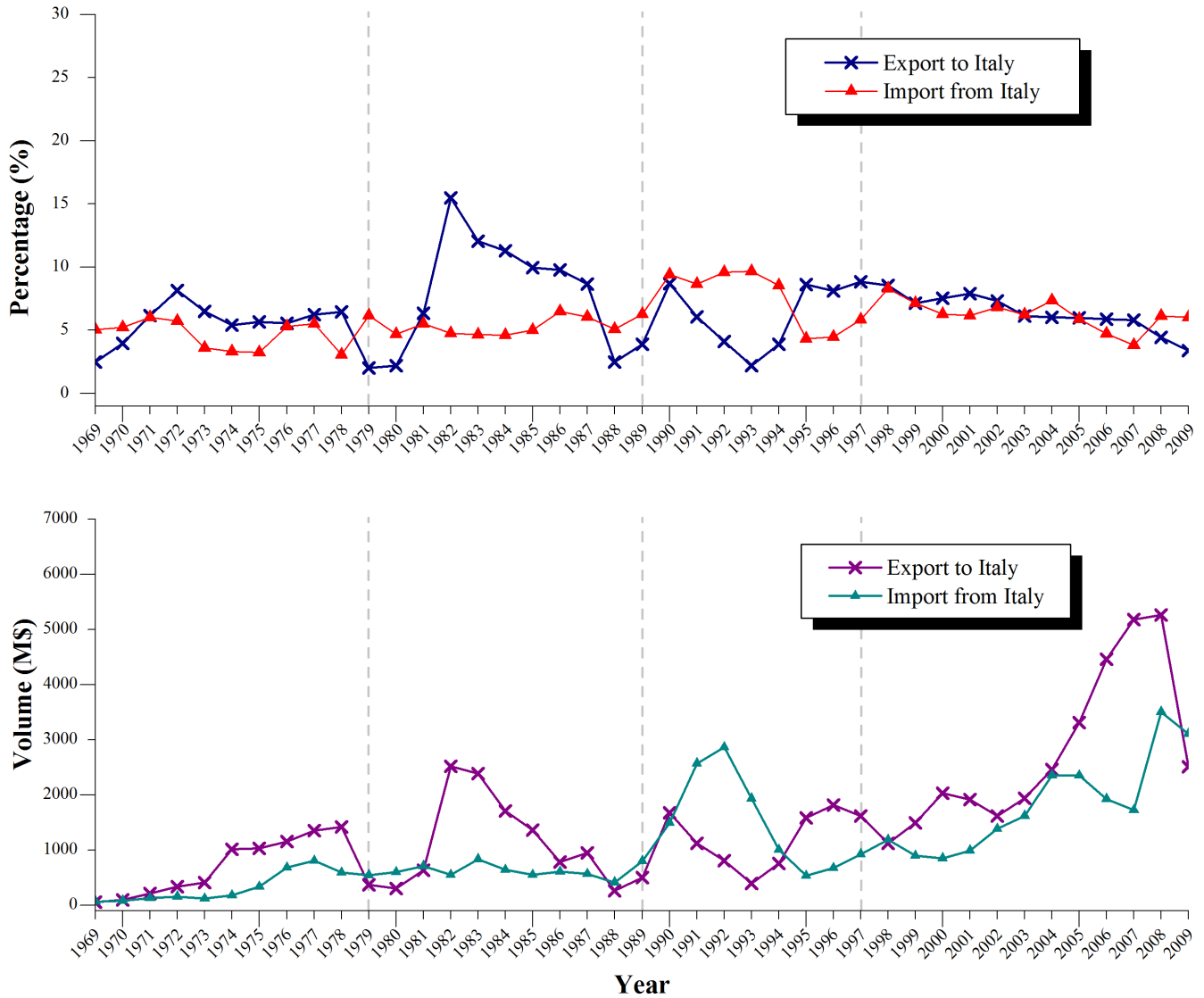
Institutionalization of a Radical Country

In 1997, president Khatami is elected. He is a moderate politician and tries to open up his country. According to the data, Khatami's leadership did not help in increasing the commerce between the two nations, as there is no change in the direction of trade during his presidency and the one during Ahmadinejad's. Both imports and exports are decreasing slowly.

The 2005 election of Ahmadinejad did not dramatically hurt the relationship between the two nations. Like its European neighbors, the new Iranian government did not help in building favorable relationships between Italy and Iran, but in the case of Italy, it did not severely damage them either. After 2005, the direction of trade continues to drop slowly. Even the strict position that Ahmadinejad took regarding the pursuit of his country's nuclear armament did not seem to damage the relations between Italy and Iran as since 2007 Iran's imports from Italy increased. After 2007, exports to Iran continued to decrease at an increasing rate.

Overall, Iran's exports went from 500 millions in 1991 to more than 5 billions in 2008 while imports also increased from 500 millions as well around the 1990 to 1 billion in 2008. Though, the weighted trade shows an actual decrease from 8% to close to 5%.

Figure 5 - Iranian Trade with Italy (in Volume and in Percentage)



The United Kingdom

History

In the middle of the 19th century, the southern part of the Persian Empire was under Britain's control²⁶.

The United Kingdom is the closest ally to the United States. Both nations share a similar ideology and agree on most of the decisions that have to be taken regarding the Middle East. The United Kingdom and Iran have a long history of animosity but their trade still remained quite consequent. Their economic exchanges dated back to when the British Empire colonized Iran and took its natural resources for its own benefit. Event though they went through many disagreements, the trade data indicates that they always shared closed bonds.

The United Kingdom, like its closest ally and friend the United States, was very reactive to the domestic and foreign policies undertaken by Iran. At the European level, the United Kingdom is part of the E3, with France and Germany²⁷. Those three states are the most powerful European states, have the greatest influence at the international level, but also are the major trade partners of Iran.

Overall, the percentages of trade between the two states show that Iranian's imports from the UK have a slow and decreasing trend. Over the period studied, they dropped from 18% to less than 2%. The trend is rather linear with a few exceptions, which can be explained by the foreign policy both states adopted.

The Pahlavi Dynasty

The United Kingdom and Iran under the Pahlavi dynasty were very closed in term of diplomacy and economy. The U.K. was using Iran to its advantage. The United Kingdom viewed

Iran as a strategic ally that would ensure the British a foot in the door of the Middle East. They also greatly valued Iran's crude oil²⁸.

Economically, the first sharp decrease happened during the Iranian revolution. The revolution and the discourse of Khomeini violently sanctioning the West, and Britain especially for having intervened directly in Iran's affairs²⁹ provoked a break up between the Western countries and Iran. The UK closed its embassy in Tehran as a result. Following such event, commerce was affected by the serious tension between the two nations.

The new Islamic Republic of Iran

The diplomatic, and thus economic, separation between the UK and the Republic of Iran increased with the change of regime. Khomeini clearly condemned Britain and its intrusion in Iran's affairs and stopped any peaceful relations with those he considered allied to the hegemon.

When Iraq invaded Iran in 1980, the regime was still weakened by the regime's transition. As the U.K. partnered with the U.S.A. and the other European states, which supported Iraq, Khomeini understood this behavior as the confirmation that indeed the West had a hatred for the Islamic state. During this time, import from the U.K. stagnated around \$1 billion (1%) and exports remained close to \$1 million (3%) until 1987. After the end of the war, with Iran's will to reconstruct, it opened its economy to international trade. Thus, started in 1997, economic exchanges increased rapidly.

Iran's Reconstruction

At the end of the Iraq-Iran war, in 1988 the British Embassy reopened, meaning that the diplomacy between the two countries was reestablished. With the desire for Iran to reconstruct

and ameliorate its trade between the two nations, relationships remained positive between them. Exports to the U.K. increased to 20% in 1997, while imports remained around the %5.

In 1989, the Rushdie affair deeply affected the West, especially the United Kingdom. Following the publication of the polemical novel by Mr. Rusdhie's book *The Satanic Verse*, Iran declared a fatwa - an Islamic judicial ruling, and in this case a death sentence. Mr. Rushdie was able to obtain the support and help the U.K. as well as the Western states in order to escape. With the refusal of the British government to either ban the book or send Mr. Rushdie to be sentenced by its peers in Iran, the British embassy was taken over³⁰. The diplomatic situation was catastrophic and the British closed their embassy once more. The British went even further in the secession of the relations by sending back to Iran many Iranians who were living in the U.K. As a consequence, trade was seriously affected³¹. The following year, the commerce decreased by almost 5%.

Institutionalization of a Radical Country

The year of the election of President Khatami, exports from the U.K. plummeted while imports remained the same. The following year, exports from the U.K. to Iran increased sharply. They will remain high until 2000. There is again no change for the imports as they continue to drop at the same speed.

In 2004 sanctions are imposed against the uranium program sponsored by Iran. As a result, economic exchanges between the two countries are at their lowest.

In 2005, the new president of Iran is elected. Mahmoud Ahmadinejad had a different approach than his predecessor, as he is more extremist in its views and behavior. This election

did not change the direction of trade in general even though there is a very small increase since 2005 for Iranian's imports from the U.K.

In 2007, after a small increase, import from the UK fell abruptly as a result of break in diplomatic exchange due to the detention of several British military personals.

Overall, the exports to the UK from Iran are increasing from 1970 up to 1976, and then decreasing from 8% to less than 2% in 1985. The export to the UK rose and went up to 18% in 1996 and close to null a year later. Even though they came back to close to 18% in 2000, the following year exports felt dramatically to zero. With the September 11 events all diplomatic ties between the two states were broken once again and trade was significantly affected up to a point where no exchange were taking place anymore. Since 2001, and later on with president Ahmadinejad who heavily supporting the development of Iran's nuclear program, the condemnation by the international community and especially by the West, pushed Iran to turn to other partner to export its natural resources and energy.

As of today the UK is no longer a major partner for Iranian trade, and having lost its leverage capabilities over Iran's imports and exports, it lost also influence over Iran's decision-making capacities.

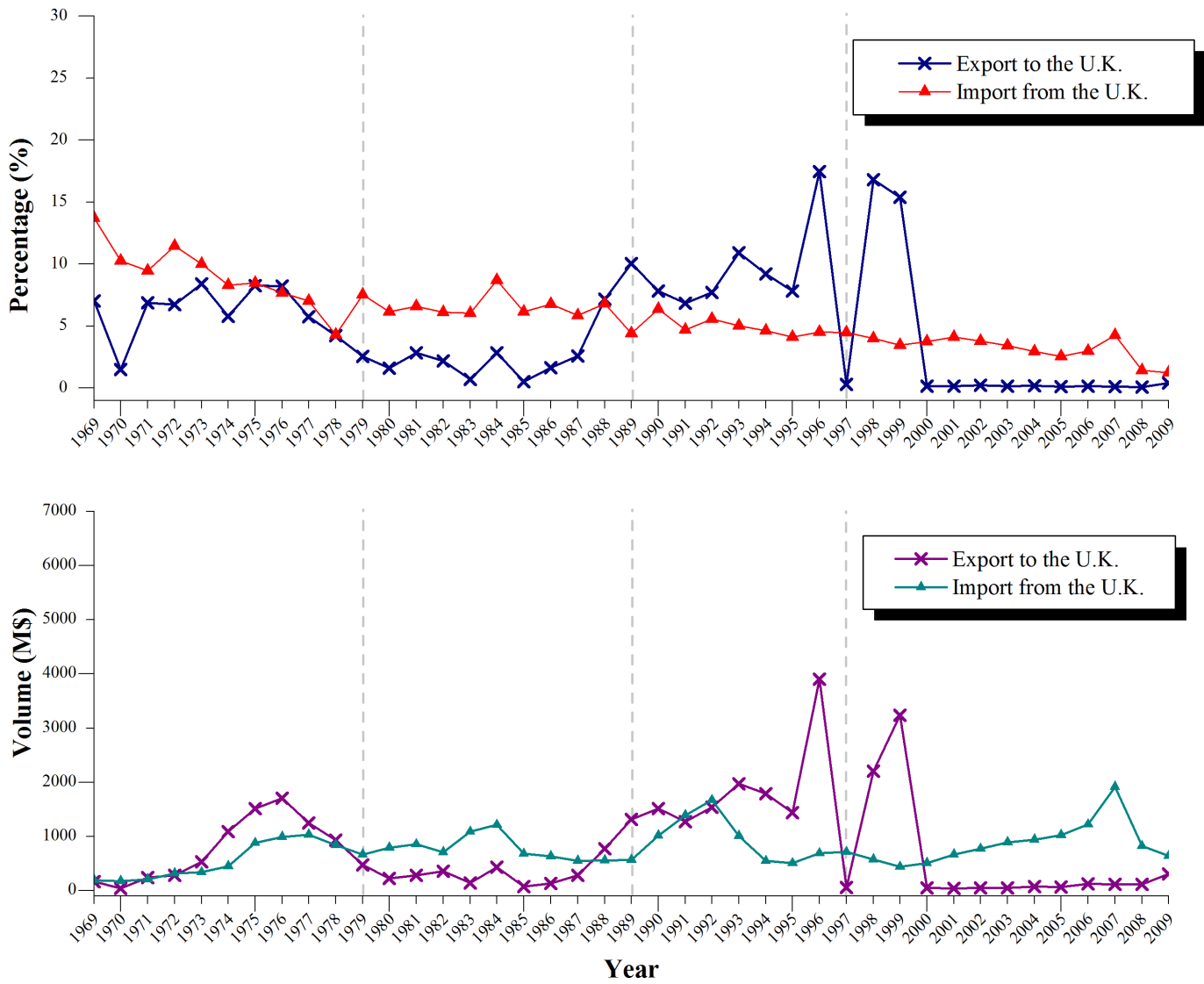


Figure 6 - Iranian Trade with the United Kingdom (in Volume and in Percentage)

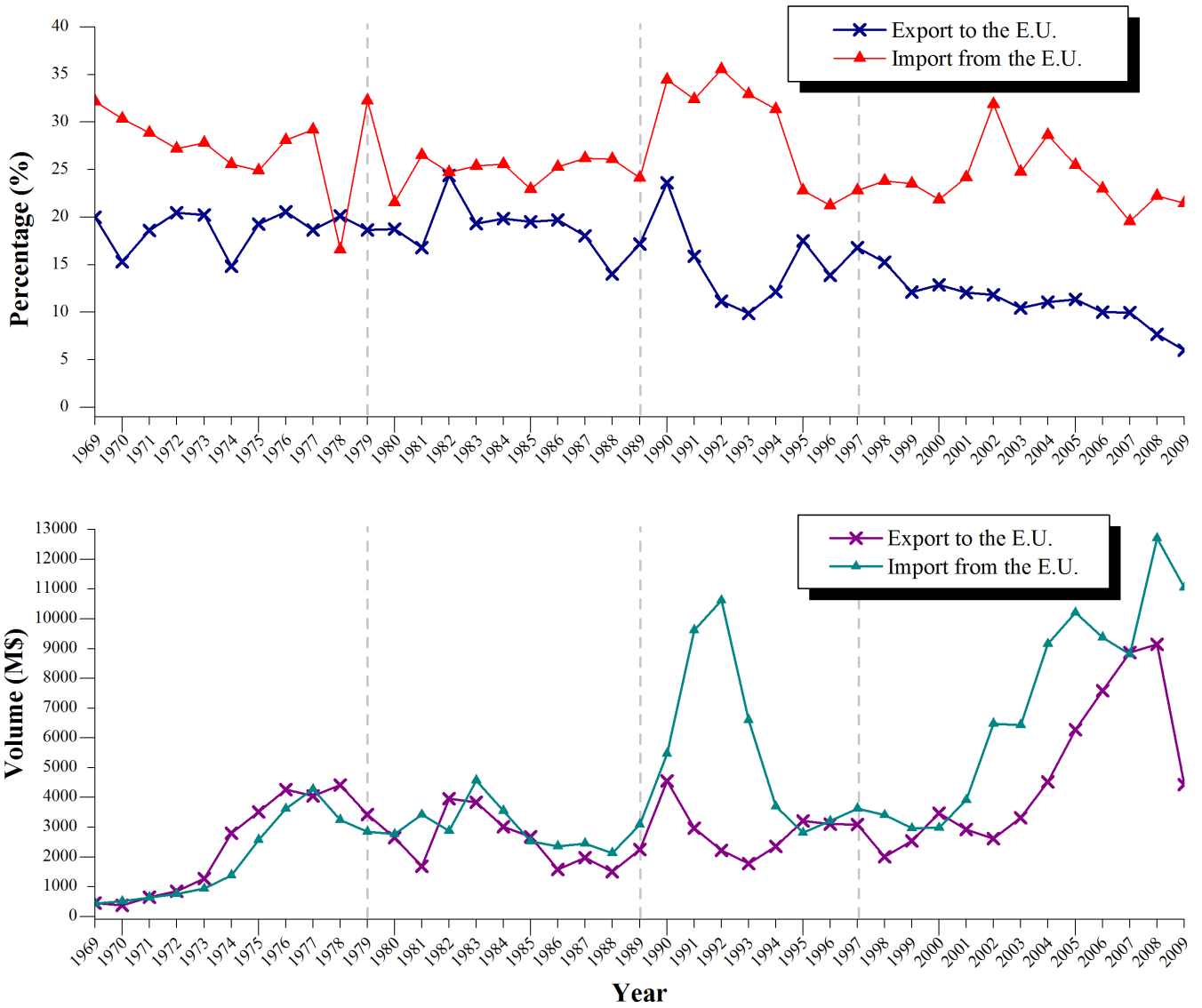
The European Union

The European Union's major influence toward Iran is its condemnation regarding Iran's desire to achieve nuclear power. It imposed economic restrictions and sanctions in order to influence Iran's behavior.

Those restrictions imposed in 2008 had an impact on Iranian's exports as the decrease in trade shows. It also had an impact on Iran's import from the E.U but it was less significant. This will for the E.U. to maintain a positive trade surplus shows its mercantilist approach toward Iran at the economic level. Europe is willing to sanction Iran on its exports but is not ready to sacrifice its own exports and economy.

Graphics³³

Figure 7 - Iranian Trade with the Four Main EU Countries - France, Germany, Italy, the UK (in Volume and



Percentage)

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IV. THE EAST

CHINA, RUSSIA, INDIA

This fourth chapter focuses on Iran's relations with three of its major Eastern trade partners, China, Russia, and India. The period used for data analyzed is consistent with the one used for Chapter 2 and 3. This period is from 1969 to 2009 but the events mentioned are also including periods that occurred before and after those dates.

The growing importance of the three Eastern countries studied in this chapter is directly challenging the current power balance revolving around the United States of American and the Western states¹. Historically and ideologically they share similarities between themselves and Iran, which help them getting strengthening their relationships.

Russia and China have a common communist background as both countries have been shaped and influenced by leaders that believed and promoted the Marxist ideology². Their position face to the capitalistic West is similar as they both are antithetical to the United States and its allies' values. For China and Russia there is a capital for the government to play, and thus as to interfere heavily in all the matters of the state and its economy. Both China and Russia also mistrust the hegemonic and colonialist states, and accuse them of depriving them of their past grandeur and of shaming them. Those negative feelings toward each of the two sides are such that even on maps, we represent them geographically to be at the opposite of each, which emphasize that they are indeed ideologically antipodal.

Even though India doesn't share the same cultural and ideological background due to the

heavy presence and influence of the British Empire, it does share with China and Iran a membership to the Non Alignment Movement (NAM).

The NAM is a product of the Cold War era and the dilemma it created. Even though the world is not grouped around two main countries anymore as it was during this period, it remains heavily shaped and influenced by the ideologies shared by the United States and Russia during the 1947-1991 years. The NAM was formed in 1961 and was a foreign policy strategy to counter the bi-polarity imposed by Russia and the U.S.A.³ This movement is based on the concept of sovereignty and political independence and shows the will of the members to not be limited to choosing either to be on the side of the West or the East⁴.

The NAM is at the center of the politics of Iran as its president, Mahmoud Ahmadinejad, is the current elected chairperson of the inter-governmental organization. Although the Cold War is over, some principles at the basis of the movement (economic equality, cultural identity) remain actively promoted. On the other hand, some others, such as world peace and disarmament can be questioned after looking at the politics and behavior of some countries, like the one of Iran. This movement is thus more of a symbolic gesture used to announce officially that a member country will act as it pleases without the intervention or influence of the stronger Western or Eastern state⁵. It is thus a favorable position for China and India to be part of such an INGO as it helps them cultivate friendly relations with the other members and especially with Iran.

China

History

The friendly Sino-Iranian relations are more more than 2,000 years old and both the Arsacid Parthians of Iran and the Hans of China recognized each other as being highly civilized and developed empires. In 139 B.C., Persia had a major role in the development of commerce in Asia and the Middle East. The common name to the trading route used by the merchants between the Han China and Persia was called the Silk Road⁶. Alliances between the two nations date back to 115 B.C. where the Chinese sent diplomats to propose a treaty, which had for goal to strengthen the opposition against the tartars⁷.

Jumping forward to the 20th century, positive bilateral exchange between the two nations still exist but instead of being motivated by the commerce of food, porcelain, clothing and furniture⁸, they are now motivated by de high demand of energy of China and developing militarily of Iran. This search for natural resources and technological advantages that would bring the economic development to new higher levels has been crucial for both countries and between them especially since 1988⁹.

In 1900 Europe did not rule directly in China but their influence was important and thus had an impact that allowed them to shape their relations to their advantages¹⁰.

For modern China, Iran is a country that shares a similar history and a similar fall. Both were powerful Empires that were slowly weakened and by the Western states to the point of disappearing¹¹. They blame the imperialistic approach of the West and it ways to utilize the resources of others to their own unique advantage. They also both felt the humiliation brought by the zero-sum game approach of the West¹².

During the years of the Shah (1941-1979), Mao was ruling over the newly formed People Republic of China, or PRC (1949). Up until Deng Xiaoping's ruling at the end of the 1970's, China's interests in Iran, and more generally the Middle East, have been solely motivated by politics and its desire to both cut its dependency on the West and obtain international recognition¹³. During this period China decided to become pro-Arab and to stop its diplomatic relationship with Israel, thinking that for the future the Arabic countries will have a greater importance for the nation¹⁴.

On top of being increasingly interested and dependent on Iranian oil, the Chinese government is extensively implementing economic project in the country¹⁵. They have a great impact on the development of the region and the modernization if Iranian infrastructure and have been so for several decades.

The Pahlavi Dynasty

The past greatness of the Persian Empire was an inexhaustible source of inspiration for the modern Iranian leaders. The Shah of Iran was also one of those who wanted to restore the past splendor back to his contemporary Iran¹⁶. Under the Shah, Iran has few trade exchanges with China. Both the imports and the exports are very low, being less than 1% of Iranian's overall commerce. The two nations are still friendly toward each other and remain at peace with no war or conflicts in their shared history¹⁷. The Shah of Iran recognize the People's Republic of China in 1967 and two years later officially supported the country to be member of the United Nations¹⁸. Even with such a support, the PRC and Iran will have a very few economic exchanges. The Chinese market for Iran remained under the percent. In 1974 Chinese imports from Iran increased due to its sudden and important demand of oil¹⁹. This demand increased

from 300,000 tons in 1977 to one million in 1982. In the end of the Iraq-Iran war, China was importing two million tons of oil²⁰. Such an increase in the importation of oil by China did not raise the percentage of Iranian trade to this state by much, if at all as it remain around the percent, spiking at 2.05% in 1974 only but mainly remaining under the percent during the period.

The new Islamic Republic of Iran

After the fall of the Shah and the Pahlavi dynasty the country went under major changes. Iran was renamed the Islamic Republic of Iran, reflecting its change of regime from a monarchy to a theocracy. The new state tried to purge the government and its institutions from everything that reminded it of the old regime. The Iraqi attack in 1980 annulled those plans as the need arose to use the expertise and experience of the Shah's military to defend the state. By officially supporting Iraq, the West made it clear that Iran had to face the invader without its help. IRI had to find new partners to trade with if it wanted weapons and any military equipment. Thus, it turned to China and the Eastern countries that were not denying him help²¹.

The two resources used for the data collection shows that for this period of time (1980-1988) the imports from the PRC to IRI are very low. Both data show that the patterns are very similar even if the numbers do differ somewhat for a few years.

According to the University of Virginia's Geospatial and Statistical Data Center, the data from this period shows that China's exports to Iran are not as high as what could be implied from the literature cited in this chapter. The data from Virginia do not show a significant increase in trade between the two nations nor the level is high enough to be deemed as relevant. Iran's total imports from China remains under the 1% and even tends to decrease over the war. In 1980, imports from the mainland represents 0.33% and 0.93% the following year. Though, in 1982

they are 0.44%, and 0.28% in 1986. At the end of the war and up until 1990, imports volume will largely stay under the 0.5%²².

The IMF data shows the same trend even though the numbers are slightly higher during the first few years of the war. In 1980, imports from China represents 1.04% of IRI's total imports. In 1981, they are 1.39%. They drop in 1982 to 0.39%, increase again in 1983 (1.63%) and 1984 (1.22%) and finally will decrease until 1989 (0.37%). The increase can be explained by the massive amount of oil China demanded during those years²³.

The exports to China are not very significant when looking at the weighted percentage. During the war the exports are quasi inexistent. Though it is a slightly different pattern for Iranian's imports from China. The year following the revolution and the year when the war started, Iran's imports from the PRC increased by a factor 3 (from 40 to 133 millions of dollars). Though such a factor is not unique to the bilateral trade between China and Iran. The same factor can be found also in other countries such as Finland (50 to 138) and Sweden (75 to 207). Compared to other countries such as Japan (during the same years), the increase for China exports to IRI is somewhat irrelevant. For example, Japan's exports did not increase by a factor 3, but the amount traded increased by almost 700 millions (from 1013 to 1697)²⁴ which is an increase that is almost 6 time greater than the Chinese one. Thus, the vital importance of China for Iran during this period of time can be questioned, especially when the IMF data show that all the exports to Iran from the industrialized countries increased from the year following the revolution and will remain higher during the Iraq-Iran war than they were in 1979²⁵.

Iran's Reconstruction

The Iraq-Iran war ended in 1988. During this reconstruction period, IRI made the rearmament and militarization its priority²⁶. The West took the side of Iraq, which it helped militarily. Iran and its growing need to maintain its military found itself cut from the supply of the Americans and the West. Because China's relationship with the U.S.A. started to deteriorate, it had to find an alternative to its growing need in crude oil and turned to the Middle East, in particular to Iran for its energy imports²⁷. The PRC and IRI found themselves where their dependency on the West was not tolerable anymore.

After 1988, China is believed to be a crucial economic partner. It is true that it helped the reconstruction of the country's infrastructure and facilities. Such an interest in Iran is not trivial. In the 1990's China became greatly concerned by its energy consumption and its dependency on the U.S. for its oil. Oil was vital to its development and the demand was growing at a rate impossible for China to ignore. Looking at the data for the year 1990 it is noticeable to see a very slight increase in Iranian's export to China. Such a small increase by 0.7% could be deemed banal but it is in fact the moment when China started to be influent and when Iran veritably started to shift its trade to China. Since 1990, both its exports and imports grew without interruption. At first it was a very steady and slow growth but since the years 2000, economic exchanges grew at a more rapid pace. In 10 years exports to China grew by almost 6% (\$1,600 millions) and imports by 3% (\$400 millions).

Institutionalization of a Radical Country

During the 21st century, China has had a specific approach toward the Middle East and the rest of the world as well. It has had an 'Offend-no-one approach'²⁸ It held an ambiguous

behavior in order to remain on the good side of Washington but also Tehran²⁹ as a way to protect its interests with both sides. The PRC depends on trade to continue its development, and cannot afford to vex either the industrialized countries or the oil rich countries. But the PRC's friendship with Iran shows also that China's intentional use of its good relationships with Iran serves its desires to grow more independent of the U.S.A. China is using diplomatic means to get closer to Iran due to its increasing and impressive oil demand³⁰. But the PRC's behavior is not just motivated by liberalistic views. It can be observed that tensions between the U.S.A. and China are favorable to the bilateral relations between China and Iran³¹. The PRC is using its friendship with Iran to detach itself from the independence of Washington and promote its own interests. The Chinese's behavior is somewhat at the opposite of IRI's behavior. Unlike Iran, which upset quite frequently the Americans and Europeans (along with its neighbors) with its radical approach and speeches, China stay quiet and accept its strategic partnership with the U.S.A. even though it might not agree on a variety of issues.

The sanctions imposed by the U.S.A. and more generally the West as part of the Iranian Nuclear crisis started in 2002³². The trade between China and IRI started to seriously increase a few years before, around the election of President Khatami in 1997. This year, not only China resumes its sovereignty over Hong Kong but its imports from Iran jumped by more than \$400 millions (from \$74 to \$543 millions³³) and represent 3% of Iranian total exports. China's exports increased as well by \$150 million (from \$242 to \$395 millions) and are 2.5% of IRI's total imports.

In 2003, the imports from China to Iran were composed of machinery and electrical appliances at 29%, of textiles at 18%, Vehicles and Aircraft at 17%³⁴. On the other hand, Iranian

exports to PRC were composed by 80% of Crude Oil and by 14% of mineral products. A large part of Iran and its economy was designed by China, using its know-how and its tools. Even Iran's technicians and engineers are formed in China³⁵. Iran's fourth Five Year Plan, which started in 2004, had for goal to renovate and expand Iranian's power plan and involved directly the Chinese. China was also in cooperation with Iran to ameliorate Iran's agriculture, manufacturing capabilities and its transportation³⁶. China views the Middle East and in Iran as an important region where it could not only buy its desired energy supply but also extend its market to sell its manufactured goods³⁷.

Since the years 2000, Iran saw its partnership with China grow at an impressive rate. The IMF data reveals that in 2000, 6% of Iranian exports and 4.15% went to China and 4.15% of its exports came from China. From 1999 to 2000, imports decreased somewhat but exports more than doubled. In 1999, Iran sent for \$771 millions of exports to PRC, a year later it sent \$1,612 millions. A year later, the exports grew to \$2,203 millions and they quadruple by 2005, the year President Ahmadinejad was elected.

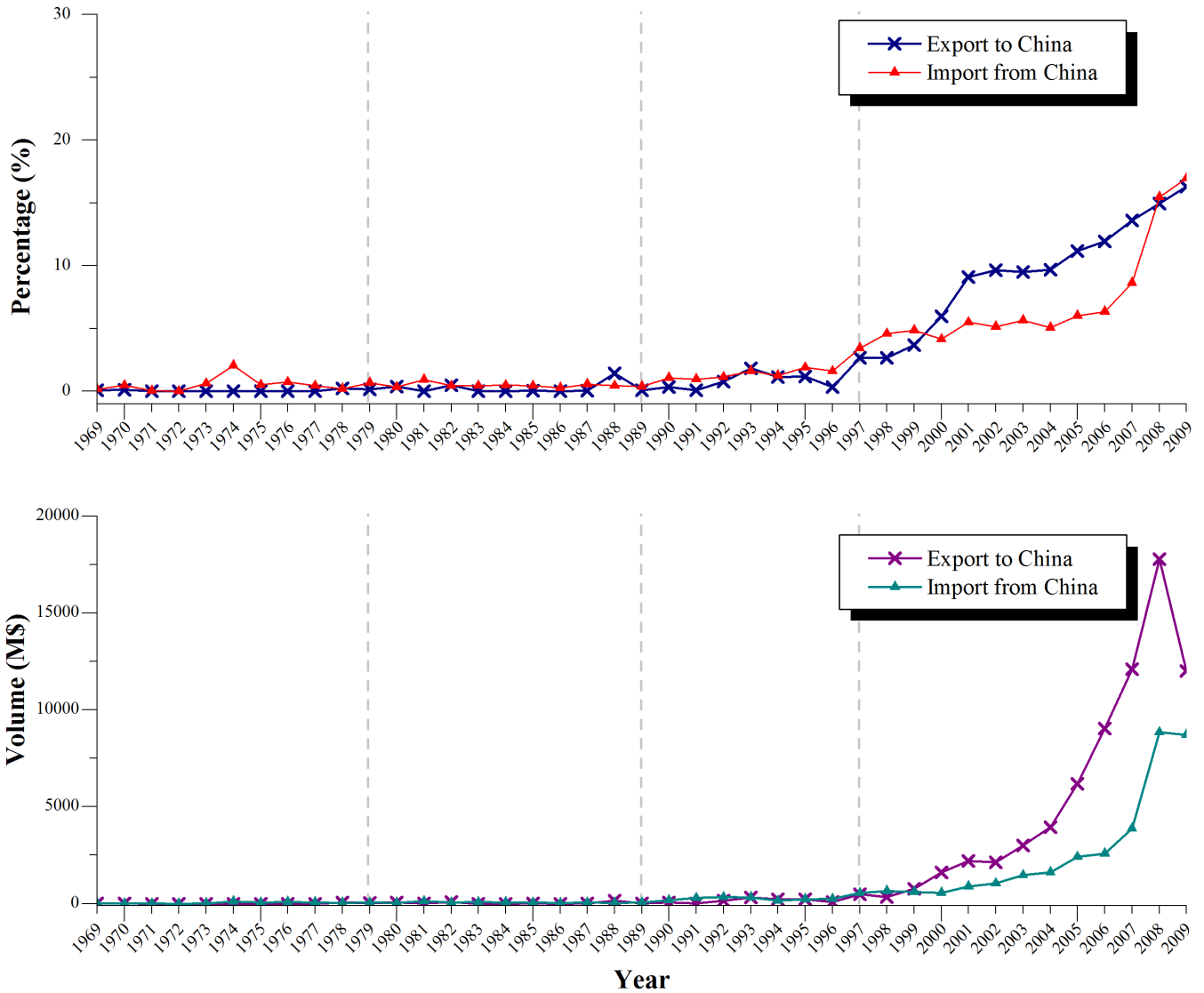
By 2007, half of China's oil imports come from the Middle East³⁸. Iran is now China's second energy partners behind Saudi Arabia.³⁹ Chinese market for oil doubled in two years and is now \$12,118 millions, and represents 13.61% of Iranian exports. In 2008, Iran's exports to China are worth \$17,801 millions (14.97%). A year later, they dropped to \$12,021 millions but their market share still increased by almost 2% and was now representing 16.31% of Iranian's exports to PRC.

Imports from China also jumped tremendously. By 2007, Iran's imports from China represents 8.63% of its total import (\$3,883). In 2009, it doubled and was close to 17% (\$8,716).

Those numbers show that Iran has a trade surplus with China; it exports more than it imports. The almost instantaneous increase in trade with China that coincides with the Western sanctions on Iran demonstrate that such exchanges between the two nations are not a coincidence. China and Iran took advantage of the position adopted by Washington to strengthen their commerce. The sanctions imposed on Iran are actually beneficial for the Iran-China relationship⁴⁰. In 2009, although the European Union remains Iran's first partner for its imports, China is by far Iran's first partner for its oil exports.

Graphics

Figure 8 - Iranian Trade with China (in Volume and Percentage)



Russia

History

Russia has had a determining influence in the Caucasus region and thus had over the centuries a crucial impact on Persia at first, then on the newly established Islamic regime⁴¹. During the 19th century, Russia occupied the northern part of the Persian Empire,⁴² which helped in implementing its culture and sharing its ideology.

After having agreed to a defense agreement with Washington, the Shah announced in 1962 that it would not allow foreign missile forces in Iran. To reassure the Soviet Union, he added that it would not let the country become aggressive toward the U.S.S.R., which in return helped the rapprochement of the two nations⁴³.

More recently, in 1965, IRI signed a crucial economic agreement with the USSR that would allow the Iranian to exchange gas for the construction of a steel mill by the Russians. Under the Shah, such a construction was a symbol of its desired modernization and was very sought after⁴⁴.

For a while, Iran has been playing the role of a buffer state between the Russian Empire and the British Empire. Then, with the weakening of the United Kingdom by WWII, rose the powerful U.S.A., which started to threaten the other main victorious state, the U.S.S.R. During the Cold War, Iran kept that buffer role between the two world powers, the U.S.S.R. and the U.S.A.⁴⁵ IRI has a difficult past with those past colonizers and is thus not inclined to have warm feelings towards them. On the short run, the severe anti-Americanism has had a positive impact on the alliance with Russia making them allies against their common enemy, the U.S.A⁴⁶. On the long run though, the two states are still at odds, making their whole relationship ambiguous⁴⁷.

The very polarized trend showed by the IMF data demonstrates this unstable partnership that exist between the Russian and Iranian nations.

The Pahlavi Dynasty

The relationships between Russia and Iran have always been complicated and revolving around three main concepts: development, hegemony, and energy⁴⁸. On one side, Russia tried to gain back its global influence and views IRI, which is challenging the U.S. power, as a beneficial friend to accomplish this goal⁴⁹. Iran is an ideal partner for Russia in this quest to regain its past global power⁵⁰. On the other side, Iran had a vital need to replace the gap left by U.S.A. when it cut all its trade. IRI had to find a trade partner other than the U.S.A. to buy its missiles, satellites and other military and nuclear technologies (reactors) and thus turned to Russia⁵¹. Such an alliance is supposedly based of the pragmatism of both nations but each state is trying to take advantage of the other for its own gain. For Iran, the Russian market is more important strategically than in volume as it does not exports much (even at all) to Russia but imports vital military goods and technology.

The new Islamic Republic of Iran

The “Neither West nor East” position of Iran and its important role in the Non-Alignment Movement made IRI at odds with Russia⁵². But it was long decided that Iran would not aggress Russia and that the two nations would remain at peace with each other. Such agreements established under the Shah did not stop after the fall of the Pahlavi dynasty and the establishment of the Islamic Republic of Iran⁵³. Even though the two nations were positively interacting, they

did share opposite ideology. The U.S.S.R. was a godless country and I.R.I. a state founded around the principles taught in the Koran.

The U.S.S.R. was an avid support of Hussein and a very close friend of Iraq. Fearing it would damage its relations with Iran during the Iraq-Iran, Russia decided to sell weapons to both to cover its back⁵⁴. Imports from the U.S.S.R. would remain around 5% (\$600 millions) until 1986.

Iran's Reconstruction

The Iraq-Iran war ended in 1988, year when Mikhail Gorbachev was appointed head of the Soviet Union. During this period of time the relationship between the U.S.S.R and IRI moved from negative to positive⁵⁵. Despite this amelioration of the relations between the two countries, trade dropped the same year. While the preceding years both imports and exports were increasing, in 1988, they both fell.

The Soviet Union collapsed in 1991. The new regime had an incentive to trade with Iran mostly in order to sell it advanced military equipment. Russia's interest in Iran is not just political but mostly economic, reflecting the country's mercantile approach to its economy⁵⁶. The data, from the IMF and the University of Virginia's Geospatial and Statistical Data Center are not very complete for the few years following the institution of the new Russian regime. In 1992 there are no data available regarding Iran's import from Russia. In 1991 Iran's imported for \$393 millions (1.33%) of goods and exported for \$303 millions (1.62%). The following year, exports dropped to \$139 millions (0.70%), and in 1993, exports are at \$33 millions (0.18%) while imports at \$187 (0.93%). Clearly trade between the two nations is decreasing during those three years.

Institutionalization of a Radical Country

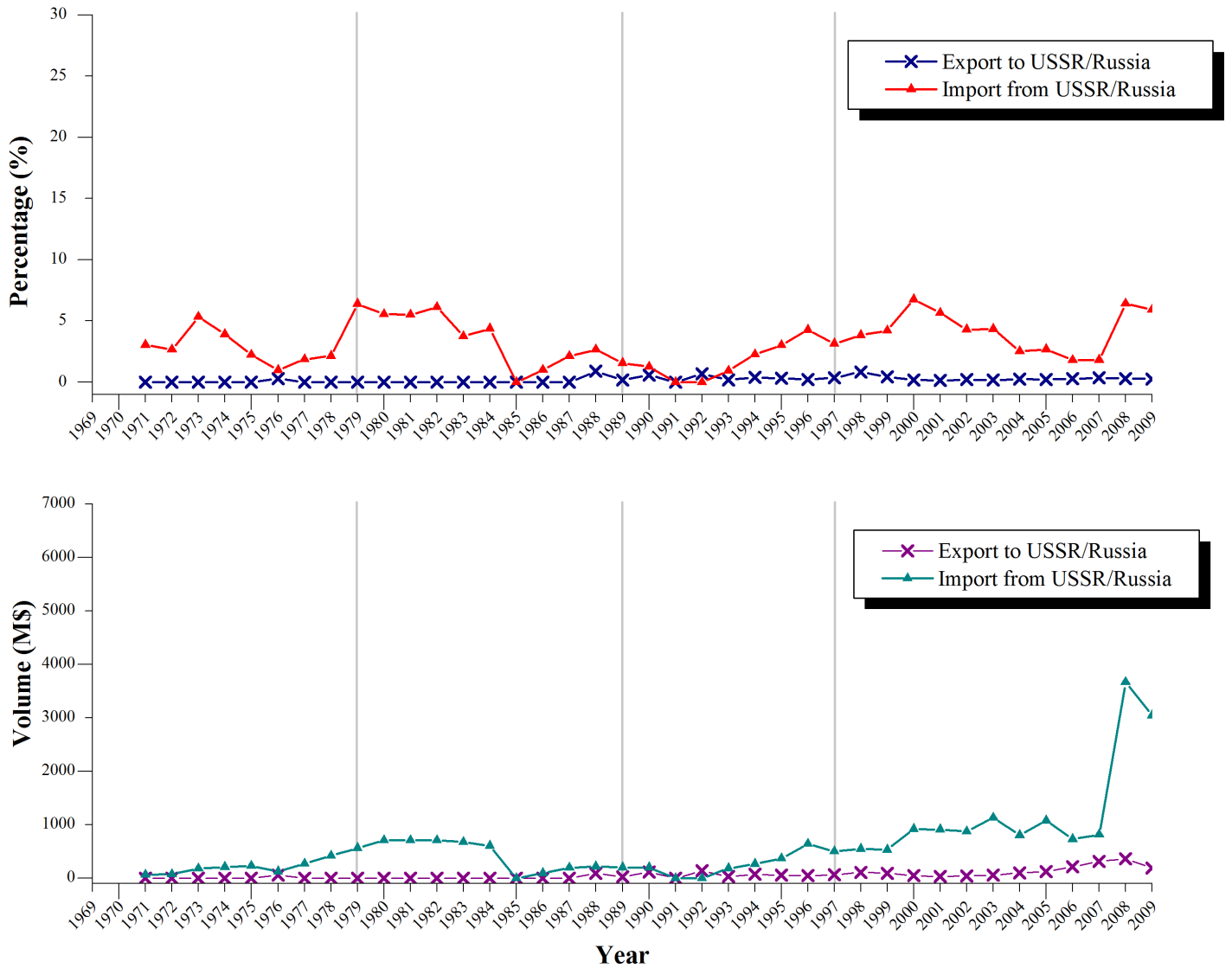
In 1997, IRI was mentioning the possibility to include Russia in its plan to build other nuclear reactors on top of having the Russian building the one at the Bushehr site⁵⁷. The Russians also have a considerable importance in helping Iran with their space program, and the building and launch of their satellite⁵⁸. The incentive for the Russians to help Iran is not purely economic like they wish to advocate.

In 2007, the Ayatollah Khomeini proposed to the Russian the creation of an organization similar to OPEC for that would focus on gas⁵⁹. Such organization, formed in Tehran, did not have such an important impact like the one OPEC has on oil. But it still allowed countries that export gas to gather and to slowly build up positive relationships.

Regarding the sanctions imposed by the West on Iran, Russia is not in favor of them and does not support them. On the contrary, its plans to strengthen its alliance with Iran, and any countries at odds with the U.S.A., seem to benefit from such a situation. Economic wise, the last few years showed by the IMF data suggest that in 2008 trade dramatically, and especially Iranian imports from Russia, increased significantly. Like the data proves, in one year imports went from \$819 millions to \$3,668 millions.

Graphics

Figure 9 - Iranian Trade with the USSR/Russia (in Volume and Percentage)



India

History

Lately the international community, lead by the U.S.A., has shown lots of concerns with India and its relationship with Iran. The data analyzed since 1969 show that India has always had a significant amount of economic exchanges with Iran and that such amount of trade were generally condensed in its imports. It also demonstrates that over the past decade, such economic exchanges have increased dramatically.

India focuses on Iran for many reasons. First, Iran is geographically attractive for India has it is at the crossroads of many vital transportation routes that connects Western-Europe, Eastern-Europe, Northern and Central Asia, as well as the Middle East⁶⁰. The instability of Afghanistan makes it difficult to have access to Eastern Europe and Northern Asia and the hostile geography of the Himalayas are also preventing India to reach the North.

Then, India views Iran as a way to diversify its sources of energy, which would enable it to increase its independence and security⁶¹. The natural resources that IRI owns are very valuable for India to meet its growing demand of energy.

Finally, there is a rivalry that exists with China, which presence in Iran and the Middle Eastern region is already influent. Getting closer to Iran would counterbalance the power the Chinese have over there⁶².

The trade pattern for Iranian trade with India is relatively similar to the European ones. Unlike the other non-E.U. countries, which have four phases, Iran's data show that in 2005 economic exchanges follow another trend, and that a fifth phase exists.

The Pahlavi Dynasty

During the Pahlavi dynasty, under the reign of the Shah, India and Iran enjoyed relatively good economic relationships. The volume of trade increased over the years between the two nations even if the weighted amount of imports and exports slightly decreased. Overall, their exchanged remained around the 2% for Iran's imports and 3% for its exports. We can deduce from the data that India did benefit in a way from the revolution as its imports from Iran increased significantly. In 1980 Iranian exports went from \$408 million to \$1.227 billion (2.2%) and in 1981 (8.68%) were \$1.655 billion (16.53%). IRI's exports though suffered somewhat as they decreased from \$135 million (1.53%) in 1979 to \$177 million (1.37%) in 1981.

The new Islamic Republic of Iran

The impact of the revolution did not affect the economic relations the two countries shared. India did not welcome the new regime but according to the data, during the following year of the revolution, IRI's exports to India increased drastically, showing that economically this change of regime was positive for both India and Iran.

If the change of regime did not damage the economic relations between the two countries, the Iraq-Iran war did harm them severely. Looking at the IMF data, the exports are the most affected by the war. While imports remain rather flat, exports not only kept falling until 1987, but they end up decreasing by 16% since 1981, or \$1.6 billion.

Iran's Reconstruction

The end of the Iraq-Iran war had a positive effect on economic exchange between India and Iran. In 1988, trade finally increased after 6 years of shrinkage. During Iran's reconstruction period, bilateral trade augmented.

Moderate Iran

The President elected, Mohammad Khatami, represented the moderate period that IRI knew between 1997 and 2005. Under this period of time though, the exports and imports had a reverse trend. Exports to India decreased while imports increased. In 2001 and 2003, the two countries signed a peace declaration that would consolidate the bilateral relations⁶³. The same year imports from India increased by \$300 millions (2%). The amount of Iranian imports from India will remain important, as they will increase during the following decade, going from \$254 million in 2000 to 2,148 billion. Iran's general imports will also increase, which explains why for the weighted trade in 2009, imports will represent 4.17%, while they were 1.86% in 2000.

Institutionalization of a Radical Country

The real drastic change in pattern occurred in 2005, and concerned Iranian exports. This year, exports jumped by a factor 10, from \$572 million to \$5.36 billion. This huge increase happened during the year of the election of President Ahmadinejad, but also when the U.S.A. and India announced their wish to establish a civil nuclear agreement. As the data show, this agreement and the strong position of the U.S.A. on Iran did not impact negatively India's imports from Iran. This agreement, the U.S.-India Civil Nuclear Agreement, would be operationalized three years later, in 2008. This rapprochement from the U.S.A. towards India is intended as a way to counterbalance the increasing rapprochement from India towards Iran. Once again, this agreement would not impact Indian trade with IRI as both the imports and exports are increasing. India's desire to be seen as a respectable nuclear state strongly valued this agreement. It agreed to do anything to please the U.S.A. and is obeying carefully to the IAEA commands.

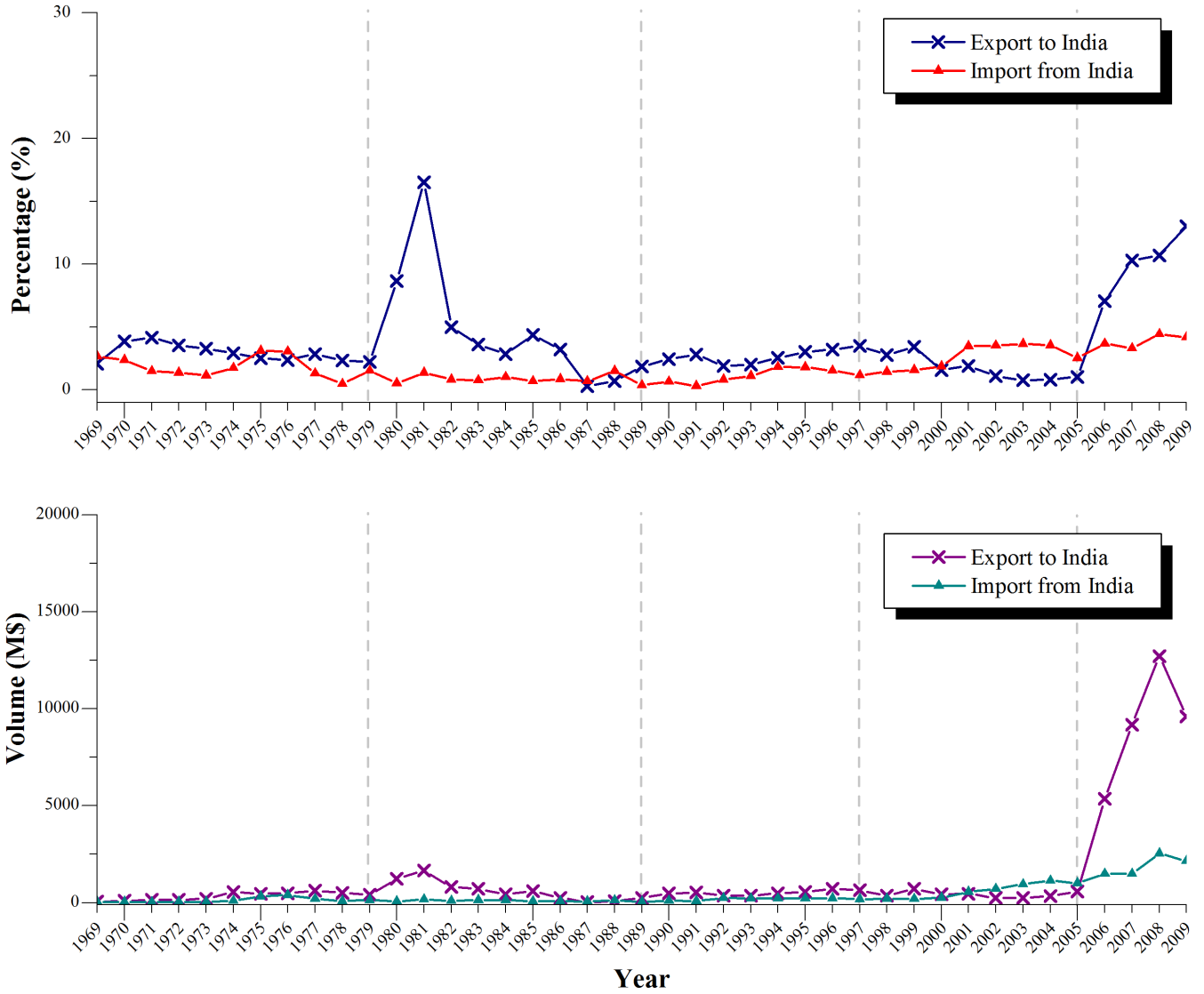
On the other side, India is still increasing its economic exchanges with Iran, despite the unwillingness of Washington to trade with IRI. From 2005 to 2006, exports to India jumped from \$572 millions to \$5.36 billions, an increase by more than a factor 9, which represented 7% of Iran's global exports (instead of the 1% the previous year). The imports are also increased but by less. In 2005, imports are \$1 billion (2.52%) and a year later they are \$1.494 billion (3.66%).

Over the last decade, India has been asked to demonstrate its friendship toward Washington by condemning Iran's actions. The nuclear agreement was in jeopardy if India would not concede to sanction Iran's behavior and vote along the U.S.A. side⁶⁴. Such a pact with the U.S.A. coupled with the serious trend for India to use Iran's oil is a way to solidify its energy independence, did not prevent India's strategic rapprochement with Iran. India's strategic partnership with the U.S.A. makes its interest towards Iran's energy supply complicated and not easy to manage⁶⁵. This complexity though is not preventing India from increasing its presence in the Iranian economy. As of 2012, the exchanges between the two countries kept growing to the point where Iran is now India's second largest supplier of energy⁶⁶. But this relationship is solely based on India's interest in buying natural resources, and Iran's desire to sell it.

To summarize, the data for the bilateral trade between India and Iran show polarized trends. As mentioned above, New Delhi as a strong incentive to stay close to the U.S.A. India also refuses to support the nuclear ambition of Iran as well as ideological incompatibility and disagreements over contracts for oil exports. Those issues make the partnership between the two nations uncertain and purely based on the pragmatism of the two countries to trade between each other⁶⁷.

Graphics

Figure 10 - Iranian Trade with India (in Volume and Percentage)



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V. CONCLUSION

This fifth and final chapter summarizes the conclusion drawn from the data of both the IMF and the University of Virginia. Still focusing on the 1969-2009 numbers, it is possible to see the evolution of the economic exchanges between Iran and the major world powers, old or new. The visible trend shows that trade between Iran and the Western hemisphere has decreased a long time ago to be replaced by two other giants, China and India.

In 1996, Iranian exports to the U.S.A. ceased, while for Canada they disappeared in 1987. While Washington's imports from Iran seems to be seriously affected every ten years, which correspond approximately to every change of president, the U.S.A. stopped almost completely with the arrival of the moderate President Khatami. Under the Clinton administration, Canada, which shares more than a border with the U.S.A., terminated its trade with Iran a decade before its neighbor did. Although Canada is a smaller importer of Iranian good, trade under the Shah was increasing and was still significant.

The four major countries of the European Union, France, Germany, Italy, show a somewhat different pattern. The United Kingdom, one of the major U.S. allies but also a country that have the same political ideals and values, is a sort of outlier, neither following exactly the U.S.A. neither its European neighbors. The U.K. has seen its imports from Iran decreased after the revolution. But a decade later, its imports are back to very high levels. The economic relations with the Islamic state truly dropped in 1998 and 2000 when strict sanctions are imposed to Iran for not following the directive of the U.N. and the I.A.E.A.

France, Germany, and Italy have always been crucial trade partners as well. The graph

shows that for Germany especially, Iran was a valuable economic ally. The same phases exists with the rest of the Western and even Eastern countries. Every ten years, Iranian exports drops.

Trading with Iran, for Western states, has become an issue a decade ago when IRI when institutionalized its radical behavior. Since the sanctions imposed on Iran for the development of its nuclear program and its non- compliance with the U.N. and I.A.E.A., the Western states, with the small exception of Italy and France, have cut their imports drastically to the point where they are insignificant. This loss has been countered by China, which appeared as an importer of Iranian good in 2000. During the 2000 to 2005 period, when the sanctions were voted and implemented, China increased its imports to the point where Iran's level of exports remained unchanged. Finally in 2005, while the election of the extremist Ahmadinejad increased the negative trend for Western countries, but not for Eastern ones. India made its appearance in 2005 allowing Iranian's export to increase to the same level as they were before the sanctions. The increasing part of Chinese and Indian imports seem to continue beyond 2009, meaning that in the long run, the Islamic revolution and the extremism of Iran did not hurt the county's exports.

Graphics

Figure 11 - Iranian Trade: Cumulative Exports (in Percentage)

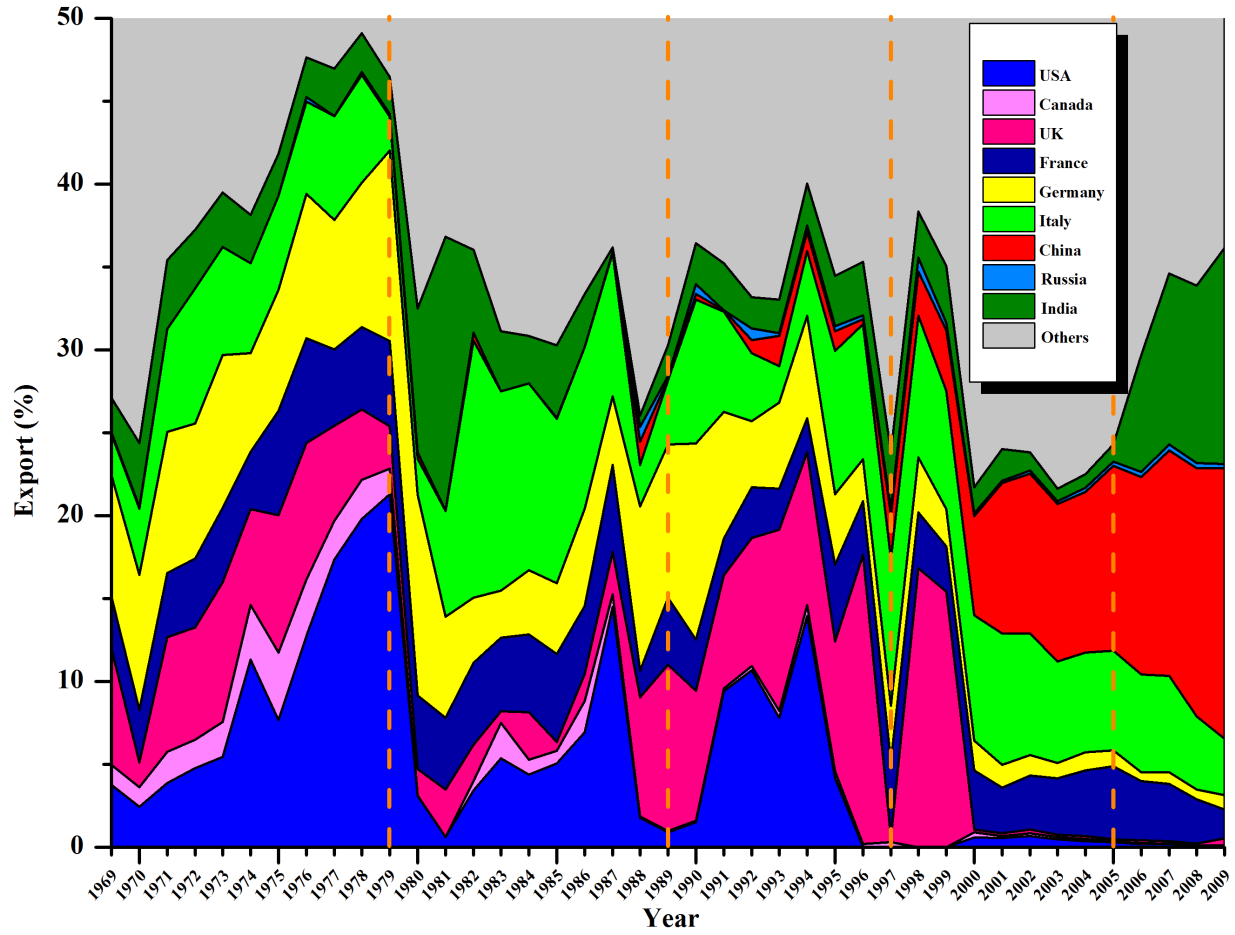
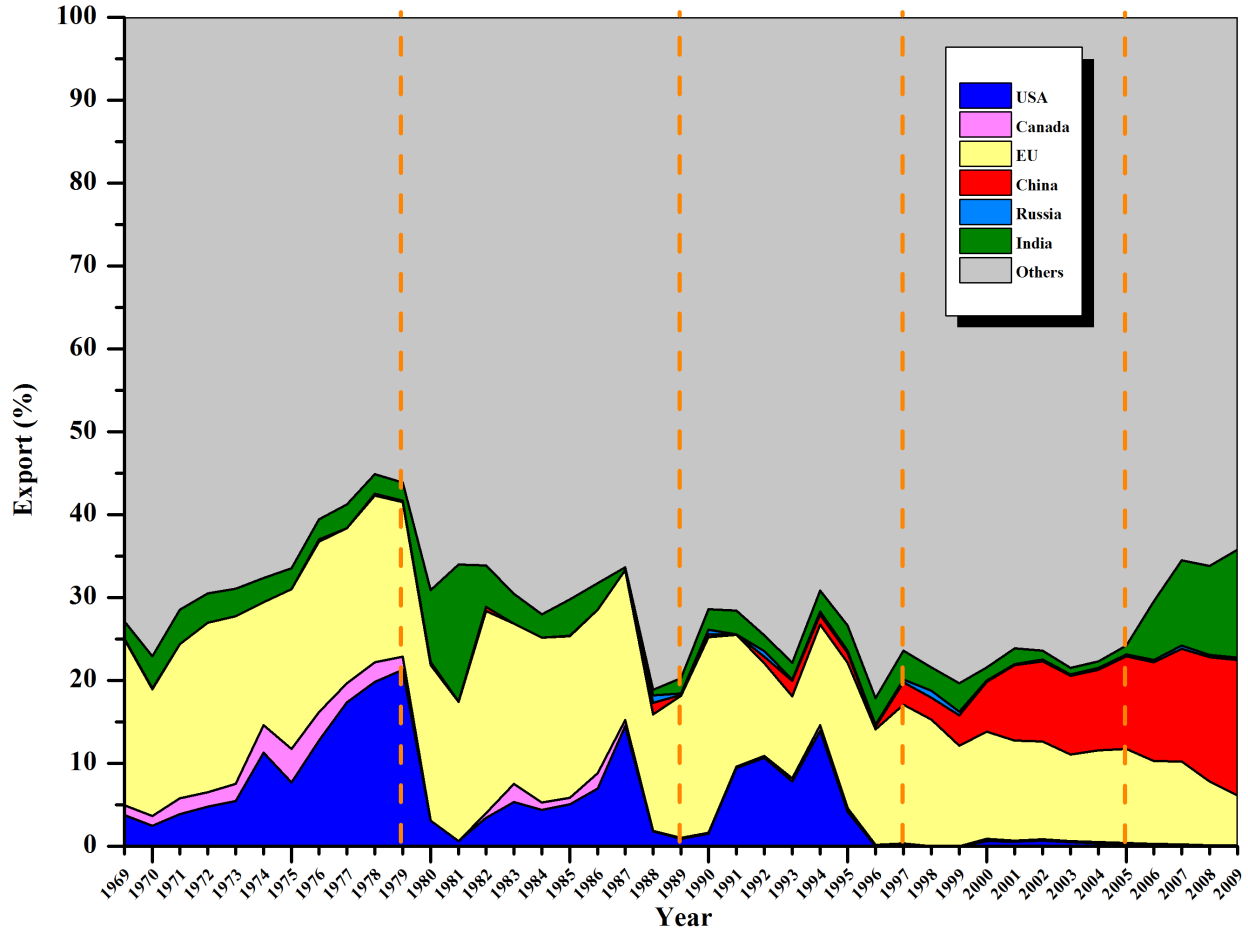


Figure 12 - Iranian Trade: Cumulative Exports (in Percentage) - European Union Version



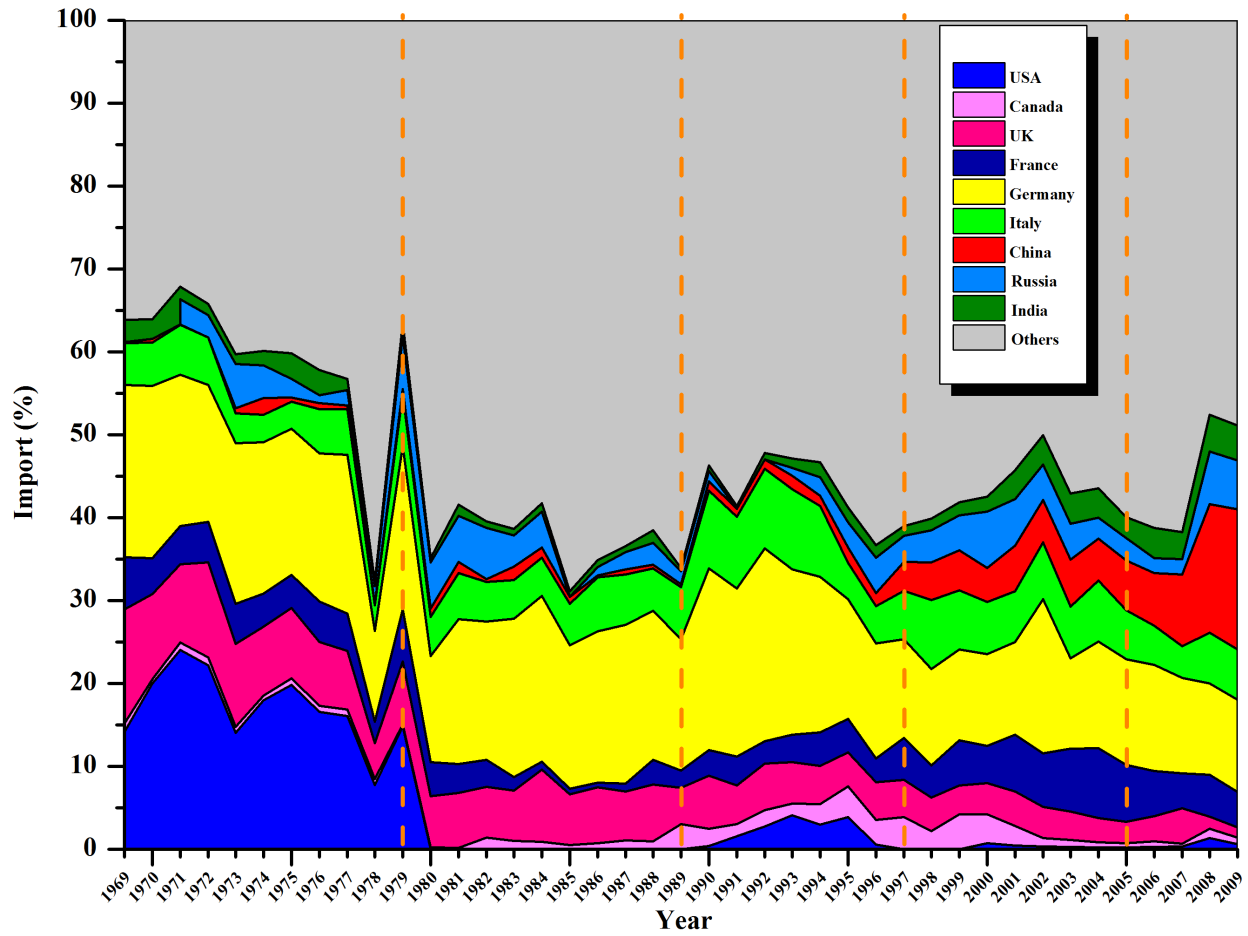
As for IRI's imports, the revolution also had a negative impact. Though, this impact affected more Iran in the short and long run than it did with its exports. States are more willingly selling than buying from Iran. In 1978 its imports dropped by almost 30% but increased to the following year to an even higher level as the one in 1977. The major supplier of Iran remained for five decades the European Union, with Germany single handedly representing more than half of the European exports. China is increasing its exports to IRI since 1997, so is India and Russia. Russia being almost totally absent of the Iranian export market, is still a strategic trade partner for everything military related.

The U.S.A. cut its imports almost entirely after the Iranian revolution. From 1990 to 1996 they did try to export but back down definitively in 1996. Up until 2009, there is no U.S. import market for Iran, entirely caused by the sanctions imposed.

Overall, Iran did shift its trade from West to East in that the West forced them to by cutting their economic partnerships. In order to survive and to pursue its goals, the Iranian government opened its trade with other partners. In the long run, it has been beneficial for Iran as it has cut itself from the dependence of countries that tried to manage its behavior the most. The European states are not as radical as the U.S.A. and even Canada, though they also showed their disagreements by cutting their economic exchanges with Iran. On the opposite side, China and India are not involved in the politics of the region. Both advertise only their economic interests by helping Iran's development. Their attraction to Iran's natural resources pushes them not to interfere diplomatically.

Graphics

Figure 13 - Cumulative Imports (in Percentage)



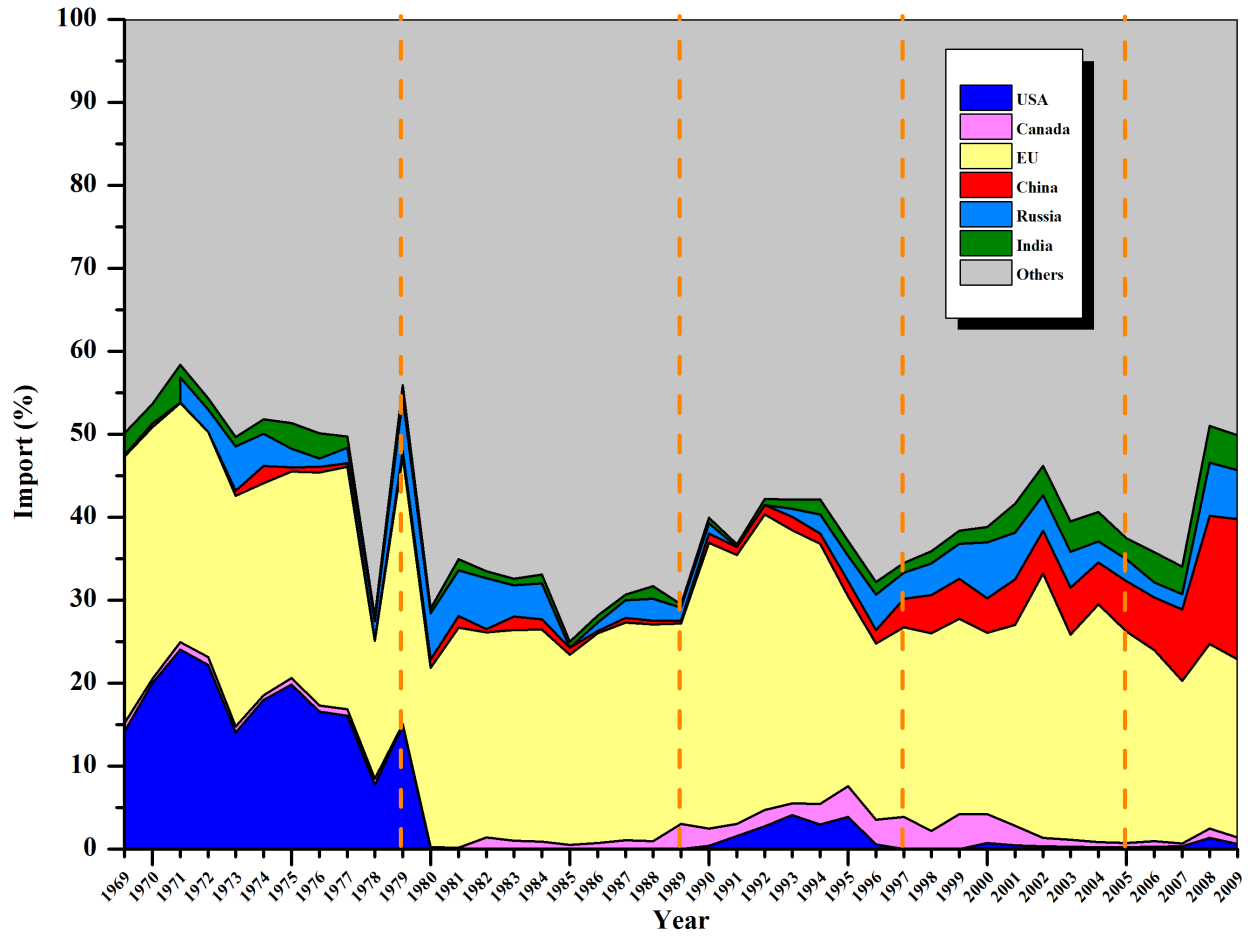


Figure 14 - Iranian Trade: Cumulative Imports(in Percentage) - European Union Version

Outreach

The countries studied in this research represent almost 60% of Iran's import market and half of its exports. With the support of IRI to anti-western states, the next step would be to analyze the trade patterns of Iran between Latin America (Venezuela and Cuba especially), its neighboring states in the Middle East, and North Korea. Researching about the Japanese economic exchanges with Iran would also be interesting to understand where this country stands regarding the Islamic states and the U.S.A.

Almost half of Iran's trade partners are composed of the nine countries studied. To understand where Iran is heading, it would be crucial to know who else is trading with IRI and at what levels, but also what is exchanged between Iran and its trade partners, to what extent, and how it changed over the 1979-2009 period.

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