

Economic Diplomacy in Iran Foreign Policy after Nuclear Deal (With An Emphasis on Iran-EU Relations)

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Abstract

After a nuclear deal with six major world powers, the Islamic Republic of Iran has significantly developed its economic relations with different countries. The attractive capacities of Iran in the economic field, including the abundance of natural resources, young manpower and the huge eighty-millionth market, have once again attracted the attention of various investors to this country. In particular, following the nuclear deal, the economic relations between Iran and Europe improved dramatically and Iran has become a popular destination for EU businesses. However, Donald Trump's recent decision to withdraw from the deal has once again created a new threat against Iran-European relations. Therefore, The European Union must reassure Iran it remains committed to the nuclear deal, despite Donald Trump's decision.

Keywords: Iran, Economic Diplomacy, Nuclear Deal, European Union.

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Introduction

After the signing of a nuclear deal called the Joint Comprehensive Plan of Action (JCPOA) among the Islamic Republic of Iran and the six world powers, Iran's Economic Diplomacy developed dramatically. By abolishing the Security Council resolutions against Iran, The agreement, paved the way for the development of Tehran's international cooperation. The attractive capacities of Iran in the economic field, including the abundance of natural resources, young manpower and the huge eighty-millionth market, have once again attracted the attention of various investors to this country. The Islamic Republic of Iran, by giving priority to the strategy of economic diplomacy, has sought to advance its foreign policy objectives and economic considerations more quickly.

Considering the significant history of Iran's economic relations with European countries, in the new era, Tehran was focusing on developing relations with these countries, and European governments have also tried to improve their economic relations with Iran, which have been seriously damaged during the sanctions period. Following the nuclear deal, a large number of economic agreements were signed in various areas Among Iran and Europe, and trade between the two sides increased considerably. In general, the nuclear deal has been an effective stimulus for the transformation of economic relations between Iran and Europe. Indeed, with the strengthening of the process of Iranian economic diplomacy in the new era, we can see significant development of economic cooperation between Iran and Europe.

1. Economic Diplomacy Definition

Economic Diplomacy is one of the emerging concepts in the field of international relations and international political economy. Therefore, the definitive definition of this phenomenon has not yet formed. In Fact, there are various definitions for Economic diplomacy.

In the absence of a standard definition, it is generally agreed that economic diplomacy can be defined in a number of different ways. The first attempt to define the concept dates back to the beginning of the 21st Century but most of the work has been carried out since 2009. There are at least three strands, each one

wider in scope, that are common to all definitions of economic diplomacy: 1) facilitating access to foreign markets for national businesses; 2) attracting foreign direct investment (FDI) to a national territory; and 3) influencing international rules to serve the national interest.¹

The term economic diplomacy implies the use abroad, by a state, of a wide spectrum of economic tools to secure its national interest; the involvement of a range of actors (civil society, public and private sector), and an array of issues such as security, natural resources like water, climate, energy, trade, growth, migration, investment, development, influence and negotiation. The goal can be as narrow as boosting economic growth or as broad as developing geo-political influence and a diplomatic network.²

G. R. Berridge and Alan James has defined diplomacy in their book entitled "A Dictionary of Diplomacy". In their views, economic Diplomacy concerned with economic policy questions, including the work of delegations to conferences sponsored by bodies such as the World Trade Organization. While distinct from the commercial diplomacy of diplomatic missions, it also includes that part of their work concerned with monitoring and reporting on economic policies and developments in the receiving state and advising on how best to influence them. Diplomacy which employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective. This is sometimes known as 'economic statecraft'.³

Pavol Baranay in his essay, "Modern Economic Diplomacy" describes: The phrase "Economic Diplomacy" assumes the diplomatic official activities that are focused on increasing exports, attracting foreign investment and participating in work of the international economic organizations, that is, the activities concentrated on the acknowledgement of economic interests of the country at the international level.⁴

However, the concept «Economic Diplomacy» is now interpreted very widely. Because of this fact the scientific direction loses its distinctive features; its borders become more and more fuzzy, passing in a subject of economic, political, diplomatic, strategic or other disciplines of the international relations and foreign policy.⁵

2. Reasons for Strengthening Economic Diplomacy

In general, in the post-cold war period, various factors and trends have strengthened economic diplomacy in the foreign policy of the states. Some of the most important reasons can be summarized as follows:

1.2.The structural transformation of the international system

In the last quarter of the century, the international system has undergone significant changes that have led to the strengthening of economic diplomacy in the foreign policy. The evolution of the international system from a bipolar to multipolar system, a reduction of ideological rivalries and conflicts, the strengthening of interdependence among countries, especially in economic sphere, are among the most important developments in the international system during the post-cold war period.

A key Characteristic in new era is a greater emphasis on cooperation between nations. Despite the unfortunate tendency of the media and individuals alike to focus on conflict and the use of force, the overwhelming proportion of international activity is non-violent.The increasing role played by economic issues in international affairs preceded the post-Cold War era. However, the pace of international economic interdependence has quickened, and the ending of the Cold War means that ideological and security-based international issues have decreased in salience, while international economic issues have gained in importance.⁶ All these developments have increased the importance of economic diplomacy in the world.

2.2.Globalization

Globalization has also played a major role in developing Economic diplomacy in the world. In recent decades, the world has become more and more interconnected, the volume of trade between countries has increased sharply, the exchange of goods and services, as well as investment has been developed. The scale of business is no longer local, national, or even regional, but has become global.

Globalization broadly means fully-free economic operations across the borders of countries, without any impediments by governments of countries.⁷ Nation states are engaged in fierce competition for economic gains and at the same time seek cooperation with other like-minded states in order to shape

regulatory institutions in their favour. Countries also compete with each other to attract foreign direct investment, push other countries to gain market access for their national companies and attempt to protect their domestic markets by covert or overt trade barriers. At the same time, countries are also deepening their cooperation at standard and rule setting intergovernmental institutions such as the World Trade Organization (WTO) or within the context of regional economic agreements such as North Atlantic Free Trade Agreement (NAFTA).⁸

3.2. Shifting the focus from warfare to welfare

During the Cold War, the main attention of politicians and statesmen was on hard power issues, such as arms and military capabilities, while during the post-cold war period, the main focus of attention in the world has been soft power and welfare and economic issues.

4.2. The Increase of Non-Governmental actors

Nowadays, the world is more interconnected and one result has been the increased ease of establishing international entities of all sorts and in multiplying and intensifying their interactions.⁹

In the past, international relations were predominantly monopolized by governmental actors. It was only governments that determined the international equivalents with their decisions and policies. Meanwhile, the international system during the post-cold war period witnessed the emergence of a significant number of non-state actors, including major economic companies. Increasing non-state actors in the private sector has strengthened the private sector against the public sector. This transformation has also provided conditions for strengthening economic diplomacy.

5.2. Growth of public expectations in the economic and welfare fields

In recent years, the demands of citizens from governments in different countries to improve standards of living and economic conditions of the society have increased dramatically. Governments have to respond to peoples economic demands in order to prevent the emergence of the crisis of legitimacy, and activate economic diplomacy is one of the most important tools in this regard.

3. Economic Diplomacy in the Islamic Republic of Iran

The issue of economic diplomacy has been an important matter in the Islamic Republic of Iran for several years. The most

important indicator for this claim is that the issue has been of particular importance in Iranian strategic programs that have been published in recent years.

Following the imposition of sanctions by the UN Security Council against its nuclear program, the Islamic Republic of Iran has adopted a policy of strengthening national economy against foreign pressures. This policy is known in Iran as a Resistance economy. In this regard, the Supreme Leader of Iran announced the general policies of Resistance economy in February 2014.

These policies have 24 articles. Article 12 of this document clearly refers to the topic of economic diplomacy. According to this article, the use of diplomacy to support economic goals to reduce economic problems should be on the agenda of the Iranian foreign ministry. The article underlines increasing the power of resistance and reducing the vulnerability of the country's economy through:

- Developing strategic relations; and expanding cooperation and interaction with regional and non-regional countries, particularly with neighboring countries
- Utilizing diplomacy in the direction of supporting economic goals
- Benefitting from the capacities of international and regional organizations¹⁰

In Article 10, the diversification of economic ties with other countries has been emphasized. The article emphasizes providing all-out and purposeful support to the exportation of products and services in proportion to added value and net positive return through:

- Increasing the services of foreign finance; and developing transit and essential infrastructures
- Encouraging foreign investment on exportation
- Planning on national production in proportion to the needs of exportation; shaping the new markets; and creating diversity in regards to our economic bonds with other countries – in particular with regional countries.
- Using barter systems for facilitating transactions if needed.
- Creating stability in the procedures and regulations for exports with the goal of continuously increasing Iran's share in target markets.¹¹

Five-year development plans are another Iran's strategic program. Iran is currently in the process of implementing its Sixth

Five-Year Economic Development Plan. Article 105 of the program, emphasizes the strengthening economic diplomacy, with a focus on entering the global markets for exports of goods and engineering services, financing and attracting foreign investment and the acquisition of new technologies.

One of the key guidelines and goals for the Financing and Investment Sector as set out in the Sixth Development Plan is as follows: the Government to introduce the necessary economic, legal and policy directives to provide transparency and clarity of information to ensure Iran remains an attractive foreign investment destination and becomes the third most attractive foreign investment destination in the region. The Government is to place a particular emphasis on attracting US\$30bn in the form of project finance (especially Islamic finance), US\$15bn in the form of foreign direct investment and US\$20bn in the form of joint investment agreements.¹²

The importance of the topic of economic diplomacy in Iran's foreign policy has led the Iranian Ministry of Foreign Affairs to undertake a major transformation in its administrative structure. Accordingly, the Iranian foreign ministry has added a new economic department to its structure. This development, which was initiated by Foreign Minister Mohammad Javad Zarif, could play an important role in strengthening the economic diplomacy of the Islamic Republic of Iran.

The main goal of the State Department to form a new economic department is to play a role in international economics in terms of introducing domestic economic capabilities abroad and providing foreign facilities for private sector inside Iran.

Meanwhile, in August 2017, Iran's Foreign Minister Mohammad Javad Zarif said that economic diplomacy will top the agenda of his diplomatic team in the next four years. He said economic diplomacy and the boosting of ties with neighboring countries will be the two priorities for the Foreign Ministry in the next four years.

"In the foreign policy area, we stress economic diplomacy as we believe that the Foreign Ministry should serve economic progress and people's livelihoods," Zarif was quoted as saying. Zarif highlighted expanding non-oil exports and attracting capital and technology into Iran.¹³

4. Iran's advantages in Economic Diplomacy

The Islamic Republic of Iran, through the use of economic diplomacy, seeks to expand its foreign economic relations with all

countries, including European States. Iran has unique advantages to advance this policy including:

1.5. Important Geopolitical Location

Iran is located in the Middle East strategic area. It borders on the two strategic spheres of the Persian Gulf and the Caspian Sea, and has a geopolitical connection with the Central Asia and the Caucasus. Iran borders with 15 countries in four different geographic directions. It is important to note that Since the JCPOA's full implementation, the Islamic Republic of Iran has enhanced its engagement in security and economic projects with all its neighbours¹⁴ and has strengthened its geopolitical position.

2.5. Significant Geo-economic Position:

Iran possesses 9% of oil reserves and 18 % of world gas reserves and abundant mineral resources; therefore, such very important factors in the economy are the best stimulus for the participation of foreign investors in Iran.

3.5.Important transit position

For many years, Iran has been a crossroads of east to west and north to south and the natural route of transportation of goods. Iran's geostrategic location, along with its historic role as a conduit for the exchange of goods — especially its position on the ancient Silk Road — has made the country one of the most active transportation hubs in the world.

Through both its northern land borders and the Caspian Sea, Iran has access to Central Asia, the Caucasus and Russia. To its south, it is connected to international waters through the Persian Gulf and the Sea of Oman. Iran's unique access to landlocked countries and its exceptional location make it an ideal transit hub — both in terms of cost and time efficiency.

This position has so far granted Iran membership in several international corridors with multiple transport routes passing through the country. These corridors include the International North-South Transport Corridor, East-West Transport Corridor (the ancient Silk Road), South Asia Corridor and the Transport Corridor of Europe-Caucasus-Asia.¹⁵

4.5.Huge Market

Iran should rank among the world's most exciting markets. Iran is a growing and vibrant market with a population of over 80 million, and the country also has an active industrial base. Within the market, several foreign players are already active – such as Carrefour, Samsung, LG, Toyota, Mazda, Huawei and many others.

Many German, French and Italian companies are investigating ways to enter, as well as some Americans (through their European subsidiaries).¹⁶

5.5. Young manpower

Iran features a mostly young, educated, and dynamic population. In Iran, two-thirds of the population is currently under the age of 35. This means that Iran has a ready-made young population that can be effective in promoting the country's economic goals.

By relying on these capacities, Iran is developing its economic diplomacy. It should be noted that one of Iran's most important motivations for a nuclear deal with the six great powers was the removal of one of the obstacles to Iran's economic diplomacy. The United Nations Security Council sanctions against Iran created problems for Iran's foreign economic relations, and the nuclear deal paved the way for the Improvement of Iran's economic cooperation with the world by abolishing these sanctions.

6. Iran- EU Relations after Nuclear Deal

Before the imposition of UN sanctions against Tehran, the EU was Iran's largest trade partner. But after these sanctions, the EU lost its position as the first Iranian trading partner, and China replaced it.

In 2004, EU imports from Iran totaled more than €8.18 Billion, whereas the value of EU exports to Iran in the same year amounted to more than €11.86 billion, resulting in a trade balance surplus for Iran of €3,684 million.

Iran occupied rank number 24th in the EU's total trade. The EU exports to Iran were quite concentrated in three main products, machinery and transport equipment (66.6%), manufactured goods (10.3%) and chemicals and related products (9.6%).

Iran was an important destination market for EU's iron and steel and power generating machinery.

More than 80 % of EU imports from Iran were energy related (mainly oil products), represented 3.9% of the total EU imports in energy products. Iran ranked as 6th supplier of energy products for the EU. Agricultural imports amounted 4.9% of total imports.¹⁷

The EU's trade with Iran was subject to restrictions derived from United Nations Security Council (UNSC) sanctions between 2006 and 2010.

But as mentioned earlier, a group of EU and non-EU countries (China, France, Germany, Russia, the United Kingdom and the United States, with the European Union) and the Islamic Republic

of Iran reached an agreement on a Joint Comprehensive Plan of Action on 14 July 2015.

The JCPOA dictates limitations to Iran's nuclear program as well as increased monitoring and transparency in exchange for the relief of existing international sanctions, including on trade. In response to the JCPOA, the UN began lifting some sanctions in January 2016.

The JCPOA and its implementation open up the possibility of a gradual but substantive reengagement between EU and Iran at different levels, including bilateral trade.¹⁸

Generally, after the Iranian nuclear deal and the abolition of sanctions by the Security Council, once again, there was a good ground for the development of economic relations between Tehran and Brussels.

Following the signing of the agreement, European leaders saw it as a new chapter in the relationship between Iran and the European Union. The level of economic cooperation between Iran and Europe has increased substantially since nuclear deal.

The EU imported almost €5.5 billion worth of goods from Iran in 2016. Most EU imports from Iran are energy-related (mineral fuels account for €4.2 billion and 77.0% of EU imports from Iran), followed by manufactured goods (€0.4 billion, 8.5%), and food (€0.3 billion, 6.8%).

In 2016, EU imports from Iran increased by 344.8% and EU exports increased by 27.8%.¹⁹

Iran's trade with the European Union topped €9.9 billion in the first half of 2017, registering a 95% rise compared with last year's corresponding period.

Exports to EU's 28 nations exceeded \$5 billion, indicating a 227% rise year-on-year. Petroleum, petroleum products and related materials accounted for a majority of Iran's exports to the EU during the period, with a total value of €4.4 billion.²⁰

Italy was the biggest importer from Iran among all the European states, as it bought €1.54 billion worth of Iranian goods during the period. France, Greece and Spain followed with €1.26 billion, €638.5 million and €609.4 million worth of imports respectively.

Iran imported €4.94 billion worth of commodities from the European Union during the same period, recording a %38.5 YOY rise. The imports mainly included manufactured goods and chemicals.

Germany topped the list of exporters to Iran, shipping €1.39 billion worth of goods to the Islamic Republic. Italy came second with €849.6 million and France followed with €763.7 million.²¹

French automaker Renault signed a contract to set up a €660 million joint venture with Iranian firms for increasing car production inside the country by 75%. The European firm will work with Industrial Development and Renovation Organization of Iran and local trader Parto Negin Naseh Company to manufacture 150,000 vehicles per year.

French energy giant Total, together with Chinese state-owned China National Petroleum Corp, signed a \$5 billion deal with Tehran to develop Phase 11 of Iran's South Pars, the world's largest gas field. Switzerland's MECI Group International signed an agreement with Iran's government to build a €750-million wind farm in northern Iran.

PSA Peugeot Citroen and long-time partner Iran Khodro signed a joint venture contract to invest €400 million to upgrade their auto plant. The French company also signed an agreement with local manufacturer SAIPA to invest €300 million in five years in manufacturing and R&D.

ATR sealed a deal with Iran Air worth \$536 million for 20 ATR turboprop aircraft. Airbus Group SE signed a contract with Iran for 100 jetliners worth about \$19 billion at list prices. Alstom SA, the Industrial Development & Renovation Organization of Iran and Iranian Rail Industries Development reached a preliminary agreement to build train and metro cars. Siemens AG signed a contract worth at least €1.5 billion to build rail coaches and upgrade tracks.²²

These cases prove that, Iran has become a popular destination for EU businesses, since the nuclear deal. Therefore, maintaining the Deal is essential for Continuity of economic cooperation between Iran and the European Union.

Conclusion

Iran has significant resources and capacities to strengthen economic cooperation with other countries. The United Nations Security Council sanctions created problems for Iran's foreign economic relations, and the nuclear deal by abolishing these sanctions paved the way for the Improvement of Iran's economic cooperation with the world. It should be noted that one of Iran's most important motivations for a nuclear deal with the six great powers was the removal of obstacles to Iran's economic diplomacy.

In sum, following the nuclear deal Iran has seriously strengthened its economic diplomacy. In this regard, the Islamic Republic of Iran has a special look at the European Union. Improvement in Iran's economic interactions with the EU started through arrival of European economic delegations, right after the conclusion of Iran's nuclear deal with the P5+1 group of countries.²³

As a result, following the deal, Iran-EU relations have been dramatically improved. However, Donald Trump's recent decision to withdraw from the deal has once again created a new threat against Iran-European relations. Therefore, The European Union must reassure Iran it remains committed to the nuclear deal, despite Donald Trump's decision to withdraw the US from the accord. The European allies must also, by all available means, undercut, circumvent and subvert Trump's attempt to wreck the Iran deal. Closer ties should be pursued with Tehran, while escalating, punitive diplomatic and economic sanctions are levelled at Washington.

Europe's approach should include the formulation of clear legal conditions for strategic sectors of trade with Iran aimed at protecting key European commercial deals seen as barometers of nuclear deal's success and its ongoing survival (namely in the energy domain, aviation and automotive industries). The E3/EU should prioritize securing exemptions and waivers from enforcement of US secondary sanctions for European energy companies and related financial services to allow continued oil imports from and payments to Iran. Towards this end, EU member states should begin consultations regarding counter-measures against the United States. This should include political and legal threats that the EU will consider reviving the EU Blocking Regulation and even impose new penalties against assets of US companies based in Europe to allow for "claw-back" of unfair and illegal fines imposed on European companies doing business with Iran. European leaders should press this issue very hard with the Trump administration, making clear that this is a critical issue for the transatlantic relationship, as well as ongoing cooperation on regional issues in the Middle East.²⁴

The EU should indemnify against the threat of US sanctions any of its businesses trading with Iran. If Europe wants to develop relations with Iran, it must use all its leverages to maintain the nuclear deal. In this way, we could expect a better future for the economic relations between Iran and Europe.

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