

## TRADE IMPLICATIONS OF THE US' WITHDRAWAL FROM THE IRAN NUCLEAR DEAL

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There is plenty of analysis on the security implications of the US' withdrawal from the Iran nuclear deal. Much less has been said about the trade implications of the US' withdrawal. Since the main instrument used in the Iran nuclear deal was sanction relief, we can evaluate the effects of lifting the sanctions by analyzing changes in Iranian trade since 2015. This in turn helps in better understanding the economic considerations of individual countries as they respond to the US' withdrawal from the agreement. While there have been broader structural changes to the world economy since 2015, trade data still offers insight into the economic implications, especially since the price of oil has remained relatively stable between 2015 and 2017 (and makes up a significant share of Iranian trade). Our analysis of the data indicates that the European Union and the Republic of Korea stand to lose, whilst China stands to gain from the collapse of the nuclear deal.

### CHANGE IN THE SHARE OF IRANIAN TRADE BETWEEN 2015 AND 2017

To assess the changes in Iranian trade, two separate metrics of trade are relevant:

- ▶ The change in relative import/export share of countries in Iran between 2015-2017.
- ▶ The absolute value in US\$ of trade to and from Iran per country

These first two graphs depict changes in the relative share of countries in Iran's trading relations. That is, it measures the share that country x had in 2015 and compares it to the share of that same country x in 2017. All trade is viewed from Iran's perspective, so exports are goods and services that are sold by Iran and imports those that are bought by Iran.

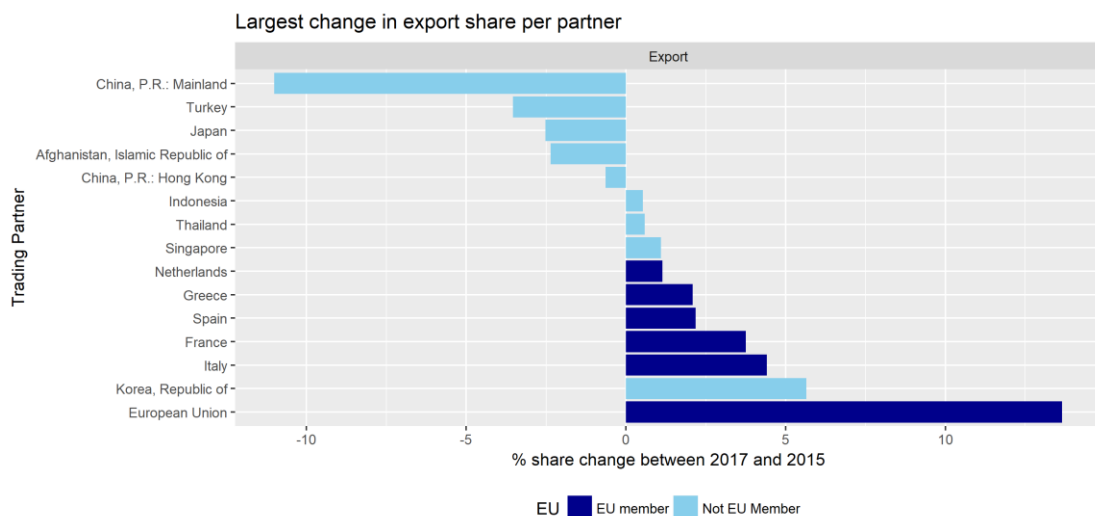
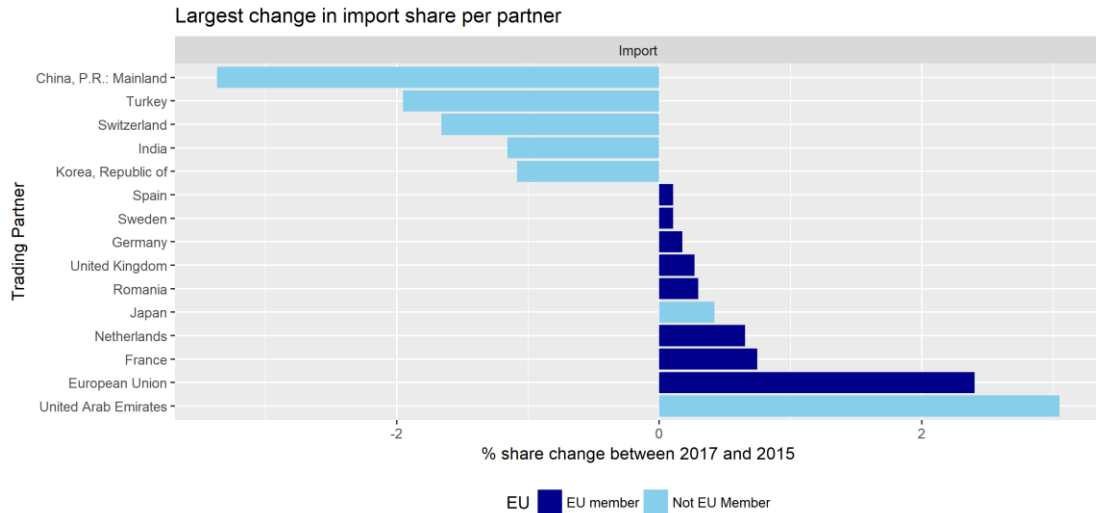


FIGURE 1 LARGEST CHANGES IN SHARE OF IRANIAN EXPORTS, 2015 COMPARED TO 2017

There are several notable data points on the export side. First, China has lost 11% of its share in Iranian exports. Secondly, the EU countries (labeled in dark blue) increased their share by 13% with Italy and France making up roughly 4% each, and the Republic of Korea increased its share by 5%. Since petroleum and related chemical products make up roughly 90% of Iranian exports, this implies that the newly available Iranian oil has been bought primarily by the EU and the Republic of Korea. China's loss of share in the Iranian economy means that Iran became relatively less dependent on China for petroleum sales.



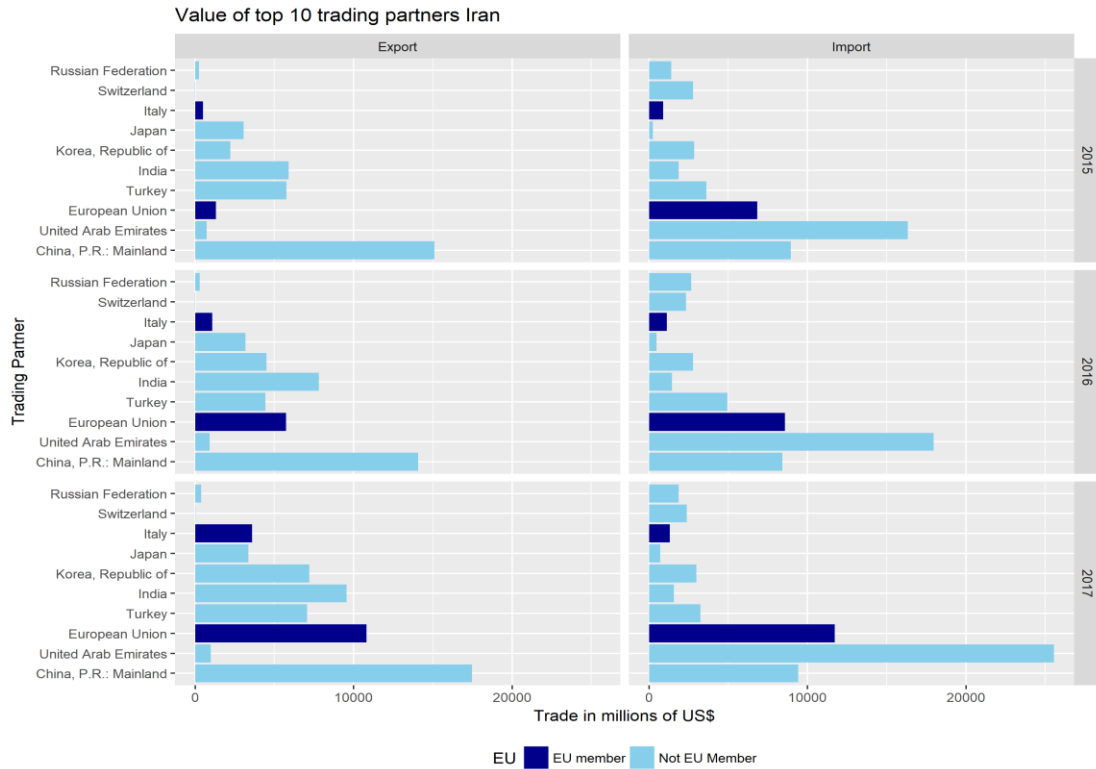
Source: IMF

FIGURE 2 LARGEST CHANGES IN SHARE OF IRANIAN IMPORTS, 2015 COMPARED TO 2017

The import trends paint a similar picture; China lost nearly 4% of its share in imports while the United Arab Emirates gained over 4%. The EU countries combined capture another 2% while Switzerland loses 2%. The Swiss case is explained in part by the earlier lifting of sanctions with Iran, as well as the possibility that (European) [corporations might be trading with Iran through Swiss subsidiaries](#). A similar rationale underlies the role of the United Arab Emirates, [which has long acted as a trading hub in the Middle East, even before sanctions were lifted](#). Historically the UAE has been a pragmatic trader, and it is possible that it will continue to facilitate European trade when sanctions are reintroduced.

#### CHANGES IN THE TOTAL VALUE OF IRANIAN TRADE BETWEEN 2015 AND 2017

While China might have lost in relative terms in the Iran nuclear deal, data on the absolute value of trade adds some nuance to that analysis. Parties such as the EU member states have indeed increased their trade with Iran significantly, but the absolute value of Iranian trade with China has remained largely stable. Similarly, India, Turkey and Japan have remained highly consistent in buying Iranian oil. The data indicates Sino-Iranian trade volumes have not decreased, but rather that the overall size of Iranian trade globally has grown significantly, and that China has not captured this new share. In other words, Iran's new trade relations are with parties that had previously been restricted by sanctions.



Source: IMF

FIGURE 3 TOP 10 TRADING PARTNERS IN 2017 AND THEIR TRADE LEVELS IN PRECEDING YEARS

CONCLUSION

Our analysis yields three main findings:

- ▶ Iranian trade has changed considerably since sanctions were lifted.
- ▶ The largest beneficiaries of the newly available Iranian oil exports are the Republic of Korea and the EU.
- ▶ China's relative share of trade has been reduced but it remains Iran's largest trading partner.

These observations give some indication on what some of the results might be of the re-imposition of sanctions on Iran. From an economic perspective, some of the US' closest allies stand to lose the most, as the EU member states and the Republic of Korea will have to find oil elsewhere. Meanwhile, the nuclear deal had reduced Iran's economic dependence on China. The re-imposition of sanctions could reverse this trend and reinvigorate Chinese economic dominance in Iran, [which plays a crucial role in its One Belt, One Road infrastructure project](#). Indeed, China has remained bullish on continuing trade with Iran. While China has lost some ground in relative terms it retains the single largest trade relation with Iran. In the case that the European Union will comply with US sanctions, Iran will likely have little choice but to turn again to China for economic growth.

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