International Economic Studies
Vol. 45, No. 2, 2015
pp. 21-32
Received: 02-04-2016 Accepted: 20-09-2017

On the Status of Iran's Oil Trade with China in Pre- Nuclear Deal

Ali Sotoudehfar*
School of Economics, Renmin University of China, Beijing, China

Abstract
Energy has been the main pillar of the global growth and development. Amongst various sources of energy, oil has the largest share in the global energy consumption. As these energy reserves tend to decline, few regions, most notably the Middle East which has been at the forefront with the largest reserves, can fulfill the rising global energy demand. Even then, in view of its vast energy potential, this region has attracted the attention of the growing economies of the world. This paper intends to look at one of the significant producers in the Persian Gulf energy market, Iran, and its energy relations with the Asian giant, China, from the International Relations perspective. Having a wide variety of capacities, Iran-China relations in recent years has made special dynamics, so that in different fields, this relationship has been steadily expanding and deepening. One of the most important capacity building areas in Iran-China relations is energy. The area of energy certainly has played the most important role in the dynamics of these relationships. Potential opportunities of bilateral cooperation between Iran and China in the field of energy are wide, and in case of realization it can have positive consequences of the political and security.

The aim of this paper is to cover the current oil trade situation between the two countries as well as the existing problems that are limiting the growth of this relation such as international sanctions and at the end some suggestions in order to enlarge the trade between the two countries. In conclusion, we can say that a massive capacity on the basis of "energy" in relations between Iran and China have emerged that can be used to promote economic relations between the two countries in the framework of a comprehensive strategy that benefits both countries and the region. This Capacity must be accompanied with "mutual desire" to take place. Especially noteworthy is that the existing capacities should not only be considered as "energy economy" and cooperation in the field of energy, but also should be seen as the overall framework of "security" and "Asian solidarity".

Keywords: Iran, China, Oil Trade, Sanctions, Oil Export

JEL Classification: F14, F18

* Corresponding Author, Email: ali.sotoudehfar@yahoo.com

1. Introduction

Before the Iranian revolution, Chinese Communist Party chief Hua GuoFeng was the last Chinese official to have a meeting with the last King of Iran. The meeting did not appeal to the Iranian people. Concerned about the risky nature of China-Iran relations, the Chinese government immediately recognized the new government in Iran, expressing its feelings to pursue friendly relations. The Iran-Iraq War and its start in September 1980 forced China into an elegant balancing action. It considered both the countries as friends and tried not to take sides, and at the same time insisting on a peaceful resolution of the war. It also welcomed Iran's condemnation of the Soviet occupation of Afghanistan and encouraged Iran to improve its relations with the United States. When Washington decide to punish the Iranian government for allowing militant students to take its embassy personnel as hostage, the Chinese government displayed its willingness to part ways with the United States in order to keep its relations with Iran.

Like the former Soviet Union, in 1980, the Chinese leadership refused to support the United Nation arms sanction against Iran under Security Council Resolution 598. The Chinese government also refused from voting on a US supported resolution to impose economic embargos on Iran. President Ali Khamenei (Current Supreme Leader) visited China and assured Deng Xiaoping of Iran's obligation to expand friendly relations between the two nations.

As a result of this closer relationship, Sino-Iranian trade increased a lot in the 1980s. Total trade between the two countries increased from US$ 627 million to US$ 1.627 billion. The end of the Iran-Iraq War in 1988 provided China with a new opportunity to participate in a much needed economic reconstruction effort in Iran and acting as the provider of weaponry and technology to Iran.

Exhausted Iranian relations with the US and Western Europe gave Iran an attractive market for China. This was the period when China's economy began to grow quickly, exponentially increasing China's need for new sources of energy supply and investment markets. Iran needed a trustful buyer for its oil and gas and a supplier of military equipment and weapons systems at the same time. This made the rationale behind the mutually beneficial relationship between the two even more crystals clear.

Although the relations were first limited to military purchases by Iran, this soon expanded to large economic exchanges. State-oriented economies, cheap Chinese products, and easy banking and economic systems and exchanges were among the factors that gently enhanced the two sides' economic relations. This expansion of the relationship soon was led to China's further involvement with Iran's infrastructure related activities, such as railways, highways and urban construction as well as oil and gas infrastructure. Those plans required a long-term Chinese presence in the country. Over the last decade, China's involvement has slowly won Iran's confidence both in economic and political - strategic activities.

This research paper has been conducted in order to analyse the current status of Iran's oil trade with China and to find out the factors that are limiting the trade and at the suggestions and recommendations in order to increase trade relations between these partners. This paper has used qualitative descriptive- exploratory method (Creswell, 1994) to describe political relations between Iran and China as well as analysing the situation of Iran's oil production and uses the exploratory method to explore the existing problems and potentials of economic relations.

Remainder of the paper is structured as follows. Section (2) reviews background relationship between Iran and China. Then we investigate status of oil trade between Iran and China in Section (3). Section 4 provides information about obstacles with Iran's economic relations and Section 5 concludes.

2. Background

Iran and China are among the very small number of ancient civilizations with continuity to this date. Their ties date back to a few thousand years ago going through stages of weak and strong ties, as their ties were influenced by wars in their neighborhood and the expansion and shrinkage of their large territories to make them geographically closer or farther at different periods of history. Their ties in ancient times expanded significantly to include trading a large amount of products during the golden days of the Silk Road. Despite their close proximity and even their being neighbors for several centuries when current Afghanistan was part of the Iranian empire, the two civilizations did not experience any military conflict or any big political crisis, which can be seen as an uncommon case of ancient times.

Diplomatic relations between Iran and china were first established in 1971, the relationship continued even after the 1979 Islamic revolution. Beijing and Tehran signed a joint declaration in 2000 agreeing to increase bilateral cooperation. Bilateral trade between the two countries reached US$21.2 billion in 2009, up from US$14.4 billion three years earlier. China first imported crude oil from Iran in 1974. Today, Iran is China's third-largest crude oil supplier, Just behind Saudi Arabia and Angola, accounting for 11 percent of its supply. Approximately, 80 percent of Iran's export to china is crude oil. China surpassed the European Union as Iran's largest trading partner in 2009, according to the Financial Times, with bilateral trade of US$36.5 billion.

The National Iranian Oil Company (NIOC), a company that has been appointed by the U.S. treasury as an entity owned or controlled by the government of Iran, opened an office in Beijing in March 2009. Iran established its first commerce center in Shanghai in 2009 in order to support its relations with China, and it has plans for seven more commerce centers throughout China. Iran's present oil export to China actually has undergone the following periods.

2.1. Development of Iran-China Trade Relations

Trade and economic exchanges between Iran and China have developed in two main areas, namely, general trade and oil-gas trade. Tehran-Beijing economic relations have grown at an annual average rate of 40% over the past few years, the level of trade between the two countries increased from US$400 million in 1994 to US

China has overtaken the European Union to become Iran's largest trading partner. Official figures say the European Union remains Tehran's largest commercial partner, with trade totaling US$35 billion in 2008, compared with US$ 29 billion with China. But these numbers hide the fact that much of Iran's trade with the United Arab Emirates consists of goods channeled to or from China. Transshipments to China accounted for more than half of Tehran's US$15 billion trade with the UAE. When this is taken into account, China's trade with Iran totals at least US$36.5 billion, which could be more than with the entire EU bloc (Bozorgmehr and Dyer, 2010).

Iranian-Chinese bilateral relations have expanded significantly since the 1990s. This is especially true for the current decade covering a wide range of areas. Today, Iranian-Chinese multi-dimensional ties include bilateral trade whose value was US$21.2 billion in 2009. Construction and industry are two other areas of cooperation. Chinese firms are very active in Iran in many fields such as electricity, dam building, and cement plants, steel mills, railways, auto industry, shipbuilding and other so many other industries. Another field of cooperation is military. In fact, China is a military partner of Iran. However, this is a little misleading as their scope of cooperation is limited at least for one main reason. China produces a limited number of advanced weaponry which Iran is interested in, an arms exporter itself and having an arms industry producing a significant range of high-tech items (e.g., Aircraft, Helicopter, Air defense systems and Warships). Because of that, while China was the single largest foreign supplier of arms in 2008, the most recent year on which reliable statistics are available, Iran's share of China's total military exports by value (US$ 800 million) in that year was 14%, or about US$112 million.

There are more than 100 Chinese state companies that are operating in Iran to develop ports and airports in the major Iranian cities such as Tabriz and Mashhad. China’s economic activities in Iran go far beyond the energy field, including electricity, dam building, cement plants, steel mills, railways, shipbuilding, motorways, airport infrastructure and metros. When some European countries decreased their economic trade with Tehran in response to US pressure, China and other Asian countries have stepped in to fill the gap. Iran’s eastward looking foreign policy and its vacillation toward the West might have been influential in China’s gains. China has become a major exporter of manufactured goods to Iran, including computer systems, household appliances and cars.

The Soviet Union’s collapse in December 1991 ended not only the Cold War, but also the bipolar international system that had been in place for about fifty years. The USA has since unsuccessfully searched for establishing a US-led unipolar international system. Instead, a multi-polar international system has gradually formed and expanded with certain characteristics. These are emerging countries (regional powers) in the process of stabilization in Asia, Eurasia, and Europe, North America and Latin America and, particularly, the rise of regional powers in the strategically important energy-rich regions such as Persian Gulf. The latter has had a weakening impact on the “traditional” powers controlling the bulk of oil/gas resources. Another characteristic is the weakening of the global influence of the traditional powers and their international and regional institutions, e.g., the United Nations and NATO. Yet, perhaps, the most single important characteristic is the rise of Asia as the 21st century’s powerhouse and the largest energy consumer and producer for which certain factors have been responsible.

They include the economic/financial strength of Asia as an industrialized, trading and fossil energy exporting continent with its associated political influence and the rise of Asian economies (China, India, South Korea and Southeast Asian countries) and oil/gas exporters mainly in the Persian Gulf with strong investment capabilities (e.g., Saudi Arabia and UAE). The rise of Iran and China as poles in the multi-polar world takes place within this context.

There existed unofficial trade relations between Iran and China during the Cold War and steadily increased. Trade reached 1.627 billion in the 1980s and 15 billion in 2007. In 2001, the volume of trade between Iran and China stood at roughly $3.3 billion, and in 2005, the volume of Sino-Iranian trade hit US$ 9.2 billion. In 2005, exports from China represented 8.3% of the total import market in Iran, giving China the second largest share of the market after Germany. China's exports to Iran have experienced particularly rapid growth in the past five years, with China replacing Japan as the world's second largest exporter to Iran. Iran's imports from China rose by 360% between 2000 and 2005. China is now responsible for about 10% of all Iranian imports. In 1988, the Iranian market opened up to Chinese industry when the PRC began economic restructuring.

Trade between the two states also included power generation, mining, and transportation equipment along with arms and consumer goods such as electronics, auto parts, and toys. Iran–China trade value reached US$50 billion in 2012 and is expected to increase more in the coming years.

3. Status of oil trade between Iran and China

Economic partnership between Iran and China are based on Iran’s abundant energy resources and China’s growing energy needs. Over the past several years, China has become Iran’s biggest oil customer and biggest economic partner. Indeed, according to an Iranian official, 171 Chinese companies attended Iran’s Oil Show in 2012, as opposed to 100 Chinese firms in 2010, making the Chinese the most numerous foreign participants in this international commercial exhibition. Iran has also formed a joint oil and gas committee with China to expand energy cooperation. Furthermore, China signed a $20 billion agreement in May 2011 to boost bilateral cooperation in Iran’s industrial and mining sectors.

However, Iran and China have yet to fully use their economic potential in various areas. A number of steps must be taken to improve Iran-China trade relations, such as signing customs agreements, coordinating the two countries' import-export regulations, removing financial and banking barriers. China wants to deepen the presence of its firms in the Iranian market, which could be a good port for Chinese exports, including products and technology. The development of a strong economy is fundamental for China's external projection of power.

According to the International Energy Agency (IEA), Iran produced 3.30 million B/D of crude oil, and its oil production capacity was 3.51 million B/D as of December 2012.

China's oil imports from Iran fell during February and March but started to rise again in April, and by May had exceeded the January level of nearly 500,000 b/d. Iran's crude oil exports to its top five non-European buyers (China, India, Japan, South Korea, Turkey) were around 890,000 b/d in August 2012, down by nearly half from 1.75m b/d in January 2012[1].

According to the IEA (2012), Iran's total oil exports dropped from well over 2m b/d in 2011 to 1.74m b/d by June 2012 and further to 1m b/d by July 2012. By October 2012, exports had recovered somewhat to 1.3m b/d, largely due to increases in volumes exported to China and South Korea and has been stable until today.

Once the third-largest exporter of crude oil, Iran has seen its exports drop to 1.5 million bbl/d since 2012 as the United States and the European Union tightened sanctions that target the country's oil exports. Despite the precipitous decline in exports, it still remains among the top ten exporters in 2014.

To start with the situation of China, in 2011 China's crude oil imports stood at 5.07 million B/D, 2.61 million B/D, or 51 percent which came from the middle east(See Chart 2). 1.01 million B/D were imported from Saudi Arabia, 0.56 million B/D from Iran, 0.37 million B/D from Oman and 0.28 million B/D from Iraq. Oil imports from Iran increased from a share of 5.5 percent in 1995 to 18.0 percent in 2001, but since then have continued to decline, marking 8.9 percent in 2010. However, Iranian imports increased once again in 2011, expanding its share to 11.0 percent.

Although China has been importing oil from Iran since 1974, the PRC's active involvement in Iran's oil and gas industry really began with a 1997 agreement for cooperation in oil and gas exploration in Iran. Over the past decade, China's involvement in Iran's oil and gas has increased, benefitting in part from sanctions against Iran since 1980.

The PRC has also become Iran's largest market for petrochemical exports in 2013, especially methanol.

China switched to petroleum primarily to get their energy supply off of coal. There was a rapid increase in oil importation from 1974 into the 1990s (Dorraj and Currier, 2008). In 2012, approximately 10% of China's oil imports were from Iran. Approximately 80% of China's total imports from Iran are oil and the rest is mineral and chemical products. Because of this reliance on Iranian oil and gas, China is now investing in the modernization of Iran's oil and gas sector to secure access to the resource. The China National Petroleum Corporation (CNPC) was granted an US$ 85 million contract to drill 21 wells in the natural gas fields in Southern Iran and signed another similar US$13 million contract.

Then again in 2004, an agreement was reached where China would import 270 million tons of natural gas over 30 years from South Par fields which is the richest natural gas fields in the world for US$70 billion. Another Chinese company, Sinopec Group, gets half-share in Yardarvaran oil fields worth about 100 billion for the purpose of exploration. Later in 2007, CNPC signed a US$3.6 billion deal to develop offshore gas fields in Iran and then signed another US$2 billion contract to develop the northern Iranian oil field near Ahvaz.

[1] OPEC Annual Statistical Bulletin (2013)

Iran has the capacity to produces about 4 to 6 million barrels of oil per day, second only to Saudi Arabia within the Organization of the Petroleum Exporting Countries. Iran holds over 10 percent of the world's proven oil reserves, but lack of investment and the maturity of existing oilfields have undermined production capacity and exports. Between 2005 and 2011, domestic oil consumption grew by over 2 percent per year while production slightly fell, reducing earnings from oil exports.

Iran also has the second largest gas reserves in the world, after Russia. (See Figure 1)

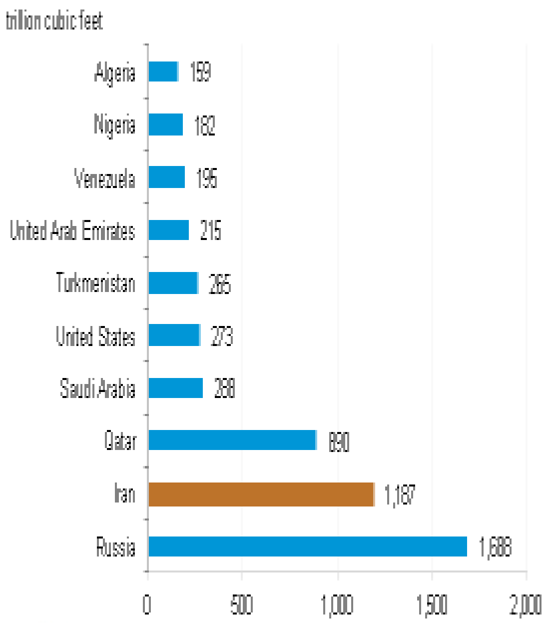

Figure 1: Largest proven reserve holders of natural gas, January 2013
Source: EIA

Iran's economic reliance on China is not limited to the energy sector. In fact, non-energy trade and investments form a substantial component of bilateral economic ties. In the past two decades, Chinese engineers have built bridges, dams, railroads, and tunnels throughout Iran.

China is also developing Iran's rail network, helping it become more integrated into regional markets. Iran and China are reportedly considering a plan to build a railroad that will connect the western Chinese province of Xinjiang to Iran through Kyrgyzstan, Tajikistan, and Afghanistan. If this project is completed, the railroad may eventually link to a wider rail network that may include Iraq, Syria, Turkey, and Europe, though this seems less likely given the instability in countries such as Syria and Iraq (Lin, 2013).

China has been importing oil from Iran since 1974, but Chinese Investment in Iran's energy sector has just a decade of history. China's energy connection with Iran has centered on specific oil and gas projects which the followings show China's investment in Iran.

South Pars (Phase 11). In 2009 China's CNPC oil company took over from total as one of the foreign partners in this portion of Iran's major gas field that it shares with Qatar, including a commitment to invest US$4.7 billion[2], and CNPC is the last remaining foreign partner in this project.

Azadegan Oilfield (north and south): This large oilfield (with 26 billion barrels of proven oil reserves), is difficult to develop, because of its complex geology, according to EIA. As of August 2011, CNPC had invested US$6 million of the planned US$8.4 billion; this total gives CNPC a 70 percent share of the field's estimated 600,000 bpd of oil[3].

Yadavaran Oilfield: Potentially China's most important investment in Iran is an agreement linking the right to develop the Yadavaran oilfield with a commitment to purchase LNG from Iran. Sinopec signed a memorandum of understanding with the National Iranian Oil Company (NIOC) in 2004 and an agreement in 2007 to develop the field in two phases - first to 85,000 bpd of oil by 2014 with a second phase boosting output to 185,000 bpd by 2016. In April of 2012, production start-up was imminent, a third stage, boosting production to 300,000 bpd was also discussed (see Table 1 for

[2] Reuters, "Update 2-Iran says Total dismissed from phase 11 of South Pars-TV," December 5, 2009, http://af.reuters.com/article/energyOilNews/idAFHA F53372020091205.

[3] Tehran Times, "China to invest US$8.4b in Azadegan oilfield: official," August 27, 2011, http://www.tehrantimes.com/economy-and-business/1991-china-to-invest-84b-inazadegan-oilfield-official.

major Chinese investment projects during 2002-2010).

According to Table (1), two sides signed a memorandum of understanding in October 2004 under which Sinopec would take a guaranteed 50% of the output from Yadavaran, amounting to an expected 150,000 bpd, in return for a commitment to buy 10 million tons of LNG per year for 25 years.

Table 1: Major Chinese Investment Projects in Iran from 2002 to 2010

Date	Field/Project	Company or Companies	Value
May 2002	Masjid-e-Soleymen(oil)	Sheer energy (Canada), China National petroleum Company	US$80 million
January 2004	Azadegan (oil)	Inpex (Japan), CNPC agreed to develop North Azadegan, Jan. 2009	US$200 million (Inpex) US$1.76 billion (CNPC)
October 2004	Yadavaran (oil)	Sinopec (China), deal finalized Dec 9, 2007	US$2billion
June 2006	Garmsar bloc (oil)	Sinopec (China), deal finalized in 2009	US$20 million
July 2006	Arak Refinery Expansion	Sinopec, JGC (Japan) Work may have been taken over by Hyundai Heavy industries (south Korea)	US$ million (initial work, extent of Hyundai project, unknown)
December 2006	North Pass Gass Field (offshore gas, includes gas purchases)	China National Offshore Oil Co.	US$16 billion
January 2009	North Azadegan	CNPC	US$1.75 billion
February 2010	South Pars: Phase	CNPC (drilling was to have begun in March 2010, still delayed)	US$4.7 billion

Source: Iran Oil Ministry

At the same time, Iran and China signed a memorandum of understanding for the construction of a US$1.5bn gas condensate refinery at Bandar Abbas on the Persian Gulf with capacity of around 300,000-350,000 bpd.

It appears that Yadavaran would still be developed under a buyback contract in partnership with an international oil company. The move marks a strategy by Iran to leverage its oil reserves to market natural gas, for which it is having difficulty tying down firm purchase commitments. But the exact status of Yadavaran remains unclear. Iran has also signed a memorandum of understanding with India to take a 20% stake in Yadavaran and has received bids from a range of European oil companies as well, at least some of which appear to have been for the whole field rather than the remaining 30%.

In general, China and Iran have some important common features that have allowed their relations to persist and evolve, despite fundamental shifts in their strategic outlooks and interests. These commonalities will most likely allow relations on various levels to continue and even flourish in the future.

4- Obstacles with Iran's Economic Relations

Many governments and multinational entities impose sanctions against Iran. Following the Iranian Revolution of 1979, the United States imposed sanctions against Iran and expanded them in 1995 to include firms trading with the Iranian regime. In 2006, the UN Security Council passed Resolution 1696 and imposed sanctions after Iran refused to suspend its uranium enrichment program. U.S. sanctions initially targeted investments in oil, gas and petrochemicals, exports of refined petroleum products, and business dealings with the Iranian Republican Guard Corps. This includes banking and insurance transactions (including with the Central Bank of Iran), shipping, web-hosting services for commercial endeavors, and domain name registration services.

Over the years, sanctions have taken a serious toll on Iran's economy and people. Since 1979, the United States has led international efforts to use sanctions to influence Iran's policies, including Iran's uranium enrichment program, which Western governments fear is intended for developing the capability to produce nuclear weapons. Iran counters that its nuclear program is for civilian purposes, including generating electricity and medical purposes. Since nuclear talks between Iran and Western governments have mostly done to reach bilateral agreements, new proposals to reduce economic sanctions on Iran are currently being discussed.

Sanctions have reduced Iran's access to products needed for the oil and energy sectors, have prompted many oil companies to withdraw from Iran, and have also caused a decline in oil production due to reduced access to technologies needed to improve their efficiency. As well as restricting export markets, the sanctions have reduced Iran's oil income by increasing the costs of bringing back the revenues into Iran in complicated ways that fight the sanctions; Iranian analysts have had estimated the budget deficit for the 2012/2013 fiscal year, which in Iran ends in late March, at between US$30bn to US$50bn.

Additionally, on 23 January 2012, the Council of the European Union released a report in which it repeated its concerns about the growth and nature of Iran's nuclear program. As a result, the Council announced that it would impose an embargo on Iranian oil exports. Further, it stated that it would also freeze assets held by the Central Bank of Iran and outreach the trading of valuable metals and petrochemicals to and from the country. This replaces and updates the previous Council Regulation 423/2007 that was published on 27 July 2010. The new sanctions put restrictions on foreign trade, financial services, energy sectors and technologies and also include a ban on the provision of insurance and reinsurance by EU insurers to the State of Iran and Iranian owned companies.

The value of the Iranian currency (rial) has plunged because of this sanction since 2011, it was reported to have devalued up to 80%, falling 10% immediately after the imposition of the EU oil embargo since early October 2012, causing widespread panic among the Iranian public (See Figure 3).

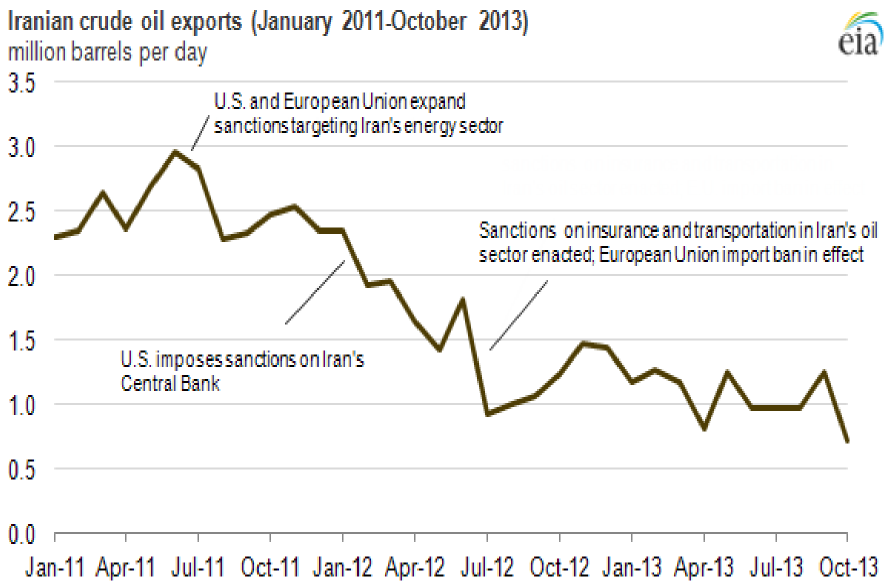

Figure 2 : Iranian Crude Oil Exports (2011-2013)

Source: Energy Information Administration (EIA)

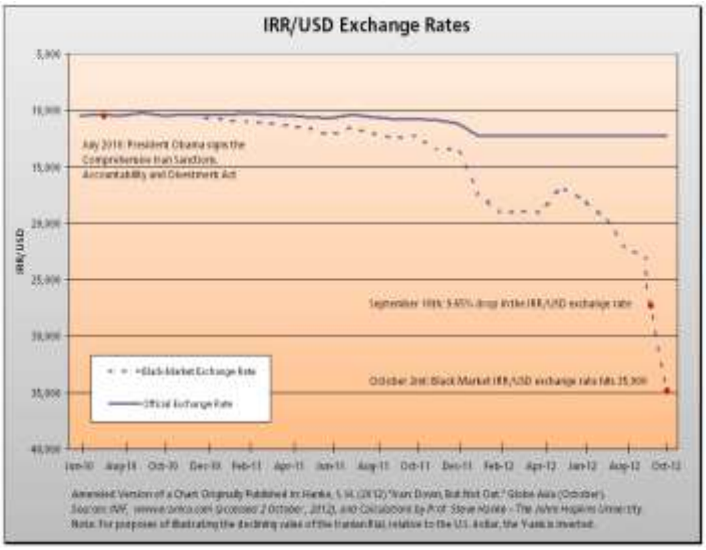

Figure 3: IRR/USD Exchange Rates from 2010 to 2012
Source: IMF

In January 2012, the country raised the interest rate on bank deposits by up to 6 percentage points in order to decrease the rial's depreciation. The Iranian Central Bank thus tried to keep the value of the rial afloat in the midst of the late 2012 decline by pumping petrodollars into the system to allow the rial to compete against the US dollar. Efforts to control inflation rates were set forth by the government through a three-tiered-multiple-exchange-rate; this effect failed to prevent the rise in cost of basic goods, at the same time adding to the public's reliance on the Iranian black-market exchange rate network. Government officials tried to stifle the black-market by offering rates 2% below the black-market rates, but demand was to be overbalancing their efforts.

In October 2012, Iran began struggling to stop a decline in oil exports which could plummet further due to Western sanctions, and the International Energy Agency estimated that Iranian exports fell to a record of 850,000 bpd in September 2013 from 2.2 million bpd at the end of 2011. In the face of increased economic pressure from the United States and Europe and a marked decrease of oil exports, Iran was seeking to build a resistance economy.

Actually, to these developments, China's oil import pattern shows a move away from Iran. China was never dependent on Iran for more than 11.4 percent of its oil imports. In 2011 and 2012, the number of China's sources of imported oil (over 100,000 bpd) increased, and the volume of China's oil imports from Iran decreased in 2010 and 2012 (Figure 4).

While the share of Iranian oil in China's total mix of oil imports has remained fairly stable between nine and 14 percent since 2000, China's importance to the Iranian oil sector has grown substantially, with exports to China rising from five to 25 percent by 2011 (See Figure 5).

There have been thus no indications that China is skirting the sanctions on importing Iranian oil, although in late July 2012, the United States sanctioned the Chinese Bank of Kunlun for "facilitating transactions" for sanctioned Iranian banks. It is unclear if these actions involved oil trade.

In General, there are many factors that have limited the oil trade between Iran and China such as sanctions, investment atmosphere, corruption, and China's will to diversify its oil imports. International sanctions on Iran have brought many difficulties for the country in all fields and especially the economy of the country and that is why resolving the International Embargos on the country has been a quick solution to the crisis in compare with other solutions. Considering all aspects of the macro economy it would be the best possible way for Iran to follow the below path in order to increase its export to China and other countries, while the existing barter trade between the two countries is still going on, it is not suggested to increase it since it has so many side effects on the economy of Iran for example it would cause more depreciation in Iranian Rial caused by shortage of foreign currency, increasing inflation and unemployment rate that could make the society very unstable.

Increase Iran's oil production capacity itself is a good way to enlarge oil trade between the two countries but it is depending on factors such as relief of sanctions; So that the country could attract more foreign companies to participate in the oil industry as well as foreign direct Investment. With the help of relieving crumpling sanctions on Iran's economy the country will be able to attract more advance equipment and technologies which can lead to more production and output, to show the positive effect of sanction relief on the trade.

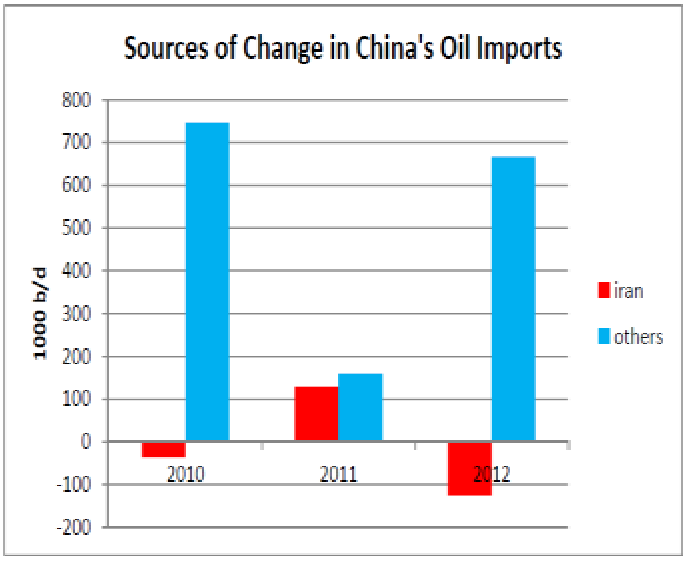

Figure 4: Sources of Change in China's Oil Imports from 2010 to 2012
Source: IEA

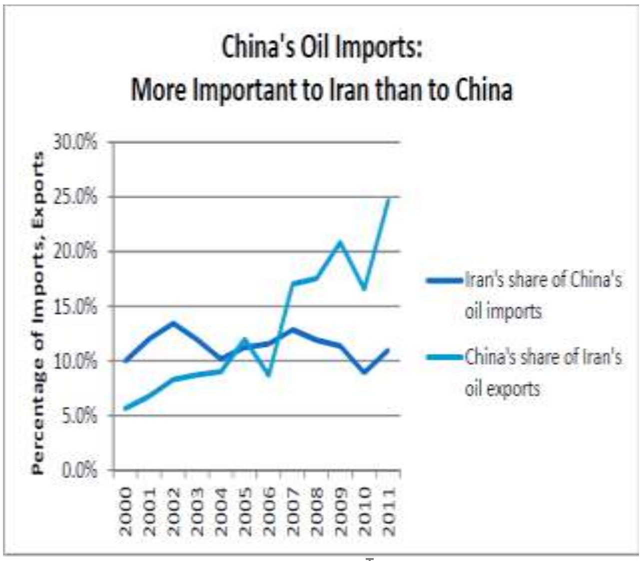

Figure 5: China's Oil Imports from 2000 to 2011: More Important to Iran than to China
Source: IEA

5. Conclusion

Iran and china are two important countries in the world and have had bilateral relations since 2500 years ago, China is one of the biggest consumers of energy in the world followed by its rapid economic growth over the last decades and on the other hand Iran is one of the biggest producer of energy in the world following by its independent foreign policies. The characteristics of the two countries and sharing many common views about the world matters have become an important role to make the two countries be closer to each other and having high level economic relations. In general, China's imports of Iranian crude have grown despite the fact that international sanctions against Iran have made payments by China more difficult, forcing the two countries to find ways around this through barter trade. China's continued economic expansion, combined with the high intensity of Chinese growth, is helping to fuel its demand for overseas energy.

With the support of political agreements and resolving Iran's main foreign affairs issues such as Iran's nuclear program, the country will be able to return to its rightful position among the community of countries and in result of that Iran will receive more investment in energy sector which would able Iran to have access to advance technologies in order to expand its oil and gas infrastructure and eventually Increase oil and gas production and exports.

The implication of this study is that Iran-China oil trade should not be considered as "energy economy" and cooperation in the field of energy but also should be seen as the overall framework of "security" and "Asian solidarity".

Reference

1. OPEC Annual Statistical Bulletin (2013), www.opec.org.
2. Dorraj, M. and C. L. Currier (2008), "Lubricated with Oil: Iran-China Relations in a Changing World," Middle East Policy, 15(2), 66-80.
3. Lin, C. (2013), "The PLA's 'Orient Express': Militarization of the Iron Silk Road," China Brief, The Jamestown Foundation, 11(5), March 25.
4. Bozorgmehr, N. and G. Dyer (2010), China Overtakes EU as Iran's Top Trade Partner, www.ft.com.
5. www.iea.org/publications/freepublications/publication/China_2012.pdf.
6. http://www.imf.org
7. OPEC Annual Statistical Bulletin (2013)
8. Reuters, "Update 2-Iran says Total dismissed from phase 11 of South Pars-TV," December 5, 2009, http://af.reuters.com/article/energyOilNews/idAFHAF53372020091205
9. Tehran Times, "China to invest US$8.4b in Azadegan oilfield: official," August 27, 2011, http://www.tehrantimes.com/economy-and-business/1991-china-to-invest-84b-inazadegan- oilfield-official.
10. Creswell, J.W. (1994), Research Design: Qualitative & Quantitative Approaches, Sage Publications.