

# Iran in Central Asia:

## Trade, Infrastructure and Cooperation along the New Silk Road

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Figure 1: Map of Iran, Uzbekistan, and Kazakhstan

## Timeline of Key Events

- 1991** Kazakhstan gains independence under leadership of Soviet-era party boss Nursultan Nazarbayev; Uzbekistan gains independence under the leadership of Islam Karimov
- 1997** China's National Petroleum Company (CNPC) chooses Kazakhstan's Zhanazhol field as its first ever foreign acquisition
- 2001** Shanghai Cooperation Organisation founded with Kazakhstan and Uzbekistan as key members
- 2005** Kazakhstan-China pipeline, bringing gas from the Caspian to Xinjiang, completed; China makes major foray into Kazakh oil industry with \$4.1 billion purchase of PetroKazakhstan
- 2006** UN Security Council unanimously passes Resolution 1737, imposing sanctions on individuals and entities linked to the Iranian nuclear program
- 2009** Central Asia-China pipeline, connecting Turkmenistan to China via Kazakhstan and Uzbekistan, completed
- 2012** Iranian banking and oil sectors placed under harsh US sanctions
- 2013** Xi Jinping announces the inauguration of the BRI in Astana (Nur-Sultan), Kazakhstan; Hassan Rouhani becomes President of Iran; Kazakhstan hosts two rounds of the Iran nuclear negotiations
- 2014** Moscow-led Eurasian Economic Union founded with Kazakhstan as key member; Iran-Turkmenistan-Kazakhstan Railway inaugurated
- 2015** Joint Comprehensive Plan of Action signed
- 2016** First direct freight train arrives in Iran via Central Asia after a 14-day trip from Yiwu, China; Uzbekistan's Karimov passes away, leading to inauguration of Shavkat Mirziyoyev and promise of financial and political reforms
- 2018** Trump repeals JCPOA and reimposes secondary sanctions on Iran
- 2019** Kazakhstan's Nazarbayev steps down, ceding power to Kassym-Jomart Tokayev
- 2020** Coronavirus pandemic shuts down economic activity in region and freezes Iranian initiatives in Central Asia; documents published in The New York Times outline an alleged Chinese proposal to invest \$400 billion in the Iranian economy over the next 25 years
- 2021** China and Iran sign the above 25-year agreement; Iranian FM Javad Zarif embarks on a diplomatic tour of Central Asia

### Acronyms:

- BRI:** Belt and Road Initiative (a.k.a. One Belt, One Road; New Silk Road)
- CARS:** Central Asian Republics (i.e., the five post-Soviet states of Central Asia)
- EAEU:** Eurasian Economic Union (Russian-led economic alliance)
- JCPOA:** Joint Comprehensive Plan of Action (a.k.a. Iran Nuclear Deal)
- SCO:** Shanghai Cooperation Organization (Chinese-led economic and security alliance)



# Introduction

In March 2021, Iranian President Hassan Rouhani signed a 25-year agreement with China which set off a panic in Western policy circles.<sup>1</sup> From The New York Times to Axios to Forbes, mainstream news outlets claimed the deal would inject billions of dollars into one of the United States' greatest rivals, with one newspaper going as far as to claim it marked a "power shift [which] threatens Western energy".<sup>2</sup> Whatever the true scope of the agreement, there was another visit – occurring just a week after the memorandum was signed – which may mark an even greater development for Iranian foreign policy.<sup>3</sup>

Between April 5 and 8, 2021, Iranian FM Javad Zarif embarked on a diplomatic tour of Central Asia, meeting with heads of state in Kazakhstan, Uzbekistan, Kyrgyzstan and Turkmenistan. The timing was no accident: as Iranian diplomats met with their Western counterparts in Vienna to discuss the JCPOA, Zarif was effectively signalling that Iran's "eastern pivot" was here to stay. At the end of his tour, he summarized that message – and Iran's new ideological commitment to the region – in a single tweet: "Central Asians aren't just neighbors; they're kin".<sup>4</sup> As pressure mounts on the United States to return to the nuclear deal, and China assumes a more assertive role in regional affairs, it is possible that Iran's efforts to build a bridge to this part of the world may finally bear fruit.

Zarif's trip came almost exactly five years to the day that Nursultan Nazarbayev, then Kazakh president, arrived for a state visit in Iran. Over the course of two days, he and his Iranian counterparts had signed more than \$2 billion in economic agreements, announcing their intentions to bolster links in sectors from banking to mining to Caspian Sea fishing rights. Lost in the pomp and rhetoric of the visit, however, was a brief comment by Nazarbayev – one that was as understated as it was momentous.

As Nazarbayev reported, the first shipment of Chinese goods had just arrived in Iran after a 10,000km trip through Central Asia, travelling on newly built railroads which promised to cut traditional shipping times in half. That route, part of China's massive Belt and Road Initiative (BRI), is part of a larger network of Chinese-built highways, pipelines, train tracks

1. All translations from Persian are by the author, unless otherwise noted.

2. Cohen, Ariel (2021). *China-Iran \$400 Billion Accord: A Power Shift Threatens Western Energy*. Forbes. <https://www.forbes.com/sites/arielcohen/2021/04/05/china-iran-400-billion-accord-a-power-shift-threatens-western-energy/>

3. For a more sober appraisal of the Iran-China agreement, see Batmanghelidj, Esfandiyar and Greer, Lucille (2021) *China and Iran announced a new economic and security partnership. That's not as alarming as it sounds*. The Washington Post. <https://www.washingtonpost.com/politics/2021/04/01/china-iran-announced-new-economic-security-partnership-thats-not-alarming-it-sounds/>

4. Zarif, Javad [@JZarif] (2021). "Wrapped up tour of Central Asia with superb visit to Turkmenistan. Extensive, substantive, & constructive meetings with President Mohammedev & FM Meredev. Agreed expansion of bilateral ties & regional & global cooperation. Central Asians aren't just neighbors; they're kin." [Tweet] Twitter. <https://twitter.com/JZarif/status/1380178340871602181?s=20>

and sea lanes which increasingly tie Iran to its Central Asian neighbours.<sup>5</sup> This article seeks to explore the dynamics of that relationship, examining Iranian ties to Central Asia's political heavyweights – Kazakhstan and Uzbekistan – and how their behaviour may shape the future of Tehran's regional policy.<sup>6</sup>

Iranian policy towards Kazakhstan and Uzbekistan are driven by three intertwined objectives, and speak to a strategic calculus in Tehran pushed by a need to counteract American pressure at all costs:

- **Expanding trade and energy infrastructure**, as Kazakhstan and Uzbekistan sit at the crossroads of a number of markets which could provide relief from sanctions;
- **Overcoming political isolation**, especially through regional organisations in which Kazakhstan and Uzbekistan are key members; and
- **Reducing perceived threats to national security**, for which Iran seeks its neighbours' help in excluding the US from the region's security architecture.

By physically and financially linking itself to nations like Kazakhstan and Uzbekistan – as well as Russia and China – Iran is hoping to raise the costs of US unilateralism and overcome American sanctions. This alignment towards the east, as Batmanghelidj (2020) argues, marks a major paradigm shift for Iranian foreign policy: one in which the country no longer conceptualises itself merely as a 'Middle Eastern' power, but rather a 'Eurasian' one.<sup>7</sup> In practical terms, this suggests that Iran increasingly views East, South, and Central Asia as its new centre of gravity and will expend much of its political capital in the coming years seeking to integrate itself into regional alliances and networks. From Iran's perspective, the best antidote to American hegemony is the construction of a new regional order – and for that, the cooperation of states like Kazakhstan and Uzbekistan will be crucial.

Despite its close relations with the United States, Kazakhstan maintains an ambitious Iran policy, one which seeks to aid Iran's transition from pariah state to regional stakeholder. For Uzbekistan – lacking the oil revenues of its Kazakh neighbour and navigating both fragile reforms and perennial threats of instability – engagement with Iran is a more delicate matter, though the country has generally come around to the same consensus as Kazakhstan. Broadly speaking, the two countries appear to be pursuing similar goals in their approach to the Islamic Republic:

- **Expand economic linkages**, especially via the BRI, so as to use Iran as an outlet to the sea and hedge against Russia's geographic control of energy pipelines; and

5. There is some controversy over the exact dollar amount of BRI expenditure, with estimates ranging from \$150 billion to \$4 trillion (see, for example, Chatzky, Andrew (2020), *China's Massive Belt and Road Initiative*. The Council on Foreign Relations. <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>)

6. By "heavyweights", I mean that both countries tend to lead Central Asia in a number of key metrics, whether GDP, population size, trade/economic diversification, infrastructural connectivity and membership in international organizations.

7. Batmanghelidj, Esfandiyar (2020), *Introduction in Iran's Bilateral Relations in the New Eurasian Context*. National University of Singapore and Bourse & Bazaar. pp. 1-6. This shift should not be viewed as Iran abandoning or deprioritizing its Near Eastern interests; on the contrary, the pivot to Eurasia should be seen – at least in part – as an attempt to strengthen and legitimize those interests in the face of increasing pushback from the US, Israel, and Saudi Arabia.

# The BRI, Iran and Central Asia



- **Integrate Iran into regional organisations**, especially those headed by Russia and China, to facilitate trade and normalise Iran's regional status; and
- **Ensure regional stability**, especially when it comes to the potential for collapse and power vacuums in Iran and Uzbekistan's shared neighbours (Afghanistan and Turkmenistan)<sup>8</sup>

This paper shows that the period from 2016 to 2021 can be seen as laying the groundwork for Iran's integration with Central Asia. To date, Kazakhstan and Uzbekistan appear to cautiously support Iran's participation in a Eurasian political order, while Iran has been an eager partner in the expansion of the railroads and ports which will connect both Kazakh and Uzbek goods to the broader region. By expanding diplomatic and infrastructural ties to both countries, Tehran has also set a precedent for cooperation which will be crucial to the success of the BRI, not to mention the region's own economic future. Thus, while the relationships remain at arm's length today, it can be argued that they represent a strategic investment with potentially massive long-term benefits for all parties. That said, American pressure continues to limit what is possible in the present and, bilateral trade between Iran and its two Central Asian neighbours remains only a fraction of its potential. Perhaps because of this unrealised potential, Iran-Central Asia relations remain understudied, despite their increasing importance to scholars and policymakers alike. These relations trace multiple geopolitical fault lines, the most important of which are US-Iran tensions, the rise of China, and Russian revanchism. Furthermore, looking at Iran-Central Asia ties provides a unique opportunity to study Iran's political and economic strategies without the ideological baggage that comes when examining these strategies within the context of the Middle East and its many conflicts.<sup>9</sup>

On 8 September 2013, Xi Jinping delivered a speech in Astana (today's Nur-Sultan) which marked a paradigm shift for both Central Asia and global politics. Praising Kazakhstan as an ancient intermediary between East and West, the Chinese president called for it to join China in recreating the Silk Road, a territory which today "is inhabited by three billion people and represents the biggest market in the world with unparalleled potential".<sup>10</sup> Peppering his speech with Kazakh proverbs and stories of friendship between the two peoples, Xi reassured his audience that Beijing had no intention to "interfere in the internal affairs of Central Asian countries" nor "seek to dominate regional affairs or establish any sphere of influence".<sup>11</sup> Instead, he emphasised the construction of a "region of harmony" and joint efforts to combat the "three evils" of terrorism, separatism and extremism.<sup>12</sup> To do this, he introduced a five-step plan which has since become the guiding principles of the Belt and Road Initiative:

- **Improving policy coordination** through the Shanghai Cooperation Organisation (led by China) and the Eurasian Economic Community<sup>13</sup> (led by Russia)
- **Infrastructure development**, primarily in the form of roads and rail links
- **Trade and investment facilitation** through decreased tariffs
- **Use of local currencies and the Chinese yuan** to settle trade
- **Soft power initiatives** in the form of cultural exchanges and educational scholarships

President Xi's speech offered an attractive alternative to Western models of engagement. Unlike World Bank conditionality, IMF structural adjustment or US democracy promotion, he promised a decidedly 'hands-off' approach to domestic politics (and, reading between the lines, corruption). By partnering with the Russian-based Eurasian Economic Union (EAEC), he was able to frame the project as an international initiative aimed solely at 'win-win cooperation', even if the intervening years have shown that this is rarely the case.<sup>14</sup> As a final

8. While the Afghan peace process is the main area of concern for the two, the stability of Turkmenistan – with collapsing gas revenues, a food and COVID crisis, and heavily secretive regime – is also assuming greater importance in the regional security dialogue. For more, see the final section of this article.

9. In this context, "without ideological baggage" is meant as a foreign policy divorced from the Saudi-Iranian rivalry and domestic strategies of 'exporting the revolution'. In other words, it is a largely areligious, pragmatic and transactional relationship and should not be viewed through the lens of sectarian or ethnic security dilemmas.

10. Xi Jinping (2013), *Promote Friendship Between Our People and Work Together to Build a Bright Future*. Speech at Nazarbayev University, Astana, Kazakhstan. [https://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/zjyh\\_665391/t1078088.shtml](https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/zjyh_665391/t1078088.shtml)

11. Ibid.

12. Ibid.

13. Renamed the Eurasian Economic Union in 2014

14. BRI planners have engaged in what has rightly been called 'debtbook diplomacy': the use of concessionary loans to ensnare impoverished countries which have no means of paying them back. Additionally, the vast majority of BRI infrastructure abroad is built by Chinese labourers and will often withhold profits from local governments until the original investment is repaid. For more, see Parker, Sam and Chefitz, Gabrielle (2018), *Debtbook Diplomacy: China's Strategic Leveraging of its Newfound Economic Influence*. Harvard Kennedy School Belfer Center

rebuke to the US-based order, this inaugural speech emphasised the need to transition away from dollar dependency, a policy Xi would further support by opening massive central bank swap lines in the following years.<sup>15</sup> In total, the speech promised a generational change in the political economy of Eurasia.

Since becoming a net importer of oil in 1993, China has been preoccupied with diversifying the country's import routes. With growth rates of more than 10% in the early 2000s and similarly dramatic increases in energy consumption, Chinese national security planners were acutely aware that their national project could be derailed by a single quirk of geography: the so-called Malacca Dilemma. For any tankers traversing the Persian Gulf or the Suez Canal, the fastest route to China is to sail east – crossing the Indian Ocean and passing through the Strait of Malacca before arriving in the South China Sea. At its narrowest, the Strait is only 2.7km wide, meaning that piracy, natural disasters or a well-placed aircraft carrier could cut China off from more than 50% of its energy supplies and effectively cripple the economy. For this reason, Beijing's National Oil Companies began exploring construction of pipelines through Eurasia in the mid-1990s – with Central Asia at the heart of this strategy.<sup>16</sup>

Though many of these projects began before the BRI's inception, today many are grouped under the BRI's portfolio and receive Chinese financing for maintenance and expansion.<sup>17</sup> According to a 2019 World Bank report, BRI investment in Kazakhstan is around \$5 billion, though the two sides have signed agreements closer to \$40 billion and opened central bank swaps and credit lines totalling (by the author's estimates) at least \$20 billion more.<sup>18</sup> These funds are spread across 15 major projects, including highways, railroads, pipelines and port facilities, which are intended to modernise the country's infrastructure and facilitate the movement of millions of tonnes of cargo in both directions.<sup>19</sup> For Uzbekistan, the total Chinese foreign direct investment stock may top \$9 billion, while a recent survey found that close to 16% of Uzbek enterprises had some form of Chinese investment.<sup>20</sup> As in Kazakhstan, these funds are generally targeted at upgrading highways, oil facilities and rail lines, though telecommunications have also seen a boost with some \$150 million pledged from Huawei and ZTE.<sup>21</sup> In both instances, Chinese investment has moved beyond the extraction of hydrocarbons towards a much broader

15. Beginning in 2011, the People's Bank of China opened a ¥7 billion (\$1 billion) swap line with the Kazakh Central Bank, which was renewed in 2014 and doubled in 2017. (McDowell, Daniel (2019), *The (Ineffective) Financial Statecraft of China's Bilateral Swap Agreements*. International Institute of Social Studies. p. 125)

16. Summarized from Chen, Shaofeng (2011), *Has China's Foreign Energy Quest Enhanced Its Energy Security?* The China Quarterly 207. pp 600-625.

17. The division between BRI and non-BRI investment is often vague, especially with the retroactive labelling of older projects. Even in Chinese national discourse, 'BRI' is often used a blanket term for any Chinese activity in Eurasian countries and is an ideological label as much as an economic one. This article uses this more expansive definition, so long as a project is defined today as part of BRI and somehow serves China's national security and economic objectives. For more, see Constantinescu, Cristina and Ruta, Michele (2018), *How Old is the Belt and Road Initiative? Long Term Patterns of Chinese Exports to BRI Economies*. World Bank Group

18. Belt & Road Advisory (2018), *Bet on Belt and Road: Can Kazakhstan become the Success Story of Central Asia?* <https://beltandroad.ventures/beltandroadblog/2018/7/1/a-bet-on-belt-and-road-can-kazakhstan-become-the-success-story-of-central-asia>. See also McDowell (2019) and Volz (2014) on central bank cooperation.

19. Ruta, Michele et al., *Belt and Road Economics: Opportunities and Risks of Transport Corridors*. World Bank Group. Appendix, Table B1: pp. 136-140

20. Limanov, Oleg (2020), *Uzbekistan-China Relations During the COVID-19 Pandemic*. Central Asian Bureau for Analytical Reporting. <https://cabar.asia/en/uzbekistan-china-relations-during-the-covid-19-pandemic>

21. Ibid

goal of developing transport infrastructure. Thus, between Central Asia's own resources and its location between China and world markets, it is no exaggeration to say that the region represents one of the most critical nodes of Beijing's Eurasian ambitions.

By virtue of geography, Iran is well positioned to serve as a bridge for goods produced in or travelling through Central Asia. Its Persian Gulf ports (particularly Bandar Abbas and Chabahar) represent some of Central Asia's shortest routes to the sea, while its rail and road networks could also be key passageways for the transit of goods to Europe and East Asia. Politically, the Iranian corridor is attractive because it bypasses the Russian route, allowing exporters to hedge against economic manipulation from Moscow. As such, expanding linkages in the region is a key objective for Iran, Kazakhstan, Uzbekistan and China – and has seen a flurry of investment in recent years. These projects do not merely represent physical connections, but also opportunities for economic and political advancement on an unprecedented scale. As such, the infrastructure projects outlined below should be seen as more than simple train tracks and pipelines; indeed, they are vital aspects of each country's geopolitical strategies which shape both their immediate and long-term objectives. To understand the developments of the 2016-2021 period, these physical linkages must be viewed as creating the foundations for closer economic and diplomatic ties, even if the development of both fields has been mixed.

Broadly speaking, the new rail routes through the region can be categorised into two groups, which this paper calls 'Gorgan Route' and 'Mashhad Route' after their main entry points in Iran (Figure 2).

Figure 2: BRI-Funded Rail Projects in Central Asia and Iran (2013-present)<sup>\*22</sup>



\*Highly simplified map. Note: some pathways represented by a single line are in fact made up of more than half a dozen separate linkages.

22. Image from Mercator Institute for China Studies (2018), *Mapping the Belt and Road Initiative*. <https://merics.org/en/analysis/mapping-belt-and-road-initiative-where-we-stand>

## Key Rail Linkages between Iran and Central Asia<sup>23</sup>

### 1. Gorgan

This route links Gorgan, in the extreme northeast of Iran, with rail routes in western Turkmenistan and Kazakhstan. In the latter, the route is connected to the larger Aktau-Khorgos line, which takes goods from Xinjiang, China, to the Kazakh port of Aktau.

Gorgan is one node in the larger Iran-Turkmenistan-Kazakhstan Railway (built in 2014), which travels from Uzen, Kazakhstan, through Turkmenistan to Gorgan, Iran.<sup>24</sup> The Kazakh portion of the line is itself connected to China's Xinjiang province, providing a direct route for Chinese cargo to transit through Iran. Once in Gorgan, cargo can travel either to Tehran (and then the Caucasus, Turkey and beyond) or to Mashhad (and then Bandar Abbas and Chabahar, where cargo can be loaded onto freighters in the Gulf of Oman).

The route was originally constructed with an estimated \$2 billion in financing from the Asian Development Bank and Islamic Development Bank and has an estimated capacity of roughly 20 million tonnes of cargo per year.<sup>25</sup> Under US pressure, Russian Railways pulled out of a \$1.3 billion bid to electrify the Inche-Borun-Garmsar portion of the track in February 2020.<sup>26</sup> However, the route remains operational.

### 2. Mashhad

The Mashhad route connects Iran's second largest city to eastern Turkmenistan, Uzbekistan, Kazakhstan and China. From Mashhad, freight can either travel west to Tehran or south to Iranian ports on the Persian Gulf (Chabahar and Bandar Abbas).

The city's regional rail connections have expanded considerably in the last 25 years, and now include:

- The Mashhad-Sarakhs Line (1996): connecting Mashhad to Turkmenistan
- The Samarkand-Mashhad-Rail (upgraded under BRI in 2018), travelling from Samarkand, Uzbekistan, to Ashgabat, Turkmenistan, to Mashhad, Iran. Samarkand, in turn, is connected to Almaty, Kazakhstan, and ultimately to the Chinese rail system in Xinjiang
- Mashhad-Kashgar Railway (proposed 2015 and partly operational), travelling from Urumqi, China, to Almaty, Kazakhstan, and then traversing Kyrgyzstan, Uzbekistan and Turkmenistan to arrive at Mashhad

23. Summarised from the data presented in Ruta, Michele et al. (2019), *Belt and Road Economics: Opportunities and Risks of Transport Corridors*. World Bank. Appendix, Table B1: pp. 136-140 <https://openknowledge.worldbank.org/handle/10986/31878>

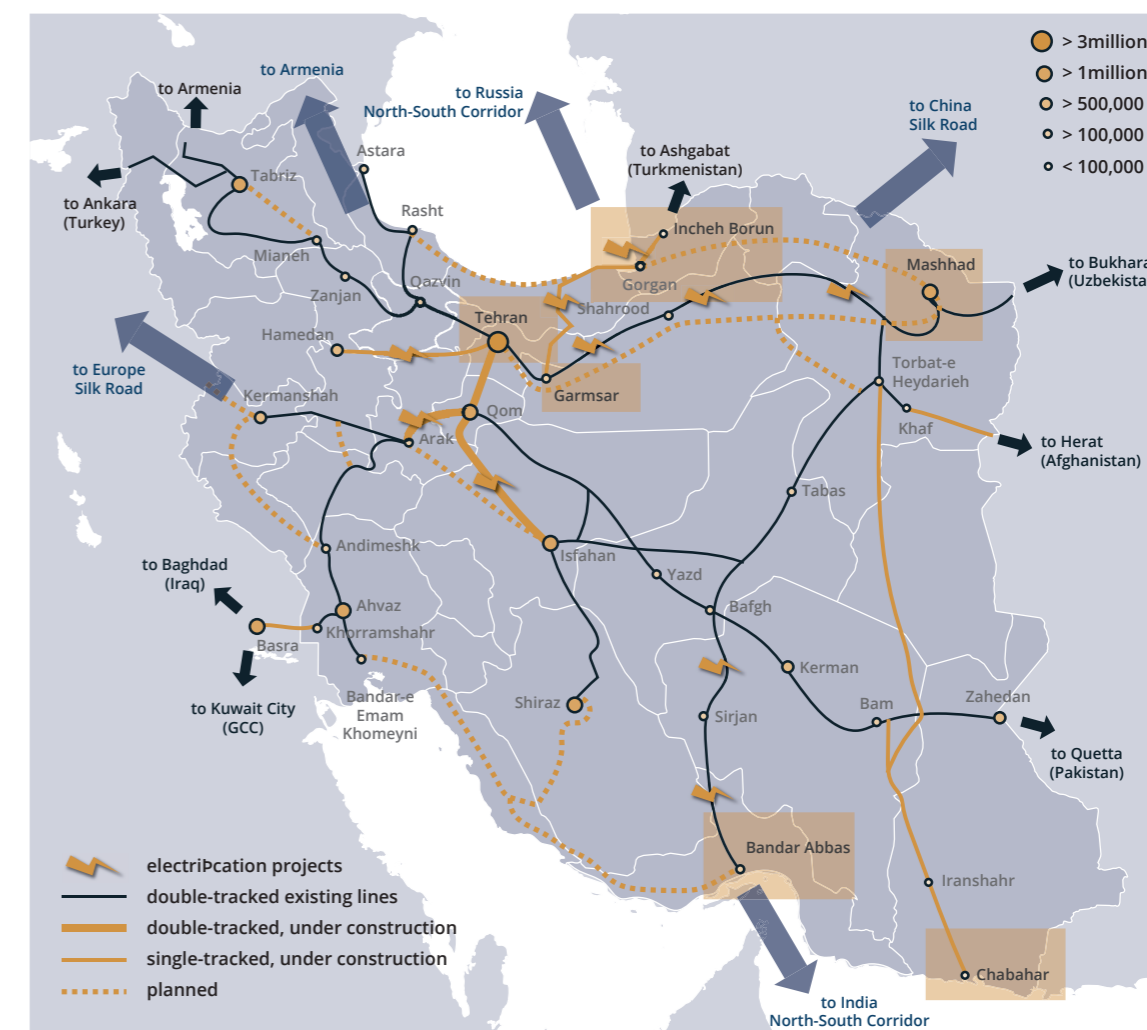
24. Gurt, Murat (2014), *Landlocked Central Asia gets Shorter Railway Link to the Persian Gulf*. Reuters. <https://in.reuters.com/article/turkmenistan-railway/landlocked-central-asia-gets-shorter-railway-link-to-persian-gulf-idINKCN0JH1Q820141203>

25. Ibid.

26. Radio Farda (2020), *Russia Pulls Out Of \$1.3 Billion Railway Project With Iran*. RFERL. <https://en.radiofarda.com/a/russia-pulls-out-of-1-3-billion-railway-project-with-iran/30456621.html>

The Mashhad routes are currently operational, with gaps to be filled in electrification, expansion of tracks and synchronising gauge breaks with Central Asia. In December 2017, China's Ex-Im Bank opened a \$1.7 billion credit line for the electrification of the 926km Tehran-Mashhad line in December 2017. Iran plans to electrify entire system by 2025, primarily with Chinese financing.<sup>27</sup> The first freight train arrived in Tehran (via Mashhad) from Yiwu, China, in February 2016, and the 10,400km trip took just 14 days, compared with 45 days by sea.<sup>28</sup>

Figure 3: Iranian Rail Network (key nodes in BRI and Central Asian trade in yellow)<sup>29</sup>



27. Sohrabi, Zeynab (2018), *Three Freight Trains Due in Tehran From China This Week*. The Financial Tribune. <https://financialtribune.com/articles/domestic-economy/79577/three-freight-trains-due-in-tehran-from-china-this-week>

28. Reuters Staff (2016), *First freight train from China arrives in Iran in 'Silk Road' boost*. Reuters. <https://www.reuters.com/article/us-china-iran-railway/first-freight-train-from-china-arrives-in-iran-in-silk-road-boost-media-idUSKCN0VPOW8>

29. Image taken from GCR Staff (2019), *Iran to draw \$2.4bn Chinese credit line for Tehran-Isfahan high-speed railway*. Global Construction Review. <https://www.globalconstructionreview.com/news/iran-draw-24bn-chinese-credit-line-tehran-isfahan-h/>



By 2025, according to Chinese estimates, the volume of Sino-European trade will reach more than \$2.5 trillion per year.<sup>30</sup> With the Eurasian landmass providing the fastest and cheapest route to move that cargo, Central Asia and Iran have increasingly become the focus of frenzied railroad investment from Chinese development banks. Much of that capital has been put towards the electrification of existing routes, which can speed up traffic by 30-50%, and the engineering challenges of synchronising gauge systems. Where China has made the most progress is in the integration of regional lines: with the connection of the multibillion-dollar Iran-Turkmenistan-Kazakhstan Rail (2014) and the larger Aktau-Khorgos Rail (2017), Beijing has created a single winding belt from Xinjiang to Kazakhstan to the Caspian region and Iran. As each of those lines is equipped to carry more than 20 million tonnes of cargo per year, they constitute some of the most economically and politically vital pieces of infrastructure in any BRI country.<sup>31</sup>

Whether the BRI represents a bid for global hegemony, or is even economically viable, is outside the scope of this article, but in many ways intertwined with it. After all, the success of China's ambitions rests in no small part on the agency of local actors and cannot be separated from the goals and motivations which drive decision-making in places like Tashkent, Nur-Sultan and Tehran. As such, one should be careful about viewing maps like those above as simple hub-and-spoke models but must instead consider the connections that China is building between nations in the network. This interplay between Chinese infrastructure and investment, on the one hand, and local strategies for growth, security and integration, on the other, will ultimately be key to the BRI's long-term success, and nowhere is this on better display than in the case of Iran and its Central Asian neighbours.

To truly embrace the new opportunities created by the BRI, Iran will need a proper framework to institutionalise its ad hoc economic and political presence in the region. Accomplishing this, however, is easier said than done. While Tehran has grown closer to Chinese- and Russian-led regional bodies in recent years, it continues to face a number of significant obstacles to full integration, most importantly limited bilateral trade and severe geopolitical restrictions.

This section turns to the countries' economic relationships, examining bilateral trade over the last five years to see whether the BRI has resulted in any meaningful increases. As shown, the answer is a definitive no, at least so far: bilateral trade, by any metric, is small and largely inconsequential at the time of writing. While the physical infrastructure has been built, this paper argues that other challenges – chief among them US sanctions – continue to undermine any closer relationship. That, in turn, suggests that Iran has been unable to use Kazakhstan and Uzbekistan to overcome economic isolation and raises broader questions about the BRI's potential to reshape Iran's regional economic standing.

Statistics on Iranian trade with Central Asia, though readily available online, are extremely unreliable, with the same figures sometimes varying by a factor of 10 or more depending on the source. This poses a significant problem for researchers, as it is often unclear if these wild fluctuations come from different accounting standards, unjustified assumptions (e.g., about rail and energy traffic) or a misinterpretation of official data. There is a high likelihood that businesses on both sides are also engaged in bribery and embezzlement and thus report falsified numbers, while it is also possible that a maritime black market exists between Caspian vessels.<sup>32</sup> One must also consider that trading with a sanctioned country like Iran can expose second and third parties to legal pressure from the US, and suggests that a large portion of financial flows – should they exist in the first place – would be routed through the murky world of offshore shell companies.<sup>33</sup> As a result, the public trade figures likely represent only a portion of the real volume.

## Iranian-Kazakh Trade

In 2018, Iran's Ministry of Industry, Mining and Trade put out a white paper outlining Kazakhstan's potential as market for Iranian goods. Claiming that exports could reach \$2 billion to \$4 billion in the coming years, the report provided a sector-by-sector breakdown of the most promising growth opportunities, which have been translated and recreated by the author in Chart 1.

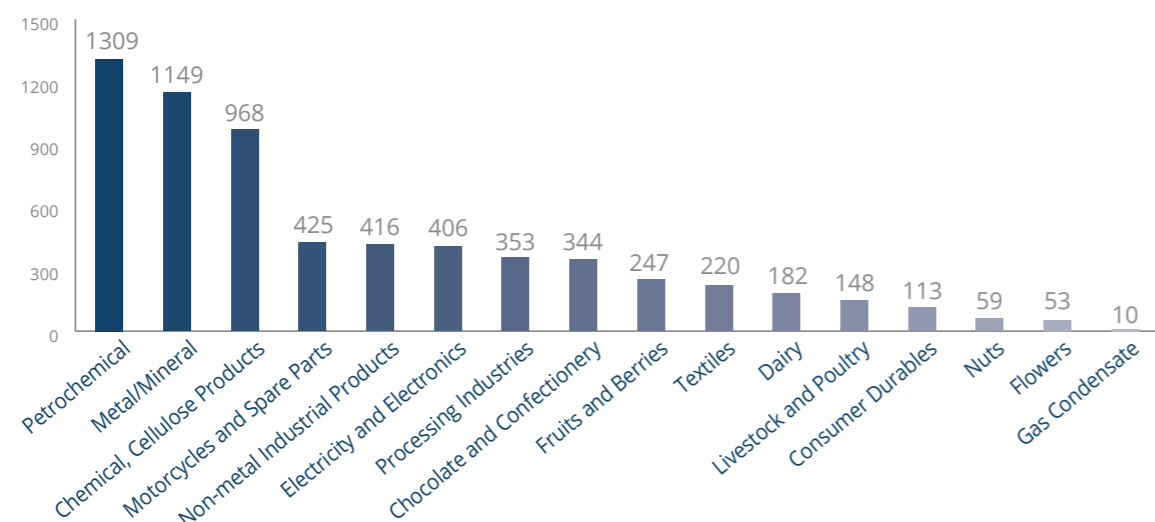
30. Wee, Sui-Lee (2015), *China's Xi: Trade between China and Silk Road nations to exceed \$2.5 trillion*. Reuters. <https://www.reuters.com/article/us-china-economy-oneroad/chinas-xi-trade-between-china-and-silk-road-nations-to-exceed-2-5-trillion-idUSKBN0MPOJ320150329>

31. Brown, Ato (2017), *Aktau – The Gateway to Kazakhstan*. World Bank Blogs. <https://blogs.worldbank.org/europeandcentralasia/aktau-gateway-kazakhstan>. Much of this infrastructure is intertwined with the International North South Transport Corridor, an infrastructural initiative to connect India, Russia and Europe via Iran, Central Asia and the Caucasus. While this project remains distinct from BRI, it benefits directly from Chinese-sponsored infrastructure and is partially executed and negotiated through China's Shanghai Cooperation Organisation. As a result, this paper sees it as complementary to Chinese ambitions and does not see the analytical use of separating it from the BRI in the context of Iran-Kazakh relations.

32. Given the prominence of organised crime and kleptocracy in the Caspian littoral states, as well as the kinds of goods which transit their waters (oil, benzene, caviar, precious metals, Afghan heroin and more), the existence of smuggling networks seems almost certain. The trademark strategy of Iranian smuggler Babak Zanjani in the mid-2000s was to sail oil tankers off the coast of Malaysia and transfer their cargo to third-party ships, thus obscuring their origin. The open waters of the Caspian would be an ideal place for Iranian exporters to do the same with Russian or Kazakh ships, especially because they do not run the risk of interdiction by American or European vessels.

33. For more, see Cooley, Alexander and Heathershaw, John (2017), *Dictators Without Borders: Power and Money in Central Asia*. Yale University Press.

**Chart 1: Potential of Iranian Exports to Kazakhstan, by Category (2018, in millions US\$)<sup>34</sup>**



This plan would not only see Kazakhstan serve as an entrepôt for Iranian energy exports to China, but also as a market in its own right for many of Iran's non-oil goods. According to MIT's Observatory of Economic Complexity, Iranian product exports stood at \$62 billion in 2018; the proposed figures for Kazakh trade would thus represent 3-6% of the total. The problem, however, is that these figures are extraordinarily ambitious and unrealistic. Although the data should be handled with caution, every source consulted shows that trade during this period was only a small percentage of the figures outlined above and does not show any steady growth even in the years when the sanctions loosened. Table 1, for example, shows the bilateral trade numbers from the Iranian embassy in Kazakhstan (in millions US\$).

**Table 1: Kazakh-Iranian Bilateral Trade Figures (in millions US\$)<sup>35</sup>**

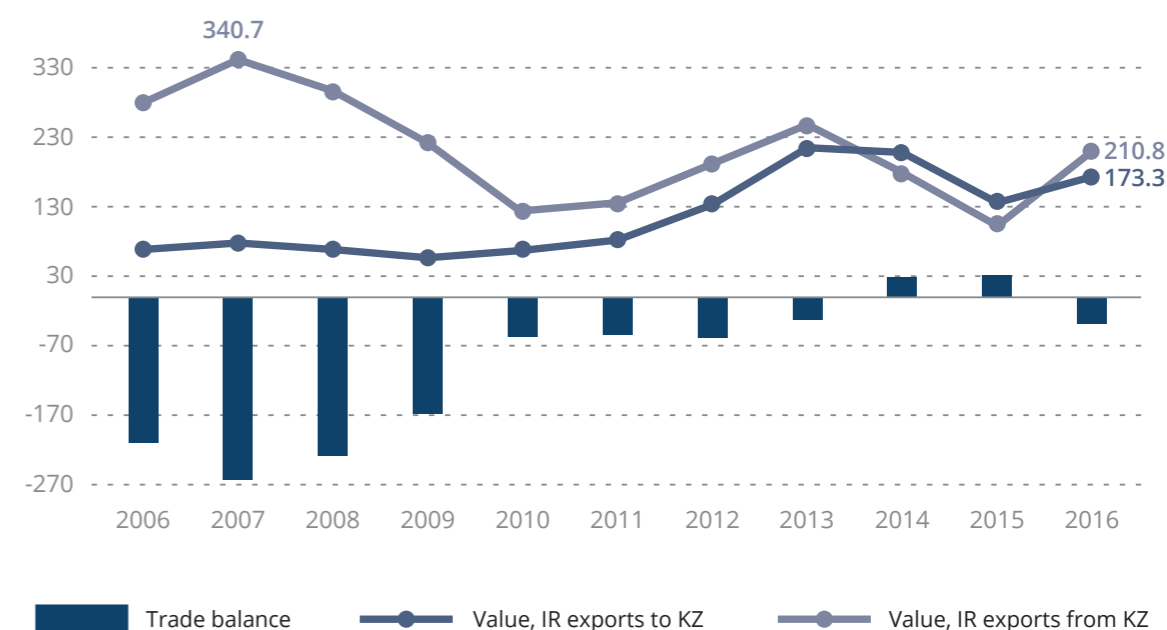
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Iranian Exports to Kazakhstan</b>	135	210	208	151	174	167	131	170	145
<b>Iranian Imports from Kazakhstan</b>	186	84	179	107	211	68	87	102	35
<b>Trade Balance</b>	-51	+126	+29	+44	-37	+99	+44	+68	+110
<b>Total Volume</b>	321	294	387	258	385	235	218	272	180

34. Trade Promotion Organization of Iran (Sāzemān-e tose'-ye tejārat-e Irān; 2018), *Increasing the Volume and Variety of Goods Exported to Kazakhstan (Prozhe-ye afzāyesh-e hajm va tanavo'e mahsulāt-e sāderāti be keshvar-e Qazāqestān)*, p. 2

35. Years 2016-2020 from the Iranian Customs Authority via Trade Promotion Organization of Iran (Sāzemān-e tose'-ye tejārat-e Irān; 2021), *Trade Profile: Kazakhstan*. <https://tpo.ir/countries/>; years 2012-2015 from the documents previously hosted (but since removed) by Iranian Embassy in Astana (2019), *Iranian-Kazakh Trade (Mobādelāt-e tejāri-ye Irān va Qazāqestān)*. <https://astana.mfa.ir/>. Last accessed 14 August 2020

The figures above resemble those provided by other bodies within Iran, with variations in data (roughly 2-3% for some years) attributable to rounding errors and mistakes in the conversion of the Gregorian to the Iranian calendar.<sup>36</sup> The same data – with the unexplained exception of 2013 – also appears in reports from the Iranian Chamber of Commerce, visualised in Chart 2.

**Chart 2: Kazakh-Iranian Trade Flows, 2006–2016 (in millions US\$)<sup>37</sup>**



These figures seem plausible on the surface and can be reconstructed in each organisation's report by adding up the dollar amounts of roughly 100 listed products or product categories. That being said, the data should be approached with extreme caution and are better understood as framing the broad outlines of the trade rather than providing exact figures.

With that in mind, the most recent official data from Iran indicate that bilateral trade with Kazakhstan remains largely agricultural. Even if the dollar values are incorrect, it is clear that Tehran has nowhere close to the trade profile imagined by the Trade Promotion Organization in its 2018 report.

36. The Iranian calendar, a.k.a. the Solar Hijri calendar, begins in 622 A.D. and has its New Year in March, rather than January. As a result, a year such as 1390 denotes the period between March of 2011 and 2012, and thus could create discrepancies in the data when converting back into Gregorian.

37. Iranian Customs Authority via Chamber of Commerce (2018), *Researching Iran's Export Potential to Kazakhstan (barresi-ye potānsielha-ye sāderāti-ye Irān be Qazāqestān)*. <http://etdf.ir/fa/wp-content/uploads/2018/11/>. p. 24



Table 2: Top Five Kazakh-Iranian Trade Products (2020, in millions US\$)<sup>38</sup>

Exports to KZ	\$ Value	Imports from KZ	\$ Value
Pistachios (all types)	37.1	Sunflower Seed Oil	9.9
Seedless Raisins	12.5	Seedless Barley	8.9
Fresh and Dried Dates	10.5	Arugula	6.4
Dates (other)	5.9	Livestock Feed	4.6
Fresh Apples	5.8	Mining and Boring Machinery	6.2

In the end, these statistics may reflect embezzlement, bribery, bad data collection or the use of an inconsistent reference year for calculating total dollar values.<sup>39</sup> Whatever the real value, though, the figures above portray Kazakh-Iranian trade as (1) small, relative to both countries' total trade volumes (< 0.01% each); (2) primarily composed of agricultural products and low value-added goods; and (3) lacking any kind of exchange in oil or precious metals. While these data have no small share of inconsistencies (there is variation even between different Iranian sources), in the aggregate they can be treated as indicating broad annual trends.<sup>40</sup>

It is hard to draw any further conclusions from the data, as the sample size is relatively small and riddled with uncertainties. That said, certain trends are worth noting. First, the dataset indicates that Kazakh-Iranian trade only marginally benefitted from the lifting of US sanctions under the JCPOA (January 2016): the data show a spike in 2016 and collapse over the next four years. However, the data from 2012 to 2014 – the height of the Obama-era sanctions – actually show an expansion in bilateral trade (Iranian Customs: roughly \$321 million to \$387 million). This suggests that while sanctions may limit the overall volume of the trade, short-term fluctuations are more dependent on oil and currency valuations. This is most clearly on display in the values for 2015, a year defined by a 70% drop in oil prices relative to 2013 and a 23% collapse in the Kazakh tenge.

This is not to say that sanctions have had no effect. If one looks at a longer timeframe of data, it is clear that the overall volume of trade has shrunk eight- to 10-fold over the last 13 years (according to both Chatham House and Iranian Customs). For example, Kazakh exports to Iran were as high as \$2.4 billion in 2007, largely made up of oil and gas. Admittedly, it is difficult to separate the impact of sanctions from the financial crisis or oil market dynamics

38. Iranian Customs Authority via Trade Promotion Organization of Iran (*Sāzemān-e tose'-ye tejārat-e Irān*; 2021), *Trade Profile: Kazakhstan*. <https://tpo.ir/countries/ناشرقازق>

39. Given the collapse in the value of the Iranian rial (roughly 35,000/\$ in 2015 to 156,000/\$ in 2021), indexing older trade values at 2018/2019 rates could give an artificially depressed figure. One must also keep in mind Iran's dual-exchange system, which gives importers preferential access to foreign currency at rates that are far cheaper than those on the black market.

40. Another, more divergent source is Chatham House's ResourceTrade.Earth project, which assembles historical data from the UN Commodity Trade Statistics Database. The numbers it records for bilateral trade are much larger than those reported by Iranian entities, even if the overall figures still relatively small. As one example, this dataset records bilateral trade as closer to \$500 million per year since 2015, with the majority of the trade balance tilted in Kazakhstan's favour. However, the data Iranian and Kazakh importers provide to the UN database may be similarly subject to bias and incomplete reporting.

over this time frame, especially with such unreliable data. However, the fact that trade has not reverted to anywhere near its 2007 level suggests that US sanctions have placed a ceiling on the expansion of Kazakh-Iranian economic ties: while bilateral trade may continue, the legal, logistical and financial costs of trading with Iran seem to have deterred broader engagement.<sup>41</sup>

It's worth noting that banking cooperation between the two countries is practically non-existent. As far back as 2009, a cable from Wikileaks quoted the Kazakh ambassador to Tehran stating that a lack of trust, restrictions on foreign transactions and legal issues presented major barriers to Kazakh investment in the country – so much so that the embassy opted to finance its Tehran operations out of a Dubai bank account.<sup>42</sup> Today, relatively little has changed: the one bank listed on Iranian websites as providing export credits (Kazakhstan's Delta Bank) was liquidated in 2017, and there is no public information suggesting that any other Kazakh banks have dealings with Iran. In a 2019 interview, Kazakhstan's new ambassador to Iran, Askhat Orazbay, said sanctions had blocked the full development of the Iranian freight corridor and financial transactions were practically nonexistent.<sup>43</sup> The Chairman of the Iran-China Chamber of Commerce, Majid-Reza Hariri, also noted in 2020 that money laundering is another concern. Because Iran is not party to the Financial Action Task Force (FATF), Russian and Chinese entities routinely refuse to do business with Iranian banks out of fear of the legal repercussions.<sup>44</sup>

Despite the opacity of data and grim political outlook, however, it appears that Kazakh-Iranian trade may actually be on the rebound. Over the course of the 12 months from March 2020 to March 2021, Iranian ships have continued an active trade with Kazakh ports on the Caspian – so active, in fact, that it has increased two and a half fold relative to before the outbreak of Covid-19.<sup>45</sup> According to MarineTraffic, a maritime intelligence platform, 39 unique Iranian vessels (one oil tanker and 38 cargo ships) carried out a total of 249 port calls in Aktau between March 1, 2020, and March 13, 2021. For comparison, Iranian traffic to the same port totalled only 101 port calls between March 2019 and March 2020.<sup>46</sup> Removing the oil tanker from this dataset, the average deadweight tonnage of these ships is 3912 tonnes; assuming, conservatively, that the average ship is packed to only 60% capacity, this would equal a total of 584,452 tonnes of Iranian cargo which could have possibly been unloaded in Kazakhstan during the study period.<sup>47</sup> But despite the year-over-year increase in port calls,

41. This is further supported by Kazakhstan announcing it was ending steel exports to Iran under US pressure in 2017, a fact borne out by the Iranian Customs data (see also Grajewski 2019).

42. Wikileaks Cable 09ASTANA1006-a (2009), *Kazakhstan: Key Majilis Leader Named Ambassador To Iran, Discusses Internet Law, Aliyev Case, Early Elections*. [https://wikileaks.org/plusd/cables/09ASTANA1006\\_a.html](https://wikileaks.org/plusd/cables/09ASTANA1006_a.html)

43. Iranian Labour News Agency (2019), *Sanctions Impede Iran-Kazakhstan Trade Development*. <https://www.ilna.news/Section-politics-3/838218-sanctions-impede-iran-kazakhstan-trade-development>

44. Radio Farda (2020), *Trade Official Says Russian And Chinese Banks Refuse To Deal With Iran*. RFERL. <https://en.radiofarda.com/a/trade-official-says-russian-and-chinese-banks-refuse-to-deal-with-iran/30762221.html>

45. Since only Caspian littoral states are allowed to sail in Caspian waters, there are no third-party flags in this dataset, which may conceal the origin of a ship's cargo, making it a relatively straightforward area of analysis.

46. All data can be accessed via [www.marinetraffic.com](http://www.marinetraffic.com).

47. In reality, the total figure of unloaded cargo is likely less, as the ships likely do not unload all of their cargo in one location but instead may spread them out among multiple Caspian ports (Astrakhan, Baku, Turkmenbashi, etc.) during a voyage.

it should be noted that the overall size of Iranian exports to Kazakhstan remains small, both in absolute terms and as a proportion of total Iranian trade. The numerical breakdown is shown in Table 3.

**Table 3: Iranian Port Calls in Aktau, Kazakhstan, March 2020 – March 2021**

Date	Number of Iranian Port Calls in Aktau
March 2020	22
April 2020	27
May 2020	23
June 2020	14
July 2020	14
August 2020	12
September 2020	9
October 2020	11
November 2020	15
December 2020	27
January 2021	25
February 2021	36
March 1-13 2021	14

Unfortunately, similar data are not available for Kazakh ships transiting to Iran, as no Kazakh-flagged vessels appear to have openly travelled to Iranian ports during this period. Given the insurance and sanctions implications of conducting trade with Iran, this is plausible; however, it is equally likely that Kazakh exporters may export via a third party willing to take on sanctions risk (namely, Russia), load their goods directly onto Iranian vessels at Aktau or else conduct the majority of their trade overland.<sup>48</sup>

## Iranian-Uzbek Trade

Given the issues outlined thus far, it should be no surprise that figures on Uzbek-Iranian trade are wildly divergent and unreliable. However, like the Kazakh-Iranian statistics, they show that bilateral trade is negligible overall: since 2014, neither country has been responsible for more than 2% of the other's imports or exports.<sup>49</sup> While Iranian policy planners may foresee billions of dollars in commerce in the coming years, to date the total volume of trade

48. A search of Russian-flagged vessels travelling directly from Kazakh ports to northern Iran (Astara, Nowshahr, Anzali and Amirabad) during the same period returned relatively few results: 19 cargo ships conducting a total of 29 port calls with an average deadweight tonnage of 3749 tonnes. No Turkmen or Azeri ships are present in the dataset.

49. This conclusion is based on the figures from the Iranian Customs Authority discussed in this section. Figures from external sources, such as Chatham House, often contain different dollar values but still show total volume of trade as lower than 2% of either country's balance.

appears to be only several hundred million per year and is almost entirely agricultural. Table 4 illustrates these figures from the Iranian Customs Authority.

**Table 4: Iranian Figures: Uzbek-Iranian Trade Balance, 2013-2020 (in millions US\$)<sup>50</sup>**

Year	2013	2014	2015	2016	2017	2018	2019	2020
Iranian Exports to Uzbekistan	98	107	233	179	100	139	237	133
Iranian Imports from Uzbekistan	134	101	31	61	60	45	146	77
Trade Balance	-36	+6	+202	+118	+40	+94	+91	+56
Total Volume	232	208	264	240	160	184	383	210

Here again, one finds discrepancies between external sources and internal Iranian figures, but these data likely provide a reasonable outline of the relationship. When it comes to product break-downs, Iranian-Uzbek data show some diversification away from agriculture into chemicals, as seen in Table 5 below:

**Table 5: Top Five Uzbek-Iranian Trade Products (2020, in millions US\$)<sup>51</sup>**

Exports to UZ	\$ Value	Imports from UZ	\$ Value
Mining and Masonry Machinery	11.2	Cotton (raw)	41.5
Potatoes (fresh or frozen)	4.1	Potassium Chloride	6.7
Film-grade Polyethylene <sup>52</sup>	3.4	Single-string Yarn (combed)	2.4
Polyethylene Fabric	3.4	Coal Electrodes for Furnaces	2.3
Linear Alkylbenzenes <sup>53</sup>	3.3	Single-string Yarn (uncombed)	1.8

As in the case with Kazakhstan, it is difficult to determine which set of numbers reflects reality, as Uzbekistan likely seeks to downplay the size and scope of the trade while Iran may try to do the opposite. Given the discrepancies in data, it is similarly difficult to see what effect the incumbency of Uzbek President Shavkat Mirziyoyev and his reforms have had on commerce, though both sets of sources agree that there have been massive increases

50. Iranian Customs Authority via Trade Promotion Organization of Iran (2019), *Ravābet-e Tejāri-ye Dojānebeh-ye Irān va Ozbekistān* (Bilateral Trade between Iran and Uzbekistan), <http://kazakhstan.tpo.ir/uploads/europe/g-uzbakestan-2.pdf> and (2021) *Trade Profile: Uzbekistan*: <https://tpo.ir/countries/> [ناتس کجیز](https://tpo.ir/countries/). It should be noted that other data-collecting bodies in Iran, such as the Ministry of Foreign Affairs, show figures twice as large in some instances, especially for the 2018-2020 period (see Iranian Ministry of Foreign Affairs (2019) *Amar-e Tejarat-e Dojanebeh-ye Iran va Ozbekistan* (Iran and Uzbekistan Bilateral Trade Figures), <https://economic.mfa.ir/portal/newsview/572779>)

51. Iranian Customs Authority via Trade Promotion Organization of Iran (2021), *Trade Profile: Uzbekistan*. <https://tpo.ir/countries/> [ناتس کجیز](https://tpo.ir/countries/)

52. A chemical primarily used in the production of plastics

53. A chemical primarily used in the production of detergents



since his predecessor Islam Karimov.<sup>54</sup> Whatever the exact figures, though, it can be broadly said that the Iranian government again suffers a trade deficit with its Central Asian neighbour and has a relatively minor commercial presence in the country. Though bilateral meetings in recent months have led to promises of new trade agreements and increased Uzbek commercial activity at Iran's Chabahar Port, to date the pace and development of trade relations seems to be doubly constrained by the Covid-19 pandemic and US sanctions regime.<sup>55</sup>

In sum, despite seeing rapid expansion of infrastructure and political cooperation in the period since 2016, it has not resulted in Iran becoming a meaningful economic partner for either Uzbekistan or Kazakhstan. Though the exact figures remain controversial, all sources indicate that bilateral trade is a small part of all three countries' trade balances and does not appear to have had an impact on Iran's ability to access foreign currency. While the relative volume of trade likely did increase during this period, it is worth noting that the goods being traded remain primarily agricultural. As a result, while the potential for a large trade relationship is certainly there, it appears that US sanctions have been successful in derailing its expansion. In the coming years, China will have to confront this obstacle head on if it seeks to develop Iran into a full-fledged corridor of the New Silk Road. At the time of writing, however, there is little evidence to suggest that its leadership has inspired local partners, such as Kazakhstan and Uzbekistan, to flout the US embargo.

In the weeks after President Trump withdrew the United States from the JCPOA, the Iranian rial suffered a devastating round of devaluation, while billions in expected revenue from firms such as Boeing, Total and Peugeot were suddenly thrown into legal limbo. With Iran again limited in its ability to export oil (especially after the end of the Significant Reduction Exceptions in May 2019), the country doubled down on its strategies of import substitution and economic diversification. Perhaps buoyed by the success of its initiatives in Afghanistan and Iraq – where Iranian firms have become key suppliers of most things from electricity to foodstuffs, and are better able to access foreign reserves – Iranian policy makers also signalled the importance of an eastward realignment.

In June 2019, amidst a flare-up in tensions with the United States, President Rouhani embarked on an ambitious tour of Central Asia. Speaking at the Shanghai Cooperation Organisation (SCO) summit in Kyrgyzstan, he warned of the “plague of [American] unilateralism” and the challenges it posed to regional prosperity.<sup>56</sup> In front of Xi Jinping, Vladimir Putin and the leaders of the Central Asian Republics (CARs), he declared Iran's desire to see the United States removed from the security architecture of the region and implied this could be best accomplished by a strategic balance of Russian and Chinese interests.<sup>57</sup> That same month, the Iranian Majles ratified a free trade agreement with the Eurasian Economic Union, paving the way for increased trade and investment with Russia and Central Asia.<sup>58</sup> These two events, coming a year after the US pulled out of the JCPOA, marked the culmination of a decades-long paradigm shift in Iranian foreign policy – one that saw Tehran gradually turn to the East as a source of diplomatic, economic and military security.

Broadly speaking, the Rouhani government aimed to achieve three goals in Central Asia:

- **Gain membership of regional organisations** (primarily the SCO and EAEU) to counteract US pressure and facilitate economic integration;
- **Use the normalisation of ties** with the East to boost Iran's diplomatic standing worldwide and overcome its economic isolation; and
- **End the so-called 'strategic triangle'** between the US, China and Russia in favour of a system dominated by the latter two.

Within this foreign policy framework, Central Asia's political heavyweights, Kazakhstan and Uzbekistan, will play a crucial role in helping Iran achieve all three objectives. Despite their long-term promise, however, these relationships remain at arm's length, as evidenced by Iran's

54. For example, compare the Iranian Customs Authority's figure of \$264 million in 2015 and \$424.2 million in 2019 (or Chatham House's more conservative \$60 million in 2015 to \$235 million in 2019), though much of this growth may also stem from the end of secondary sanctions under the JCPOA.

55. Regenhardt, Darius (2021), *Uzbekistan: Towards Greater Cooperation with Iran?* Novastan. <https://novastan.org/en/uzbekistan/uzbekistan-towards-more-cooperation-with-iran/>

56. RFE/RL Kyrgyz (2019). *Iranian President Tells SCO Summit That Trump Poses 'Serious Risk' To Stability*. Radio Free Europe/Radio Liberty. <https://www.rferl.org/a/shanghai-cooperation-organization-starts-summit-in-bishkek/29998881.html>

57. The 2019 Bishkek Summit featured the leaders of the eight SCO states as well as four affiliated countries (Iran, Afghanistan, Belarus and Mongolia).

58. Lim, Kevjn (2020), *Iran's Eurasian Wager*. The Washington Institute. <https://www.washingtoninstitute.org/policy-analysis/view/irans-eurasian-wager>

failure to become a full member of the SCO or EAEU and its minimal security cooperation with its Central Asian neighbours.

In the 1990s, Iran tried to integrate the post-Soviet republics into its sphere of influence through the use of regional bodies, a policy which failed yet is instructive for understanding early interactions between Tehran and the CARs. By most accounts, the early years of Iran's 'regionalist' approach were met with ideological conflict and severe tensions, not least with Kazakhstan. During a 1996 meeting of Iran's Economic Cooperation Organization (ECO), for example, the Kazakh delegation stormed out of the assembly in protest of Iranian demands that it cut ties with Israel. As Feiler and Lim (2014) note, Iran also tried to use the Organisation of Islamic Cooperation (OIC) to do the same, with little success.<sup>59</sup>

More than two decades later, however, Iran's regional policy has become more pragmatic (as argued in Duarte (2014) and Koolae et al. (2014)) and has seen a renewed drive to embrace the CARs through regional organisations, namely the Shanghai Cooperation Organisation and the Eurasian Economic Union. Entrance into either bloc would help Iran blunt the effects of US sanctions and balance against the threat of American aggression; for both reasons, joining them has been a key policy priority for Tehran for more than a decade.

As an economic and political bloc, the SCO offers unparalleled opportunities for both investment and security cooperation. Since its inception, it has also pursued a policy of non-intervention in members' affairs, adopting a largely hands-off approach to issues of governance, human rights and reform. For these reasons, joining the SCO has been a key goal of Iran's foreign policy establishment from the mid-2000s through the present day. From an Iranian perspective, the SCO serves as a crucial counterbalance to American pressure. As former President Ahmadinejad outlined in his 2006 address to the group, "we want this organisation to develop into a powerful body influential in regional and international politics, economics and trade, serving to block threats and unlawful strong-armed interference from various countries [i.e. the US]."<sup>60</sup> Meanwhile, Tehran's coordination with Russian forces in Syria, as well its participation in the BRI, mean that joining the SCO would formalise its relationship with its Great Power neighbours and serve as a deterrent to American unilateralism.

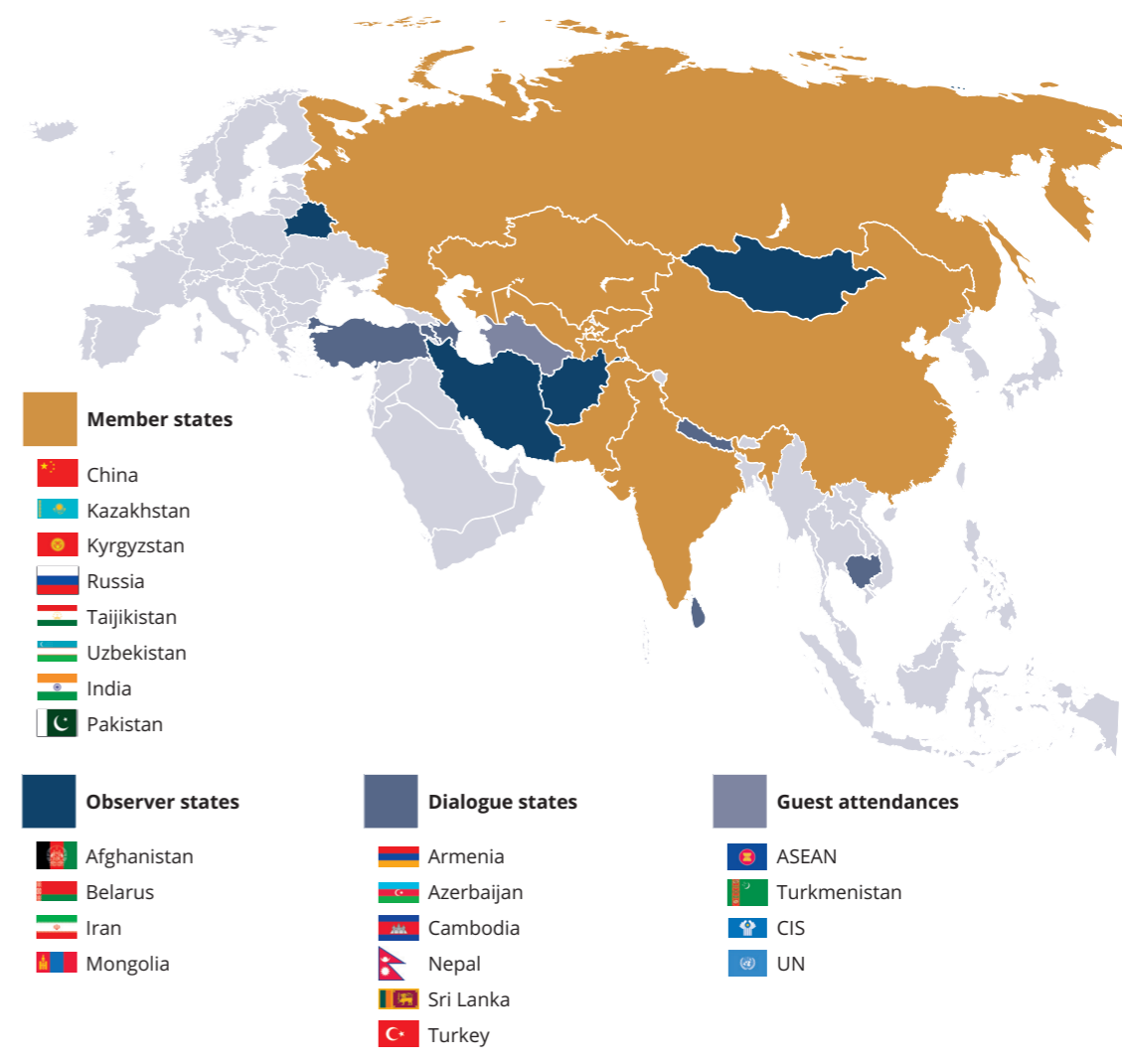
To date, however, Iran's efforts in this area have been unsuccessful. Though it was granted Observer Status in 2005, Iran's 2008 application for membership was quietly rejected. The technical reason cited was that the SCO charter bans the ascension of countries under UN sanctions, though that is likely only part of the story. For one thing, Iranian membership would be seen as an outright rebuke of the United States. Between 2006 and the early 2010s, this was not a risk that either China or Russia was willing to take, given that both (nominally) participated in the sanctions against Tehran. After the fallout from the 2014 Russian invasion of Crimea, as well as the litany of crises under the Trump Administration regarding China, an Iranian membership in the SCO may well serve as a future bargaining chip in Russian-US and Chinese-US relations. Nonetheless, such a move would inflame ties with Washington and could trigger a dangerous cycle of tit-for-tat retribution.

59. Feiler, Gil and Lim, Kevjn (2014), *Israel and Kazakhstan: Assessing the State of Bilateral Relations*. The Begin-Sadat Center for Strategic Studies (BESA). p. 35

60. Quoted in Noi, Aylin (2012), *Iran and the Shanghai Cooperation Organization in the Changing International Environment*. Indian Journal of Asian Affairs 25:1. p. 50.

Figure 4: Shanghai Cooperation Organisation (SCO)<sup>61</sup>

<b>Year Founded:</b> 2001
<b>Total Population:</b> 3.06 billion
<b>Share of World GDP:</b> ~25% (\$21 trillion)
<b>Total Trade Volume among Members:</b> \$337 billion
<b>Outstanding Chinese Loans to SCO States:</b> > \$50 billion
<b>Purpose:</b> 1. Secure regional stability through military and security cooperation 2. Facilitate trade and investment 3. Coordinate and execute BRI projects
<b>Notable Bodies:</b> Regional Anti-Terrorism Structure (RATS) – Tashkent, Uzbekistan
<b>Decision-making structure:</b> full consensus between members
<b>Latest:</b> China advocating free-trade zone between all member states (2018)



61. Summarized from Xuequan, Mu (2019), *CDB's loan balance to SCO countries approximates 50 bln USD*. Xinhua News. [http://www.xinhuanet.com/english/2019-06/13/c\\_138141035.htm](http://www.xinhuanet.com/english/2019-06/13/c_138141035.htm) and Bhaya, Abhishek (2019), *Russia, India enhance China's trade within SCO amid tariff war*. CGTN. <https://news.cgtn.com/news/2019-06-15/Russia-India-enhance-China-s-trade-within-SCO-amid-tariff-war-HxJMXlgSRy/index.html>. Chart taken from an anonymous template (2018) hosted at <https://yourfreetemplates.com/shanghai-cooperation-organization-templates/>

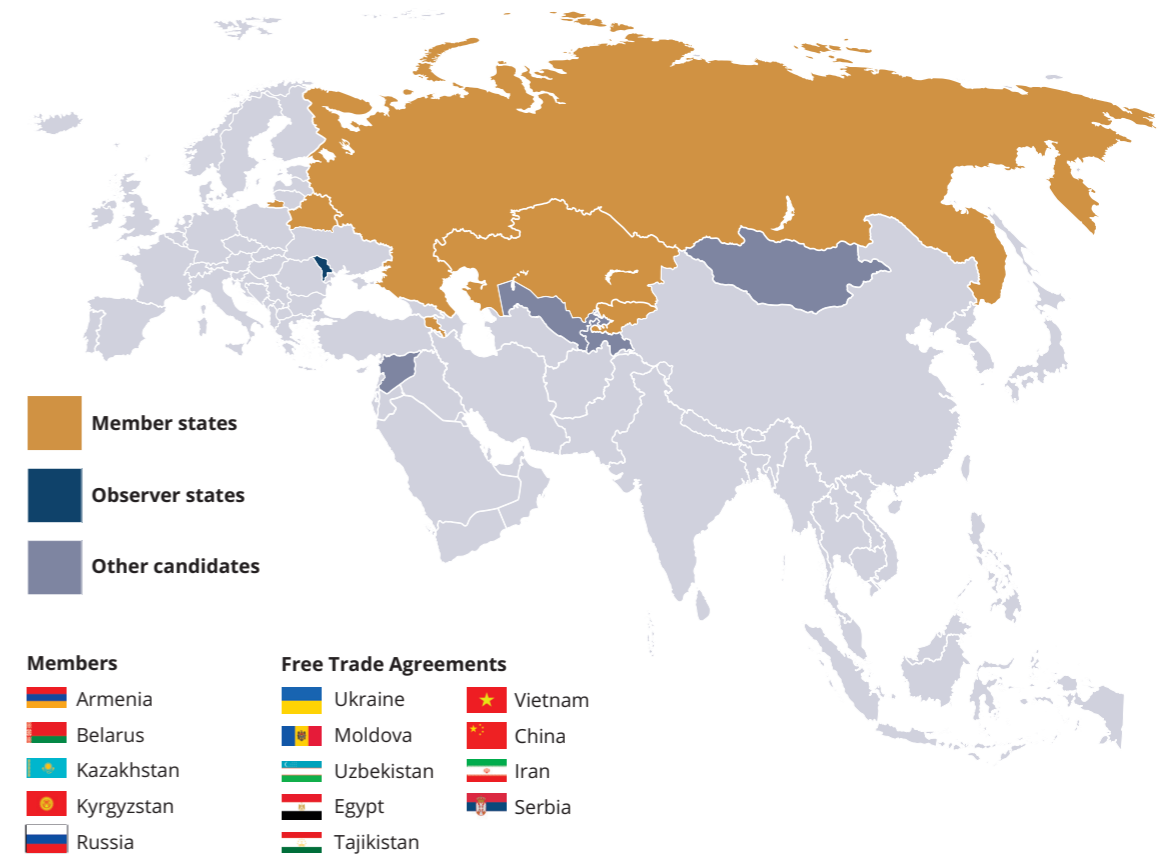
Figure 5: Eurasian Economic Union (EAEU)\*<sup>69</sup>

<b>Year Founded:</b> 2014
<b>Total Population:</b> 180 million
<b>Share of World GDP:</b> ~6% (\$5 trillion)
<b>Total Trade Volume among Members:</b> < \$50 billion; more than 85% of imports-exports are to third countries
<b>Purpose:</b> 1. Create a common market 2. Decide foreign trade policy as a bloc 3. Coordinate with CSTO and China's SCO on issues of regional integration and security
<b>Notable Facts:</b> Represents only 1.8% of global trade, but 6.6% of energy trade
<b>Structure:</b> Russia contains 87% of the EAEU's GDP and 80% of the people
<b>Note:</b> Best understood as analogues to European institutions: EAEU inspired by EU, CSTO by NATO

Outside of US pressure, another reason Iran has been denied full status is that its ascension to the SCO would have serious implications among regional states. Iranian membership would effectively mark the end of China's 'Strategic Hedging' policy in the Persian Gulf, unless Saudi Arabia and the United Arab Emirates were incorporated as equal members.<sup>62</sup> This, in turn, would raise further opposition from the US, drag the SCO into various Middle Eastern conflicts, and derail the organisation's consensus-driven structure (already strained by the tensions between its South Asian members, India and Pakistan). There is also the question of whether Russian and Chinese interests would not be better served by engaging Tehran independently. For all of these reasons, it seems that an Iranian accession to the SCO is unlikely in the near future, though that could rapidly change as internal and external dynamics reshape the group's political calculus.

Kazakhstan has historically been outspoken in its support of Iranian membership in the organisation.<sup>63</sup> As one senior Kazakh official stated in a 2017 state visit, "Iran possesses large capabilities and capacities for economic, cultural and social ties with the member-countries of the [SCO], and Kazakhstan, as a key member, supports Iran's presence in the organisation."<sup>64</sup> Though this has yet to materialise into any concrete gains for Tehran, Kazakhstan – by virtue of its size, economy, and role in the BRI – is a significant node in the internal dynamics of the SCO. As such, winning over Nur-Sultan should be seen as a minor victory for Iranian policy, even if other members remain more sceptical of Tehran's intentions.

Uzbekistan, for its part, has developed a similar stance over the last few years. In a 2015 summit of the SCO, then Uzbek President Islam Karimov noted he was not opposed to Iran joining the organisation, though he stopped short of declaring support for such an initiative.<sup>65</sup> Under Mirziyoyev's tenure, this position has gone from strategic neutrality to outright support: in a September 2017 meeting with Rouhani, the Uzbek executive stated that he was in support of Iran's membership in the organisation.<sup>66</sup> However, it is clear that Mirziyoyev sees this as a peripheral issue at best. His most recent address to the SCO (November 2020) contains no reference to Iran's membership.<sup>67</sup> Furthermore, Uzbek diplomats have issued no public statements in favour of increasing intelligence cooperation with Iran, a position that may come with some weight, given Uzbekistan's role as the headquarters of the SCO's Regional Anti-Terrorism Structure (RATS).<sup>68</sup> Thus Uzbekistan, like Kazakhstan, supports Iranian integration in theory, but appears reluctant to push the issue without greater consensus.



\*Note: This map is from 2019; Uzbekistan has since become an observer state within the EAEU

62. Strategic Hedging, as defined in Garlick (2020), is 'the mitigation of risk via the diversification of strategic investments... in the interests of comprehensive national security'. (p. 4) In the Persian Gulf, this translates to China's policy of doing business with all sides and remaining neutral in regional conflicts for the sake of securing a steady energy supply.

63. Kaleji, Vali (2016), *SCO Summit in Tashkent and the Iran Question*. IRAS. <http://www.iras.ir/en/doc/note/1576/sco-summit-in-tashkent-and-the-iran-question>. For more, see Tehran Times (2020), *Russia Reiterates Support for Iran's Full Membership in SCO*. <https://www.tehrantimes.com/news/452027/Russia-reiterates-support-for-iran-s-full-membership-in-sco>

64. Kazinform International News Agency (2017), *Kazakhstan supports Iran's joining SCO*. [https://www.inform.kz/qz/kazakhstan-supports-iran-s-joining-sco\\_a3077884](https://www.inform.kz/qz/kazakhstan-supports-iran-s-joining-sco_a3077884)

65. Kaleji (2016).

66. Rouhani, Hassan (2017), *President in a meeting with Uzbek counterpart: No obstacles on the way of deepening Iran-Uzbekistan relations*. Iranian Foreign Ministry. <http://www.president.ir/fa/100622/printable>

67. Mirziyoyev, Shavkat (2020), *President Shavkat Mirziyoyev's speech at the SCO videoconference summit*. Uzbek Foreign Ministry. <https://president.uz/en/lists/view/3936>

68. For example, Iran was not invited to participate in RATS' most recent (virtual) counter-terrorism exercises in Xiamen, China, in December 2020 (SCO RATS Executive Committee (2019), *Xiamen-2019 Joint Anti-Terrorist Exercise*. <http://ecrats.org/en/news/7493>)

69. Image from Wikimedia Commons (2019), *Eurasian Economic Union*. [https://commons.wikimedia.org/wiki/File:Eurasian\\_Economic\\_Union.svg](https://commons.wikimedia.org/wiki/File:Eurasian_Economic_Union.svg). Information summarised from Devonshire-Ellis, Chris (2019), *China-Russia Great Eurasian Partnership on Development Track as EAEU Agree to Regional Free Trade*. Silk Road Briefing (Dezan Shira & Associates). <https://www.silkroadbriefing.com/news/2019/02/12/china-russia-great-eurasian-partnership-development-track-eaeu-agree-regional-free-trade/>; information on exports from Giucci, Ricardo (2017), *The Eurasian Economic Union: Analysis from a Trade Policy Perspective*. Berlin Economics <https://berlin-economics.com/wp-content/uploads/Eurasian-Economic-Union-trade-policy-perspective.pdf>. p. 12

Iran's motivations for seeking closer ties with the EAEU largely mirror its strategic approach to the SCO. Access to EAEU markets is seen as a way for Iran to boost its non-oil exports, and as far as the data show, this has been partially successful. According to the EAEU's internal figures, total trade between Iran and member-states totalled \$2.45 billion in 2019, down from \$3 billion in 2016, but nonetheless a significant volume of commerce. Of this, Iranian exports totalled some \$823 million worth of goods (primarily sent to Russia and Armenia), while its imports (mostly from Russia and Kazakhstan) were almost entirely made up of cereals, cooking oils and animal feed.<sup>70</sup> This would mean that the EAEU represented 4.2% of Iran's total trade volume for the year, relatively small compared to trade with China (perhaps one-third of Iran's total trade in 2019), but still a significant sum given Iran's international isolation.<sup>71</sup> Keeping in mind the many problems with Iranian datasets, that number has apparently increased since the end of 2019 according to the country's Customs Administration. Total trade with EAEU states reached \$1.78 billion (of which \$539 million were exports) in the six-month period between October 2019 and April 2020.<sup>72</sup>

That increase can be attributed to Iran's free trade agreement with the Union, which was ratified in June 2019 and came into effect in December 2019. However, the agreement covers only half of the goods transacted between the parties and has decidedly not liberalised Iranian tariffs (which begin at a minimum of 4%). One must also consider that there is little demand for Iranian oil among EAEU states, and thus trade is unlikely to reach the volumes seen in Iran-China or Iran-India commerce. As Grajewski (2020) adeptly summarises it, the FTA is limited in scope but "symbolically significant as a demonstration of [Russia's] solidarity with Iran...especially as Russia seeks to elevate the EAEU as an alternative to Western-led integration."<sup>73</sup>

While Uzbekistan is not an EAEU member and thus has little say in the matter, Kazakhstan seems to have advocated for and benefitted from Iran's closer ties with the Union. According to one source, Nazarbayev even broached the topic of Iran signing an FTA with the group in 2015 and used the opportunity of a bilateral visit to strategise about potential routes of cooperation.<sup>74</sup> The economic motivations are clear: according to the October 2019 to April 2020 figures, Kazakhstan represented roughly 20% of Iran's EAEU imports and 16% of its

exports to the bloc.<sup>75</sup> To expand this trade regime, Kazakh diplomats have also recently expressed interest in investing in the Persian Gulf port of Chabahar, a move which will likely be facilitated by Russian credit and reduced freight taxes secured through the EAEU.<sup>76</sup> Thus, while the EAEU continues to be dominated by Moscow, it is clear that Nur-Sultan favours deepening the organisation's ties with Iran and stands to gain from incorporating it into the Union's economic networks.

Together, Uzbekistan and Kazakhstan seem to be cautiously warming to the idea of Iran's regional integration, though the period since 2016 shows that Iran cannot rely on regional organisations as its sole outlet to the East. Indeed, despite its geographic and political importance, geopolitical factors will make it extremely difficult for Iran to formally join either bloc in the near future. Iranian policy planners seem to be hedging against this uncertainty by moving ahead with bilateral and small-party negotiations, as epitomized by the Caspian Agreement of 2018 in which Iran, Kazakhstan, Russia, Turkmenistan and Azerbaijan settled major legal and territorial disputes without the moderation of a greater regional arbitrator. On the Central Asian side, the inherently political agenda of Chinese and Russian initiatives has also led to increased interest in adopting sovereign frameworks to address regional issues.

As an example of this, one need only look to Uzbekistan's emerging 'neighbourhood policy' to see a potential model for the future of Central Asian relations. Since coming to power in 2016, Uzbek president Shavkat Mirziyoyev has attempted to improve his state's contentious relations with its neighbours – most importantly Tajikistan and Kyrgyzstan – and launched regional summits outside the aegis of the SCO in which he pushed for greater cooperation in water management and food production amongst the CARs.<sup>77</sup> Just as importantly, he has managed to balance the interests of Chinese firms against Russians, Europeans and Americans looking to participate in the privatisation of the Uzbek economy, and has been explicit in highlighting the importance of transport routes outside of the BRI, such as the North-South corridor stretching from India to Iran and Central Asia.<sup>78</sup> Within these new regionalisms, Iran will undoubtedly play a role as a mediator and stakeholder in issues that the CARs seek to solve outside of Chinese and Russian frameworks.

One such area is Afghanistan, in which both Iran and Uzbekistan have vested security and economic interests. Within the last two years, all three parties have signed on to the construction of an economic corridor between Uzbekistan's Termez, Afghanistan's Mazar-i-Sharif and Iranian ports on the Persian Gulf, with the goal of economic integration among

70. Lim (2020)

71. Financial Tribune (2020), *Iran's Trade With China in 2019 Declines 34%*. Financial Tribune: The First Iranian English Economic Daily. <https://financialtribune.com/articles/domestic-economy/101898/irans-trade-with-china-in-2019-declines-34>. Exact percentages are hard to state with confidence, as trade data can show significant discrepancies on both sides.

72. Financial Tribune (2020), *Iran, Eurasian Economic Union Transactions Top \$1.7 Billion in 6 Months*. Financial Tribune: The First Iranian English Economic Daily <https://financialtribune.com/articles/domestic-economy/103203/iran-eurasian-economic-union-transactions-top-17-billion-in-6>

73. Grajewski, Nicole, *Russia and Iran in Greater Eurasia* in Batmanghelidj (2020) *Iran's Bilateral Relations in the New Eurasian Context*. p. 34

74. International Business Publications Inc (2015), 'Strategic Information and the Treaty of the Eurasian Economic Union', Volume 1 in 'Eurasian Economic Union Trade and Investment Agreements Handbook'. Lulu Publishers. p. 15

75. The latter figure would equate to roughly \$83 million, which is not impossible even by the standards of Chatham House's more conservative data on 2012-2018 exports to Kazakhstan (for more, see **Table 1** above). Financial Tribune (2020), *Iran, Eurasian Economic Union Transactions Top \$1.7 Billion in 6 Months*. Financial Tribune: The First Iranian English Economic Daily. <https://financialtribune.com/articles/domestic-economy/103203/iran-eurasian-economic-union-transactions-top-17-billion-in-6>

76. Sistan and Baluchestan Press Office (2019), *Kazakhstan's Desire to Invest in Chabahar Port (Tamāyol-e Qazāqestān jehat-e sarmāye-gozāri dar bandar-e Chābahār)*. Iranian Student News Agency (ISNA). <https://www.isna.ir/news/98021608242/راهباجردن-بیرد-ی-انگه-ای-امیر-س-ت-ه-ج-ن-ا-ت-س-ق-ا-ز-ق-ل-ای-ا-ت>

77. Egamov, Aziz and Sattarov, Rafael (2018), *A New Era for Uzbekistan*. Atlantic Council. <https://www.atlanticcouncil.org/blogs/new-atlanticist/a-new-era-for-uzbekistan/>

78. Laskar, Rezaul (2020), *India, Iran, Uzbekistan to hold first trilateral meet on Chabahar Port Use*. Hindustan Times. <https://www.hindustantimes.com/india-news/india-iran-uzbekistan-to-hold-first-trilateral-meet-on-chabahar-port-use/story-Dcxn4uNUPR7MI5rNuW4dzl.html>

the three countries.<sup>79</sup> Incidentally, this is an area in which the United States has given its tacit blessing, as Indian companies looking to ship goods to Afghanistan via Iran's Chabahar are explicitly exempt from US sanctions.<sup>80</sup> This exemption, as well as Iran's role as a power broker in Herat and a potential waystation in the movement of refugees, militants and Afghan heroin throughout the region, means that Uzbekistan will be forced to contend with Tehran as a potential veto player in a post-America Afghanistan.

A more speculative area, but one of direct importance to Uzbekistan, Kazakhstan, Iran and China alike, is the political stability of Turkmenistan. While the secretive Central Asian state was already reeling from inflation and food shortages before Covid-19, it appears that the pandemic has wrought further havoc. Today, there is widespread consensus in the media that the country is covering up its Covid death toll and has carried out increasingly brutal crackdowns on whistle-blowers.<sup>81</sup> With power centralised around Turkmen President Berdymukhamedov's cult of personality and state revenues almost entirely dependent on the export of gas to China, Turkmenistan's political economy is highly fragile and could have drastic spill-over effects should the current regime lose power. With this in mind, Uzbekistan, Kazakhstan and Iran will likely have to coordinate their policy responses, whether that comes in the form of securing existing infrastructure (like the Iran-Turkmenistan-Kazakhstan railway), helping diversify Turkmen gas exports into Iran and Central Asia, or coordinating stronger border security.

For the moment, it seems that these impromptu regional frameworks may work just as efficiently as the SCO and EAEU for the very reason that they reduce the influence of Great Powers at the decision-making table and allow for greater flexibility among participating states. While the futures of both Afghanistan and Turkmenistan are far from certain, it is reasonably clear that Iran and the CARs have much to gain by expanding their economic linkages to both, in addition to coordinating policy responses in the name of regional stability.

## Conclusion

With Russia and China assuming a greater stake in the economic architecture of Eurasia, Central Asia is increasingly linked to Tehran through an expanding web of physical and ideological projects. This partnership is not only driven by 'push' factors (such as required cooperation in multilateral summits or infrastructure initiatives), but also a significant 'pull' factor, namely the opportunities that foreign investment in Iran might create for Kazakhstan and Uzbekistan's own economic and political agendas. In this sense, projects like the BRI have lowered the risk of engaging with the Islamic Republic and laid the groundwork for future integration, even if American pressure, for now, continues to determine the boundaries of that relationship. With the recent revelations of a planned Chinese-Iranian

79. Mehr News (2021), *Iran-Afghanistan-Uzbekistan corridor to bring 'stability'*. <https://en.mehrnews.com/news/170790/Iran-Afghanistan-Uzbekistan-corridor-to-bring-stability>

80. Basravi, Zein (2020), *Iran's Chabahar Port Spared from US sanctions in Rare Cooperation*. Al Jazeera. <https://www.aljazeera.com/economy/2020/6/20/irans-chabahar-port-spared-from-us-sanctions-in-rare-cooperation>

81. Pannier, Bruce (2021), *Why Is The World Allowing Turkmenistan To Deny It Has The Coronavirus?* RFERL. <https://www.rferl.org/a/turkmenistan-coronavirus-fiction-turkey/31029363.html>

strategic partnership, it is more important than ever to understand the linkages and fault lines inherent to the region's emerging geopolitical status.<sup>82</sup>

Moving forward, a number of factors will shape the dynamics of Iran's ties to Kazakhstan and Uzbekistan. First and foremost will be Chinese investment, which is far from guaranteed. With the US trade war, Covid-19 pandemic and an ever-growing debt burden, a slowdown in Chinese growth is becoming increasingly likely. While such a scenario would not be the end of the BRI – which, after all, seeks to create new sources of growth and mitigate these same pressures – it could impact the volume, terms, and timelines of its projects. Moreover, secular changes in global trade, such as the shift to renewables and opening of the Arctic shipping route, could de-emphasise both Central Asia and Iran's importance to China's economic worldview.

More broadly, Iran's internal stability and the future of the JCPOA are open questions, while the future of Uzbek reforms is far from certain and all three states (including Kazakhstan) face the perennial threat of falling energy prices. Outside of the United States' continuing influence and leverage as global hegemon, one should also be careful not to discount local developments. In Iran, fears about China's ties to Saudi Arabia and the UAE, as well as a history of distrust towards Great Powers, have somewhat tempered local enthusiasm for Beijing. In Kazakhstan and Uzbekistan, there is similar evidence that public opinion is beginning to sour on Chinese investment.<sup>83</sup> Together, these form part of a broader global backlash against Chinese initiatives, from Zambia to Pakistan to Sri Lanka, which suggest that local variables may be even more important than Great Power politics in predicting the future of China's economic diplomacy.<sup>84</sup>

Finally, the record of this period shows that US sanctions – despite predictions about America's global decline – have been successful in blocking Iran's integration into Eurasian political and economic networks and remain a key variable in regional policy. Of course, whether this pressure will hold over the next decade is an open question, as is the future of Sino-US relations and China's ability to fulfil its promises to BRI partners.

Overall, the period between 2016 and 2021 shows the complex dynamics of Iran's new eastern strategy. For Tehran, both Kazakhstan and Uzbekistan represent crucial partners in its quest to overcome isolation, as they could serve both as a market for Iranian goods and an advocate for Tehran's deepening relations with Russian and Chinese political blocs. At the same, however, one should not underplay the scepticism that many Central Asian states have towards a new Russian or Chinese regional hegemony. For this very reason, there is tentative evidence that Uzbekistan and Kazakhstan are seeking to engage

82. Fassihi, Farnaz and Myers, Steven (2020), *Defying U.S., China and Iran Near Trade and Military Partnership*. The New York Times. <https://www.nytimes.com/2020/07/11/world/asia/china-iran-trade-military-deal.html>. One should be cautious about taking details of this agreement at face value, as issues of its legality, financing and politics remain highly contentious. However, as a statement of Chinese policy, it is a clear sign that Beijing views Iran as vital to the BRI and is willing to push back against the US-led sanctions regime, though it is also possible Iran may simply become a bargaining chip in negotiations with Washington.

83. The best examples of this are the foreign land ownership protests which gripped Kazakhstan in 2019 and the natural gas protests in Uzbekistan that same year, the latter of which was not directly aimed at China but could turn public opinion against gas exports to Beijing.

84. For more, see Small, Andrew (2018), *The Backlash to Belt and Road*. Foreign Affairs. <https://www.foreignaffairs.com/articles/china/2018-02-16/backlash-belt-and-road>

Iran outside of the SCO/EAEU frameworks when it comes to certain areas of economics and security. To date, Iran's geopolitical isolation and other states' competing interests have stopped this relationship from reaching its full potential, as evidenced by the less than impressive trade statistics. However, even if political and economic linkages remain subdued in the present, the last five years have shown that they carry tremendous potential and could become a new cornerstone of regional geopolitics over the coming decades.

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