

Saddled with SWIFT: The American Withdrawal from the Nuclear Deal and Its Ramifications for Sino–Iranian Financial and Banking Interactions

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Abstract

Following the US withdrawal from the nuclear deal in May 2018 and the ensuing reinstalled regime of biting sanctions against Tehran, Iran's lack of access to the international banking system left it with few options but to rely on some of its major commercial partners, China in particular, to sidestep part of those financial and banking restrictions and penalties. Arguing that China has so far left a mixed record in its financial and banking relationship with the Middle Eastern country over the past several years, therefore, the present research tries to shed some light on the nature and scope of Beijing's anticipated role in easing some of Tehran's financial and banking troubles in the wake of relentless American pressures. On the positive side, the Chinese provided, either directly or through third parties, a lot of financial and banking services for the Iranians. Not only the Chinese government often looked the other way when such rather furtive

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interactions were taking place between the two sides, it also turned China into a safe haven for a large sum of the financial reserves which Iran had already moved from Europe to the East Asian country. On the negative side, the Chinese contributed little to Iran's de-dollarization campaign, while they disappointed gratuitously some pro-China forces among certain conservative authorities in the Islamic Republic by demanding from Tehran to join the FATF before engaging in any close banking and financial partnership involving the two countries.

Keywords: China, Iran, Sanctions, Frozen funds, Finance, Banking, De-dollarization

I. Introduction

International economic sanctions are above all about choking off the flow of capital, or whatever that can be quickly and conveniently converted into money, to a target country. In that sense, the reinstalled regime of crippling sanctions against Iran following the American withdrawal from the Joint Comprehensive Plan of Action (JCPOA) or the nuclear deal under the Trump administration in May 2018 aimed to control systematically the downpour of financial resources to the Middle Eastern country by reining in its normal and permissible financial interactions with the outside world. In particular, imposing universal restrictions on Iran's crude oil exports, as the lifeblood of its foreign currency earnings, widely proclaimed to be the final straw with regard to wreaking mayhem on the erstwhile Iranian pecuniary access to international financial markets.¹ Aside from the loss of the vital and prodigious sale of oil and oil products, moreover, cutting Iran from the US-dominated international banking system virtually made it impossible for the Iranians to engage in symbiotic non-oil commercial interactions with their foreign partners in the four corners of the earth.

Under such dire circumstances, therefore, China, as Iran's top customer of crude oil and biggest trading partner in non-oil

¹ Malcolm Byrne and Kian Byrne. *Worlds Apart: A Documentary History of US–Iranian Relations, 1978–2018*. Cambridge and New York: Cambridge University Press, (2022): 275. <https://doi.org/10.1017/9781108975148>.

areas, was anticipated to come to the rescue. The Chinese had a long track record of ignoring various West-dictated sanctions by entering into a whole host of subterranean commercial interactions with different sanctioned countries, including Iran. On top of that, the East Asian power had both publicly and persistently opposed the US-crafted sanctions against Iran, considering those economic and financial penalties a serious hindrance to its increasingly growing multifaceted relationship with the Persian Gulf country. In the wake of its rapidly expanding monetary and technological capabilities, China had also the wherewithal to provide the Mideast country, either directly or through third parties, with a lot of financial services denied to Tehran by Washington and its close allies here and there.² To what extent did then the Chinese meet these rather reasonable expectations? Additionally, how did the US abandonment of the nuclear deal, both under and after Trump, influence other pending financial issues involving Beijing and Tehran?

The present study argues that China has so far not played a very substantial role in easing Iran's financial and monetary troubles despite the fact that the US withdrawal from the JCPOA turned out to have tremendous repercussions for Sino-Iranian commercial relationship in energy and non-energy fields. The

² Matthias Vanhullebusch. *Global Governance, Conflict and China*. Leiden and Boston: Brill Nijhoff, (2018): 226.
<https://doi.org/10.1163/9789004356498>.

continuation of oil business, no matter how stealthy and underreported, between China and Iran as well as the return of some energy revenues in the form of shipping Chinese goods and services to the Middle Eastern country were certainly a boon to Tehran's chronic economic and technological requirements over the past several years. The Iranian national economy and its exacerbating financial woes, however, proved to be too large and too complicated to be saved by maintaining a semblance of commercial ties with China alone. True that the Chinese were quite willing to stay in good terms with Iran after almost all Western and Eastern businesses deserted the Persian Gulf country under American arm-twisting, but they could not take huge risks by giving Tehran any type of monetary and financial assistance it desperately needed. That is also a main reason why the two countries failed to tackle a number of their financial matters dating back to several years earlier.

II. Framework of analysis: The politics of austerity and passing on sanctions tax

In the lexicon of political economy, austerity refers to a set of fiscal policies implemented by governments in order to fight growing budget deficits or public debts, if not both. Austerity primarily consists of tax hikes or spending cuts, and it sometimes combines both measures. Austerity has also been prescribed as an effective instrument of economic reforms and a not-toll-free highway to development, persuading major global institutions

such as the International Monetary Fund (IMF) and World Bank to recommend, and sometimes dictate, austerity policies both to developed and developing countries across the world.³ Despite its frequent and extensive application by governments of all types over the past several decades, nevertheless, austerity has by and large remained an unpopular policy because austerity measures put additional economic and financial pressures on more people in lower income brackets of society. It simply leads to worsening socio-economic troubles of such groups of susceptible citizens, and that is why sometimes even a democratically-elected government of an industrialized country reluctantly bites the dust in the wake of carrying out root-and-branch austerity measures.⁴

With regard to Iran, austerity has indeed been a familiar approach over the past several decades as governments all across the political spectrum have perpetually resorted to austerity measures in the name of executing economic reforms, reducing budget deficits, bringing down public debts, fighting international sanctions, etc. In spite of its past record, the austerity which was carried out in Iran from early 2017 onward turned out to be really unprecedented nearly in every aspect. Almost assured that the United States under Trump was going to toss away the JCPOA, the Iranian government began implementing fiscal austerity as

³ Mark Blyth. *Austerity: The History of a Dangerous Idea*. New York: Oxford University Press, (2013): 102.

⁴ Thomas J. Schoenbaum. *The Age of Austerity: The Global Financial Crisis and the Return to Economic Growth*. Cheltenham, UK; Northampton, MA: Edward Elgar, (2012): 18. <https://doi.org/10.4337/9781781951453>.

soon as Donald Trump commenced his one-term presidency in January 2017. The timing was still one and half years before the Trump administration abandoned the nuclear deal, and almost two years before Washington reinstalled crippling banking and oil sale sanctions against Tehran. The Islamic Republic was hell-bent on surviving the new bout of international economic and financial sanctions pushed by the United States, and the easiest solution was to pass on sanctions tax to its hapless and downtrodden citizens as an all-purpose scapegoat.⁵

To fight back the United States and its dictated sanctions and financial constraints, therefore, the Islamic Republic started to throw a punch at the US dollar. As it was revealed later, the government hiked, albeit intentionally and gradually, the price of the US dollar so that it could save the panicked regime from the bout of new international sanctions pushed by the Trump administration based on its “maximum pressure” policy. In fact, the government increased, deliberately and forcefully, the rate of the dollar to rial, Iranian national currency, roughly more than a year before the United States under Trump eventually quit the nuclear deal and dialed up the relevant economic and financial

⁵ Oliver Borszik. “International Sanctions against Iran and Tehran’s Responses: Political Effects on the Targeted Regime.” *Contemporary Politics*, 22, no. 1, (2016): 27. <https://doi.org/10.1080/13569775.2015.1112951>.

sanctions against Tehran.⁶ Within a few years, the value of the UD dollar against rial ratcheted up to more than one-thousand percent as some 330,000 rials could buy only one dollar. Any sort of draconian diktat was issued by different state institutions, including making it illegal for the Iranian citizens to have more than \$10,000 without registering properly its total amount at a site launched by the government, but none of such measures, which were often red herring, could really bring down substantially the value of the dollar versus rial as long as the government alone could decide about it.⁷

As a corollary, the inflated price of the US dollar trickled down swiftly to almost all goods and services the citizenry needed. No one could really get it why the value of anything, including many products and services provided by the public sector, had to be connected so tightly to the rate of the US dollar. In the midst of such economic and financial ordeal, the outbreak of coronavirus, or the COVID-19 pandemic, and the ensuing universal restrictions simply made things much worse for the average Iranian citizen.⁸ Salaries remained, by and large, stagnant, while the price of

⁶ *Kelid Daily*. “Dolat dar geran shodan dollar zinafe bood” [Government Benefited from Dollar Hike]. *Kelid Daily*, October 7, (2018): 1; and *Asr-e Eghtesad*. “Eteraf dolat be dastkari nerkh arz” [Government Confession to Interference with the Price of Foreign Currency]. *Asr-e Eghtesad*, February 27, (2021): 1.

⁷ *Servat News*. “Haml arz gheireghanooni shod” [Carrying on Foreign Currency Becomes Illegal]. *Servat News*, April 14, (2022): 2.

⁸ Mark Fitzpatrick. “Sanctioning Pandemic-plagued Iran.” *Survival*, 62, no. 3, (2020): 99. <https://doi.org/10.1080/00396338.2020.1763614>.

everything kept rising almost on a daily basis. Having had struggled with biting austerity measures for several decades, therefore, the Iranians now entered the era of “price terror” as the value of nearly everything they required increased astronomically. They had not used to this type of sweeping inflation even in the heydays of the Iran–Iraq War (1980–1988) when the sanctioned Mideast country had to mobilize all of its resources to fight an enemy supported by many well-to-do countries in the region and beyond.⁹

Bearing the brunt of crippling sanctions, thus, many among the public learned quickly that they had to do their own heavy lifting in an effort to save their lifestyle and hard-earned savings. From hording jewelries and major foreign currencies such as dollar and euro to purchasing real estate and automobiles, they wanted to keep everything except rial whose value was in free fall a day after another.¹⁰ At the same time, a growing number of Iranians decided to either invest in another country or just leave their fatherland permanently after selling their properties and converting their net values into the US dollar or euro. But a big problem was that all such self-protective measures by the citizenry increased dramatically demands for the US dollar and

⁹ Adam Tarock. *The Superpowers' Involvement in the Iran–Iraq War*. Commack, NY: Nova Science Publishers, (1998): 73.

¹⁰ *Eghtesad-e Pooya*. “Afzayesh ghimat dollar jamae ra be naboodi keshand” [Hike in Dollar Price Destroyed Society]. *Eghtesad-e Pooya*, January 19, (2021): 1.

other foreign currencies, leaving the Iranian government in a rather defensive position with regard to injecting sufficient amount of particularly dollar into the market.¹¹ Under such tough circumstances at home and abroad, the government obviously had to exploit all of its sanctions-busting expertise in bringing in more foreign currency through close cooperation with countries like China. Could the resourceful East Asian power then give a helping hand as normally expected, and what could practically prevent it from doing so?

III. Halted financial transactions and banking services

As early as March 2017, the reserve dollar banknotes of the Central Bank of Iran (CBI) plummeted to less than \$100 million. The timing was still more than two years before the CBI was virtually cut from the international banking system after the United States under Trump administration withdrew from the nuclear deal in May 2018 and let many foreign commercial partners of Iran adjust their commercial interactions with the forthcoming sanctions storm against the Middle Eastern country. Based on what was later revealed by the then Vice-President, Eshaq Jahangiri, moreover, even before Trump tossed away the JCPOA certain “hidden hands and sinister forces” affiliated with some neighboring countries had allegedly penetrated the Persian

¹¹ *Eskenas Daily*. “Tsunami khorooj sarmaye az keshvar” [Tsunami of Capital Flight from Iran]. *Eskenas Daily*, February 24, (2021): 3.

Gulf country, cleaning its markets from the dollar banknotes so that they could create more biting economic and financial headaches for the regime of the Islamic Republic and its proxy forces across the region before the final straw come in the form of reinstalled sanctions against Tehran by Washington under the rubric of “maximum pressure.”¹²

Aside from being ejected from the world’s banking system and financial institutions, therefore, some of the erstwhile collaborators from the Mideast region were no longer willing to help Iran go around sanctions, compelling the government in Tehran to rely more on China by employing certain tactics in order to acquire part of its financial requirements. The Islamic Republic and its legion of sanctions-busting agents, for instance, could sell steel to China in the name of a third country, wire its money to the banking account of a company registered in China, and then transfer the accumulated funds to Iran using several intermediaries inside and outside the East Asian country.¹³ Those intermediaries, some of them Iranian, could ultimately get as much as 20 percent of the transferred funds throughout the process. For all of their problems and shortcomings, similar subterranean methods exploited by Iran made it possible to handle

¹² *Aftab-e Yazd*. “Sokhanan takandahande Jahangiri” [Jahangiri’s Revealing Words]. *Aftab-e Yazd*, September 6, (2022): 2.

¹³ Lisa Barrington. “Financial Crime Watchdog Adds UAE to ‘Grey’ Money Laundering Watch List,” *Reuters*, March 5, (2022). <https://www.reuters.com/world/middle-east/fatf-adds-uae-grey-money-laundering-watchlist-2022-03-04/>.

a great deal of the country's trade without going through formal financial channels. As boasted by the Head of Trade Development Organization, Alireza Peiman Pak, in a news conference in May 2022, the Middle Eastern country could conduct astonishingly some 90 percent of its \$100 billion trade in 2021 out of the international banking system.¹⁴

Still, the "China channel" to sort out part of Iran's international financial transactions was neither normal, nor it was devoid of fastidious controversy. Every now and then the Chinese refused to provide some basic services for the Iranians who were doing business in China. Anyone with an Iranian identity, including those Iranian citizens who were living in a third country and had no business connection with the East Asian country, could be denied access to a Chinese bank without any reasonable explanation. In other occasions, China even closed the banking accounts of Iranian students, causing a whole host of problems for a growing number of undergraduate and graduate students who had decided to pursue their higher education at a Chinese university.¹⁵ By taking such drastic, and often temporary, measures against inculpable Iranian exporters and students, therefore, the Chinese wanted to dismiss some Western reports that the East Asian power had provided some sort of financial

¹⁴ *Iran Daily*. "Tejarat 90 milyard dolari ba dorzadan tahrimea" [\$90 Billion Trade through Bypassing Sanctions]. *Iran Daily*, May 23, (2022): 12.

¹⁵ *IRNA*. "Jazzabiyat daneshgahay chini baray daneshjooyan irani" [Appeal of Chinese Universities for Iranian Students]. *IRNA*, June 18, (2018). <https://irna.ir/xjq39f>.

cushion for the Islamic Revolutionary Guard Corps (IRGC) and its notorious Qods Force through some of its financial institutions, especially the sanctioned Bank of Kunlun.¹⁶

Essentially, the story harkens back to 2012 when the US Department of the Treasury penalized Bank of Kunlun, accusing the Chinese bank of facilitating financial transactions for the IRGC, though no reference was given to the Qods Force then. The initial capital for the establishment of the Chinese bank had been provided through the revenues made from the sale of Iranian crude oil to China, aiming to create a working financial mechanism to sort out various commercial activities involving Iran and the East Asian country. Since the Kunlun bank did not have any significant business interests in the United States or any other Western country, it initially paid no attention to what Washington was asking by providing critical financial services for the Iran–China trade in oil and non-oil products. After the Trump-led USA abandoned the nuclear deal and China subsequently came under tremendous American arm-twisting, however, Bank of Kunlun joined almost all other major Chinese banks and financial institutions which refused to provide Iran with

¹⁶ *Radio Farda*, “‘Estefadeh Iran az bankhay chini’ baray enteghal pool be nirooye qods” [‘Iran Uses Chinese Banks’ to Transfer Money to the Qods Force]. *Radio Farda*, November 18, (2014). <https://www.radiofarda.com/a/f12-iran-uses-china-bank-funding-quds-force/26697482.html>.

any substantial financial services by excusing international sanctions against the Middle Eastern country.¹⁷

In general, the unwillingness of Chinese banks and financial institutions to cooperate with the Iranians, particularly in the aftermath of the US withdrawal from the JCPOA in May 2018, could be attributed to three main reasons. First, they have been worried about potential American penalties since most of Chinese banks and financial institutions have developed substantial connections to the US banking system in myriad forms.¹⁸ In the wake of any serious sanctions violations, the United States would penalize them through slapping them with hefty fines, ejecting them from the powerful Society for Worldwide Interbank Financial Telecommunication (SWIFT) which is controlled virtually by Washington, or exclude them from any significant business deal with American public institutions and private companies. Over the past decade, the United States both under Democrat and Republican presidents has punished several high-profile European and Japanese banks due to going around Iran sanctions, making many Chinese banks and financial institutions twice cautious when they consider the idea of

¹⁷ Abrar-e Eghtesadi. "Aghaz bekar Kunlun bank chin dar Iran" [Chinese Kunlun Bank Begins Its Activity in Iran]. *Abrar-e Eghtesadi*, June 8, (2019): 1.

¹⁸ Orde F. Kittrie. *Lawfare: Law as a Weapon of War*. New York: Oxford University Press, (2016): 192.

developing some sort of financial relationship with the sanctioned Iranians.¹⁹

Second, the Chinese have been under tremendous pressures by a rather large coalition of non-state actors, including politico-ideological lobbies and issue-oriented advocacy groups from inside and outside the United States, to rein in their economic and financial interactions with Iran and a number of other “pariah states.” Although it is really hard to estimate the overall impact of such groups on China’s growing multifaceted relationship with Iran, they still can play a role in dragging certain subterranean Sino–Iranian engagement, including financial cooperation, into the limelight. As a case in point, in early June 2022 some Iranian media outlets reported that “the anti-Iran lobby of United Against Nuclear Iran (UANI) had contacted six major Chinese banks, urging them to cut off their financial relationship with the Middle Eastern country and refrain from any sanctions-evasion, directly or indirectly.” Based on those reports, in early 2022 the US-based lobby had also persuaded three Turkish banks not to cooperate with the Iranians. Founded in 2008 in New York, moreover, the UANI had reportedly kept contacting many banks and financial institutions across the world concerting their cooperation with Tehran even after the JCPOA was concluded in June 2015 and the United States subsequently

¹⁹ *ILNA* (Iranian Labour News Agency). “Bankay chini ba Iran hamkari nemikonand” [Chinese Banks Are not Cooperating with Iran]. *ILNA*, February 2, (2019). <https://www.ilna.ir/fa/tiny/news-723038>.

suspended some banking and financial penalties against Iran as stipulated by the nuclear deal.²⁰

Finally, the third excuse has been more technical than political. Chinese banks and institutions have demanded that Iran should first join the Financial Action Task Force (FATF) before they can provide any financial services for the Middle Eastern country and its diaspora. Established by the G7 industrialized nations in 1989, the FATF is an intergovernmental body which has carved out policies over years to fight money laundering as well as terrorism financing. Like China, during the past years the EU countries and India have also put forward a similar FATF precondition with regard to engaging in bilateral and multilateral banking and financial cooperation with the Iranians.²¹ As a matter of fact, the FATF has basically nothing to do with the JCPOA because even when the United States was a party to the nuclear deal from June 2015 until May 2018, Iran still failed to have normal relationship with the international banking system because Tehran has not yet accepted to join the FATF. That was a major reason why the Persian Gulf country could not return a

²⁰ *Asr Iran*. “Tamas lobby zeddeirani ba bankhay chini baray ghatte rabete ba Iran” [Anti-Iran Lobby Contacts Chinese Banks Asking them to Cut Relationship with Iran]. *Asr Iran*, June 4, (2022). <https://www.asriran.com/fa/print/842970>.

²¹ *Radio Farda*. “Bankhay chini ‘ba Iran kar nemikonand’” [Chinese Banks ‘Do not Work with Iran’]. *Radio Farda*, February 3, (2019). <https://www.radiofarda.com/a/29748560.html>.

large sum of its frozen assets kept by several countries across the world, including China.

IV. The unknown world of the frozen funds

Although the history of freezing Iran's funds by foreign countries dates back to November 1979 when the administration of Jimmy Carter issued Executive Order 12170, blocking "all official Iranian assets in the United States" over occupying the American embassy in Tehran and taking its personnel hostage, however, the four nuclear issue-related UN resolutions adopted by the Security Council, between December 2006 and June 2010, played a major role in paving the legal ground for seizing a significant amount of Iranian assets by many countries across the world. More important, the United States and the EU nations moved to sanction the Iranian central bank in 2012, making it virtually impossible for the Middle Eastern country to engage in any open and permissible financial transaction with the international banking system. By the time Iran and its partners in the 5+1 group (United States, China, Russia, France, Britain, and Germany) agreed over the JCPOA, therefore, tens of billions of

dollars made from Iran's crude oil and non-oil exports had been stuck somewhere in a foreign bank.²²

On the eve of signing the nuclear deal in Geneva in June 2015, many in the global media and policy circles asserted that the accord would bring Iran a windfall of up to \$150 billion. But as far as the fate of Iran's frozen assets in other countries was concerned, the JCPOA simply turned up not to be what it was cracked up to be. From early January 2016 when the Iranian government began to implement the nuclear deal until the United States under the Trump administration enforced oil sanctions against Tehran in May 2019 or a year after Washington quit the JCPOA, the Middle Eastern country could have full access only to a fraction of its assets already frozen by a foreign bank or financial institution. What added insult to injury was that during the period when the nuclear deal went into effect and the United States committed itself to the agreement, the Persian Gulf country still failed to bring back some of the revenues it made from exporting crude oil and non-oil products due to the lack of

²² *Trend News Agency*. "Iran's Frozen Assets in China; \$22bn, or \$47bn?" *Trend News Agency*, October 30, (2013). <https://en.trend.az/iran/2206261.html>; and Jonathan Brewer. "UN Financial Sanctions on Iran: An Example of How Asset Freeze Exemptions Worked in Practice," *The RUSI Journal*, 161, no. 4, (2016): 23.

enjoying full normal relationship with the international banking system then.²³

As a result, the exact figure for Iran's frozen assets abroad remained a subject of speculations and rumors after Trump left the nuclear deal and redialed sanctions, though the Iranian government also never reported how much or what percentage of the Iranian blocked funds was released during the period when the Mideast country had been given a semblance of access to the international banking system upon the implementation of the JCPOA in January 2016. In April 2022, for instance, one Iranian newspaper asserted that more than \$50 billion of the country's assets are still frozen in several countries, including China (\$22 billion), India (\$7 billion), South Korea (\$7 billion), Iraq (3.5 billion), and Japan (\$1.5 billion).²⁴ Not only the figure did not add up to \$50 billion, the report also failed to mention some other countries where part of the Iranian frozen funds are kept, including a number of European countries and Canada. At the same time, other reports believe that the exact amount of Iran's frozen funds in Iraq is now more than \$6 billion as Tehran has

²³ Robert M. Gates. *Exercise of Power: American Failures, Successes, and a New Path Forward in the Post-Cold War World*. New York: Knopf Doubleday Publishing Group, (2020): 107.

²⁴ *Jahan-e Sanat*. "Farjam dolarhay blokeshode" [Fate of Blocked Dollars]. *Jahan-e Sanat*, April 18, (2022): 3.

been denied access to its revenues made from exporting mostly electricity and gas to the neighboring country.²⁵

Meanwhile, the Islamic Republic has long kept silent with regard to a perplexing situation of its assets in China at a time when Tehran has been prepared to go to the mat to release its frozen funds in the Republic of Korea (ROK). When push comes to the shove, the relevant authorities often deny reports and speculations that Iran has any blocked funds in China. In February 2022, Majid Reza Hariri, Chairman of the Iran–China Chamber of Commerce, made it clear that “China owes no money to Iran for oil imports, but it does hold Iranian assets...and Iranian properties in China consist of Iran’s reserves – cash, bonds, and stocks – which were transferred to the East Asian country years earlier in fear of confiscation.”²⁶ In fact, the story harkens back to the presidency of Mahmoud Ahmadinejad when there was a high possibility of confiscating Iranian assets in international banks by the United States or its European allies. After 2007, therefore, his conservative government transferred Iran’s hard currency reserves and bonds to China from several European countries, including

²⁵ *Khabar-e-Jonoub Morning Newspaper*. “Pool ma kojast?” [Where Is Our Money?]. *Khabar-e-Jonoub Morning Newspaper*, November 16, (2021): 4.

²⁶ Maryam Sinaee. “Business Leader Says China Pays for Iran’s Oil with Goods.” *Iran International*, February 15, (2022). <https://www.iranintl.com/en/202202153989>.

Britain, France, Germany, and Switzerland lest those Iranian properties being seized by Western countries.²⁷

It seems that China has emerged to be considered as a safe haven of sorts where the Islamic Republic can trust and keep its currency reserves and other valuable assets with no worries about their seizure and confiscation. In that sense, the Chinese have probably not blocked the revenues made from Iran's oil and non-oil exports as asserted by many Iranian officials, and the East Asian power has returned back those incomes in different methods, including shipping Chinese goods and products, using third parties to transfer funds to Iran, and financing Iranian energy and non-energy projects. Over the past two years when the Biden administration has engaged in direct and indirect negotiations with Iran about a potential US return to the nuclear deal, moreover, there has been several reports pointing out that a number of foreign countries, where part of Iranian assets are frozen, have expressed their willingness to release those assets through a "Chinese channel" and not through INSTEX (Instrument in Support of Trade Exchanges) which is a financial mechanism that some European countries set up in January 2019 to keep dealing with Iran by bypassing certain American

²⁷ Shirzad Azad. "Principalism Engages Pragmatism: Iran's Relations with East Asia under Ahmadinejad." *Asian Politics & Policy*, 7, no. 4, (2015): 559. <https://doi.org/10.1111/aspp.12222>.

restrictions and penalties.²⁸ This development again highlights Beijing's largely enhanced financial and monetary status in Tehran despite the fact that the two countries are yet to improve, let alone integrate, their bilateral financial interactions primarily through creating joint banks and financial institutions.

V. The unfulfilled promise of joint banks and Chinese credit cards

Over a period of more than two decades, Iran has strived to forge closer banking and financial partnership with China initially through setting up separate branches of major Iranian banks in some large Chinese cities. In fact, Iran's Tejarat Bank was among first top Iranian financial institutions which managed to obtain the legal permission in 2002 to establish a branch in China's political capital, Beijing. But that attempt was basically nipped in the bud due to various impediments, including bureaucratic hurdles and some financial preconditions requested by the Chinese.²⁹ At that particular time, China was still more than half a decade away before it could position itself as the top trading partner of Iran, but the economic as well as technological presence of the rising East Asian power in the Middle Eastern country was expanding by

²⁸ Syed Zafar Mehdi. "Iran's Frozen Funds Returning via Chinese Channel with West's Nod'," *Anadolu News Agency*, January 28, (2022). <https://www.aa.com.tr/en/middle-east/irans-frozen-funds-returning-via-chinese-channel-with-west-s-nod/2488354#>.

²⁹ *ISNA* (Iranian Students' News Agency). "Iran Plans to Open Bank in China." *ISNA*, December 10, (2013). <https://en.isna.ir/news/92091913690/Iran-plans-to-open-bank-in-China>.

leaps and bounds year after another. Around 2010 when China was officially announced as Iran's top trading partner, therefore, the issue of creating a joint bank between the two countries was widely discussed in many news reports and commercial circles.³⁰

A key objective was then to further expand the size and scope of Sino–Iranian commercial relationship by developing closer banking ties between the two sides. The Persian Gulf country also wanted to better handle its growing economic and financial interactions with the East Asian country by bringing down Tehran's overdependence on some neighboring countries, including Afghanistan, Pakistan, and especially the United Arab Emirates (UAE). Sometimes almost half of what Iran was shipping to the UAE was going to end up in China, making it very urgent for the Iranian government to think up a more convenient mechanism for sorting out its quickly increasing commercial relations with the Chinese.³¹ As it turned out, the recent bout of economic sanctions and financial restrictions pushed by the UN Security Council against Tehran made it all but impossible to either set up branches of Iranian banks in Chinese cities or create a joint financial institution between the two countries. In the wake of those international sanctions and other American persistent

³⁰ *Eghtesad-e Mardom*. "Bank moshtarek Tehran–Pekan tasis mishavad" [Joint Tehran–Beijing Bank to be Set Up]. *Eghtesad-e Mardom*, January 22, (2022): 2.

³¹ Shirzad Azad. "Bidding for a Place in the Sun: The Looking-East Policy of the United Arab Emirates." *Contemporary Arab Affairs*, 13, no. 4, (2020): 79. <https://doi.org/10.1525/caa.2020.13.4.70>.

pressures, even the Seoul branch of Iran's Bank Mellat was shut down in early September 2010 after the conservative South Korean government of Lee Myung-bak accused the Iranian bank of having "engaged in obscure foreign currency transactions aiding Iran's nuclear activities during a regular inquiry on the bank."³²

From 2010 until June 2015 when Iran and the 5+1 group agreed over the terms of the JCPOA, therefore, the idea was floated frequently both in media and business circles of the Mideast country regarding the necessity and potential mechanisms for fostering closer financial interactions with China. But neither Iran could open branches of its major banks in China, nor were the Chinese really willing to seriously talk about entering into a joint banking venture with the Iranians. After the JCPOA went into effect in early 2016, many Iranian authorities suddenly upped the ante by promising to offer to the Iranian citizens, in the near future, something close to Visa Card and MasterCard in the form of Japanese and Chinese banking cards. Some of them were then very confident that establishing joint Sino-Iranian banks or setting up branches of Iranian banks in Chinese cities was in the offing.³³ For all those rosy prospects, much of the post-nuclear deal euphoria turned out to be premature

³² Yon-se Kim and Young-aah Koh. "Builders, Traders Face Damage from Iran Sanctions." *Korea Herald*, September 8, (2010). <https://www.koreaherald.com/view.php?ud=20100908000892>.

³³ *Tafahom News*. "Vorood avvalin kart banki beinolmelali" [Arrival of First International Banking Card]. *Tafahom News*, July 11, (2016): 4.

as the rise of Donald Trump in the United States made China as well as many other major trading partners of Iran twice cautious with regard to committing themselves to any long-term economic and financial agreement with the Iranian government.

Once the Trump administration withdrew the United States from the nuclear deal and reinstalled a whole array of international penalties and restrictions against Iran, sanctions once again become a major impediment in developing closer banking and financial interactions between the Middle Eastern country and China, though the Chinese had not yet chipped away at some of their domestic bureaucratic and monetary barriers concerning the creation of an Iranian bank somewhere in the mainland China. From now on, moreover, the Chinese demanded that Iran should first join the FATF before they could enter into any joint banking venture and financial collaboration with the Persian Gulf country.³⁴ Although some policymaking circles in Iran have already thrown their unconditional support behind the idea of joining the FATF, several other more powerful and conservative organs in the Islamic Republic are still against taking this step, worrying that such a move would completely expose a great deal

³⁴ *Iran Daily*. “Peigham chin va roosiye: Iran ‘FATF’ ra bepazirad” [Chinese and Russian Message: Iran Accept ‘FATF’]. *Iran Daily*, December 26, (2019): 8.

of the country's surreptitious financial transactions with certain external forces loyal to Tehran.³⁵

At the same time, some of those conservative circles have once again become upbeat about the prospect of developing close banking ties with China, especially after the two countries signed their rather contentious 25-year strategic agreement in March 2021. As part of this bilateral accord, Iran and China are going to enhance their banking cooperation, facilitate the ground for setting up branches of Iranian banks in the East Asian country, and establish joint Sino–Iranian banks and financial institutions. Those conservative Iranian authorities assert that not only these future-oriented Sino–Iranian initiatives based on the 25-year deal do not require Iran to join the FATF, they would also make it possible for the Mideast country to virtually bypass the American-controlled SWIFT.³⁶ Such potential benefits are a key reason why after Iran formally became a full member of the Shanghai Cooperation Organization (SCO) in September 2022, the conservative government in Tehran soon asked the SCO members, including China, to accelerate their bilateral and

³⁵ *Ebtekar News*. “Iran dar list siyah FATF gharargereft? Ma va kore shomali!” [Iran on the Black List of FATF? We and North Korea!]. *Ebtekar News*, December 16, (2019): 1.

³⁶ *ISNA* (Iranian Students' News Agency). “Natijeh gharardad 25 saleh Iran va chin che khahad shod?” [What will be the Impact of 25-Year Agreement between Iran and China?]. *ISNA*, March 27, 2021. <https://isna.ir/xdHVNK>; and *IRNA*. “Five Major Opportunities Provided by Iran–China Long-term Cooperation.” *IRNA*, April 6, 2021. <https://en.irna.ir/news/84285870/Five-major-opportunities-provided-by-Iran-China-long-term-cooperation>.

multilateral banking and financial cooperation with the Persian Gulf country. On top of that, measures of this type would expedite, as some conservatives forces in Iran argue, a critical objective which some major stakeholders in the SCO share in common: de-dollarization.³⁷

VI. Giving a bashful boost to de-dollarization

Regardless of all benefits and advantages of the greenback for the United States and its overall power and influence in the world, imposing Iran sanctions, particularly financial sanctions, would not have been possible without the role and power of the dollar as the dominant reserve currency for a majority of countries across the globe. Since the United States frequently resorted to economic and financial sanctions against Iran and some other important economies, therefore, using or actually abusing this *modus vivendi* of inflicting pains upon other nations turned out to be a double-edged sword, persuading the victim countries to come together over time and fight back the American dollar by pursuing certain policies inimical to the dollar's power and status in the

³⁷ Michael Hudson. "De-Dollarization: Dismantling America's Financial-Military Empire: The Yekaterinburg Turning Point." *Global Research*, June 13, (2009). <http://www.globalresearch.ca/PrintArticle.php?articleId=13969>; and James Rickards. *Currency Wars: The Making of the Next Global Crisis*. New York: Portfolio/Penguin, (2011).

long run.³⁸ That was no coincidence why when President Barack Obama and his stalwart Secretary of State, John Kerry, needed to sell the Iran nuclear deal to a majority of the skeptics in the American Congress, they had to, literally and figuratively, battle it tooth and nail by arguing that “the dollar will cease to be the reserve currency of the world if the United States walks away” from the JCPOA that was eventually agreed in June 2015.³⁹

To get rid of its erstwhile overdependence on the dollar as a way to roll back the biting impact of the bully American currency, Iran had to again lean upon its major partners in the East, Russia and especially China, each of which had an ax to grind to join a growing global campaign of de-dollarization.⁴⁰ In fact, by the time the Trump administration abandoned the nuclear deal and reinstalled sanctions on Iran, China had already walked a long way in terms of bringing down substantially its overdependence on the US dollar. The rising Asian power actually had made its

³⁸ Anthony Elson. *The Global Currency Power of the US Dollar: Problems and Prospects*. Cham, Switzerland: Palgrave Macmillan, (2021): 63–64. <https://doi.org/10.1007/978-3-030-83519-4>.

³⁹ Heather Long. “Factcheck: Obama, Kerry Exaggerate Risk to U.S. Dollar If no Iran Deal,” *CNN*, August 11, (2015). <https://money.cnn.com/2015/08/11/investing/iran-nuclear-deal-us-dollar-kerry/index.html>.

⁴⁰ Rebecca M. Nelson and Karen M. Sutter. “De-Dollarization Efforts in China and Russia,” *Congressional Research Service (CRS)*, July 23, (2021). <https://crsreports.congress.gov/product/pdf/IF/IF11885>; and Summer Said and Stephen Kalin. “Saudi Arabia Considers Accepting Yuan Instead of Dollars for Chinese Oil Sales,” *The Wall Street Journal*, March 15, (2022). <https://www.wsj.com/articles/saudi-arabia-considers-accepting-yuan-instead-of-dollars-for-chinese-oil-sales-11647351541>.

intention quite clear when in January 2011, the then Chinese paramount leader, Hu Jintao, said “the current international currency system is the product of the past.”⁴¹ As a corollary, by December 2015 the Chinese could sign currency swap agreements with as many as 33 countries before the IMF ultimately decided, at the request of Chinese authorities, to add the rising East Asian country’s currency, renminbi or yuan, to its SDR currency basket in October 2016. In March 2018 or less than two months before Washington under Trump tossed away the Iran nuclear deal, moreover, China surprisingly launched petroyuan as another decisive move in Beijing’s long drive toward promoting international use of its RMB.⁴²

Like China, Russia embarked in earnest upon a policy of de-dollarization after 2014 when the United States carved out and implemented a whole array of economic and financial sanctions against Moscow in the wake of the Russian annexation of Crimea. The Russians simply intensified their anti-dollar measures once they encountered a new bout of crippling sanctions by Washington and its allies in Europe and other parts of the world soon after the Russian armed forces invaded Ukraine under the

⁴¹ Richard McGregor. “Hu Questions Future Role of US Dollar,” *Financial Times*, January 17, (2011). <https://www.ft.com/content/ae01a8f6-21b7-11e0-9e3b-00144feab49a>.

⁴² Jin Sheng. *Alternative Development Finance and Parallel Development Strategies in the Asia-Pacific: Racing for Development Hegemony?* Cheltenham, Britain, and Northampton, MA: Edward Elgar Publishing, (2021): 201. <https://doi.org/10.4337/9781800882928>.

“special operation” mandate in February 2022. By this time, many in the Iranian government had to acknowledge, albeit grudgingly, Russia’s relatively accomplishment in sidestepping some negative financial implications of sanctions on the Russian currency because it was certainly too early to accept that Washington successfully “reduced the Ruble to rubble” as proclaimed by the American President Joe Biden. Although the Islamic Republic was already and indubitably a staunch member of “the anti-dollar axis,” including China and Russia, Tehran could still learn many more important lessons by taking a leaf out of the de-dollarization book drafted by Beijing and Moscow.⁴³

Regarding some earlier Iranian experiences in the de-dollarization quest, the Persian Gulf country was actually galvanized into action a short while after the JCPOA went into effect in January 2016. A main reason was that the nuclear deal did not remove a significant number of the relevant US constraints on dollar transactions between Iran and the outside world, making it virtually impossible for Tehran to normally maintain all-out relationship with the international banking system. As a consequence, the Middle Eastern country asked its more loyal crude oil customers in Europe and China to pay Tehran in euro and yuan, respectively, though a similar

⁴³ John S. van Oudenaren. “Damage Done: America’s Foreign Policy Tactics are Fracturing Its Financial Stability,” *National Interest*, May 14, (2019). <https://nationalinterest.org/feature/damage-done-americas-foreign-policy-tactics-are-fracturing-its-financial-stability-57547>.

arrangement was also made with several other nations so that they could compensate for Iran's oil supplies with their own national currencies. Besides expressing their willingness to join Russia's national electronic payments system known as Mir, additionally, the Iranians have signed various currency swap agreements with several countries in the Middle East region and beyond in order to gradually lessen the share of the US dollar in their commercial interactions with those sovereign nations.⁴⁴

In sum, over the past years the Iranian government has strived persistently to shake off the shackles of the US dollar from its economy by pinning hopes on closer economic and financial cooperation with its like-minded partners in China and Russia. Of course, the Russians have left no doubt that they are more committed and reckless than their Chinese counterparts in hurting the domineering global power of the greenback, but Russia plays a smaller role in Iran's international commerce in comparison to China which has long been a top trading partner of Tehran in terms of exports and imports. Another setback is that China's de-dollarization approach has had a lot to do with RMB internationalization rather than dethroning the American dollar in one fell swoop.⁴⁵ For this critical reason, the Chinese government

⁴⁴ *Mehr News Agency*. "Iran va roosiyeh be donbal jaigozin SWIFT" [Iran and Russia Attempting to Replace SWIFT]. *Mehr News Agency*, March 25, (2022). <https://www.mehrnews.com/xXnjH>.

⁴⁵ Raymond Yeung. *China's Trump Card: Cryptocurrency and Its Game-Changing Role in Sino-US Trade*. Hoboken, NJ: John Wiley & Sons, (2020): 129. <https://doi.org/10.1002/9781119699163>.

is prepared to enter preferably into sweeping de-dollarization deals with those countries whose economy is more internationalized than the universally sanctioned economy of Iran despite the fact that one of the critical clause of the ongoing 25-year agreement between China and Iran accentuates an expanding role of national currencies in their bilateral commercial interactions for the years to come.⁴⁶

VII. Conclusion

The US withdrawal from the JCPOA and its ensuing blanket ban on Iran's economic and technological relationship with the outside world turned out to be more effective because of curtailing the Middle Eastern country's access to the international banking system which connects Western as well as non-Western economies through the American-controlled SWIFT. But unlike some small and isolated economies such as the sanctioned economy of North Korea, the Iranian economy was enough big and too much dependent on maintaining sustainable interactions with a relatively large number of countries across the world, forcing the Persian Gulf country to do its heavy lifting in a relentless quest to neutralize part of the US-formulated international financial restrictions and penalties against Tehran. Among all resourceful and reliable commercial partners of Iran,

⁴⁶ Nicole Grajewski. "An Illusory Entente: The Myth of a Russia–China–Iran 'Axis'." *Asian Affairs*, 53, no. 1, (2022): 170. <https://doi.org/10.1080/03068374.2022.2029076>.

however, no country other than China was in a position to help the Mideast country go around some of those crippling banking and financial impediments which were to function virtually as a spoke in the wheels of Sino–Iranian growing ties.

Considering that rather modest expectation, the Chinese role has so far been a blend of assistance and abandonment. On the sunny side, the Chinese have certainly provided Iran with a great deal of banking and financial services either directly or through third parties. Even when many Chinese banks and financial institutions refused to deal with the Iranians by excusing international sanctions, there were still some other banks and credit companies in China which could risk a lot by engaging their Iranian clients surreptitiously in return for substantial pecuniary gains. On a more macro level, the Chinese government sometimes looked the other way when its companies and individual citizens were smoothing the way for some sort of banking and financial transactions involving the Middle Eastern country. More important, the Chinese officials apparently assured their counterparts in Tehran that Iran could trust Beijing by transferring surprisingly a bulk of its financial reserves from Europe to the East Asian country; an unprecedented development which could potentially upend, if not permanently terminate, Iran's modern financial dynamics with many Western nations.

On the seamy side, occasional campaigns in China with regard to shutting down the banking accounts of Iranian

businessmen and students or refusing to open a banking account for them in the first place often dealt a serious blow to the East Asian power's improving image and soft power among many Iranian citizens at home and abroad. In the same way, the Chinese stubborn demand that Iran should first accept the FATF before Beijing could make it possible for some major Iranian banks to establish their branches in Chinese cities or let the relevant institutions in China devise plans for setting up joint Sino–Iranian banks was to only dissatisfy and letdown a fair number of pro-China forces in some powerful conservative forces in the Persian Gulf country. Because of their rather selfish and parochial pursuit of internationalizing yuan instead of wreaking havoc on the domineering American dollar, the Chinese also did not contribute very much to Iran's de-dollarization agenda. Due to such discouraging experiences over the past several years, some experts and pundits inside and outside Iran argue that China may again excuse international sanctions and restrictions against the Middle Eastern country and thereby walk away from some of its promising banking and financial commitments stipulated in the 25-year strategic agreement between Beijing and Tehran.

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