



پژوهشگاه علوم انسانی و مطالعات فرهنگی
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پرتاب جامع علوم انسانی



Iran and Russia's Neighborhood Policy and Economic Diplomacy: Challenges and Solutions

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Abstract

Due to external factors (like sanctions) and internal issues (such as poorly managed privatization and banking), the country's economic performance has been disappointing over the past decade, with economic growth averaging less than 2%, inflation over 20%, and negative 5% fixed capital formation. Consequently, the country now falls into the category of low-income nations in international reports. Additionally, the loss of the golden era of revenues from crude oil sales has increased restrictions on the government's access to programmable financial resources. Therefore, to address these challenges, Iran must reconstruct its trade flows and explore new economic activities, particularly through economic diplomacy with neighboring countries. This effort should also involve defining new areas for economic activities. For this reason, while it is possible to view economic diplomacy through conventional political definitions as a means to enhance a country's standing in the international arena by promoting foreign trade and creating new markets, in our country, economic diplomacy should be regarded primarily as a strategy to navigate the current challenges facing the national economy. Within this context, among other states, Russia is identified as a key partner for enhancing trade. The conclusions of this research identify the most significant trade obstacles between Iran and Russia as follows: A) Inadequate business infrastructure, B) poorly organized foreign trade activities, and C) The complexities of international political economy. Conversely, the principal solutions to enhance trade levels include A) strengthening infrastructure, B) fostering joint investment opportunities rather than solely focusing on exporting goods, C) enhancing the information and marketing sectors, and D) diversifying the range of exported goods.

Keywords: Neighborhood policy, Economic diplomacy, Foreign trade, Iran, Russia.



Introduction

A combination of external factors, such as sanctions, and internal issues, including the flawed execution of privatization policies and ineffective management of the banking system, has significantly hindered the performance of the country's economy over the past decade. As a result, economic growth has been inadequate, averaging less than 2%, while inflation has soared, averaging over 10%.

also averaged a negative 5%. Consequently, the country has been classified as low-income in international evaluations. Following the once-lucrative crude oil sales decline, Iranian governments have faced increasing restrictions on accessing programmable financial resources. Therefore, Iran's economy needs to establish new sources of value creation that extend beyond simply revitalizing trade flows. The emphasis should also be on leveraging existing capacities in neighboring and peripheral nations while actively seeking new avenues for economic activity.

In this context, while traditional and classical definitions of politics suggest that economic diplomacy can serve as a means to elevate a country's political standing on the international stage, in our nation, it should primarily be viewed as a strategy for addressing the current challenges confronting the national economy. Within this framework, one country that deserves particular attention in the reconfiguration of trade relations is Russia.

The development of any new model for economic cooperation between the two nations necessitates a thorough understanding of the current capabilities and the underlying issues present within the existing frameworks of their commercial and economic interactions. As such, this report is organized into several sections. The opening section offers a concise overview of Russia, with an emphasis on its economic outlook and investment opportunities. The second part analyzes the trade relationship between Iran and Russia, focusing on developments over the past decade. The third section identifies the challenges and obstacles encountered in their trade interactions, while the fourth part outlines critical measures and solutions to improve economic collaboration between the two countries. Alongside a comprehensive literature review, this research incorporates insights and perspectives from various relevant institutions. Notably, a significant portion of the data and analyses presented in the third and fourth sections is derived from expert discussions with officials from institutions such as the Ministry of Foreign Affairs, the Ministry of Industry, Mining and Trade, the

Chamber of Commerce, the Foreign Investment Organization, and other pertinent entities.

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Future Prospects

Russia is the largest country in the world by land area, covering approximately 17,075,400 square kilometers—nearly twice the size of Canada, China, or the United States. Located in the northern part of Eurasia, Russia encompasses both North Asia and Eastern Europe. It has maritime borders with the North Pacific Ocean, the Arctic Ocean, the Caspian Sea, the Black Sea, and the Baltic Sea, stretching across all of North Asia and approximately 40% of Europe.

The country shares land borders with 14 nations across Asia and Europe. To the southeast, Russia is bordered by North Korea, China, Mongolia, and Kazakhstan. In the southwest, within the Caucasus region, it neighbors Azerbaijan and Georgia. To the west, Russia shares borders with Ukraine, Belarus, Latvia, Estonia, Finland, and Norway, in addition to the isolated exclave of Kaliningrad, which borders Lithuania and Poland.

From a demographic perspective, Russia has a population exceeding 144 million, making it the ninth most populous country in the world. With a population density of just 3.8 people per square kilometer, it ranks among the lowest in global population densities. Furthermore, the population growth rate has been negative, with a recorded rate of -0.1 in 2019. The majority of Russia's population is concentrated in the western part of the country (the European region), with approximately 80% being of Russian descent. The official language is Russian.

Russia is comprised of approximately 46 states (provinces), 21 republics, 4 autonomous regions, 1 Jewish autonomous district, 9 territories or regions, and 2 cities of federal significance (Moscow and St. Petersburg), totaling 83 members of the federation. Additionally, the country is organized into eight federal districts, including the North-West region (centered in Saint Petersburg), the Central region (Moscow), the Volga region (Nizhny Novgorod), the Southern region (Rostov-on-Don), the Far East region (Khabarovsk), the Ural region (Yekaterinburg), the Siberian region (Novosibirsk), and the North Caucasus region (Pyatigorsk). Moscow serves as the capital of Russia.

In terms of its economic system, Russia operates under a private

governance model similar to that of Iran. In a way that certain strategic sectors, particularly energy and power, are fully monopolized by the government. The economic structure in both countries reflects a predominant contribution from services, industry, and agriculture to national production. Oil revenues are vital for the government budget, and both nations follow an energy-oriented growth model where oil and gas revenues underpin exports, government revenue, employment, and investment.

Russia is the largest producer of oil, contributing 14% of global production, as well as natural gas at 18% and nickel at 12%. The energy sector is the most important sector of the Russian economy, accounting for 20-25% of GDP, 65% of total exports, and 30% of the government budget.

According to the latest statistics released by the World Bank, the macroeconomic indicators for the country in 2019 are detailed in Table 1.

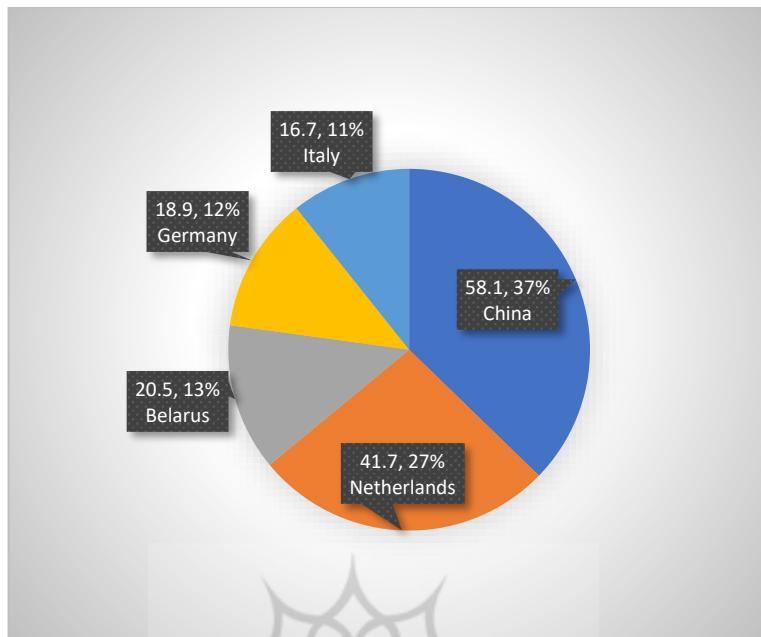
Table (1): The Economy of Russia in 2019

Row	Economic Variable	Amount	Description
١	Economic growth	١.٣%	-
٢	Inflation	٤.٤%	-
٣	Gini coefficient	٠.٣٧٥	-
٤	Unemployment	٤.٥%	-
٥	GDP	\$ 1459 billion	Ranked 11th in the world
٦	GDP per capita	١١٤٩٢ دينار	Ranked 65th in the world
٧	Exports	\$ 407 Billion	Ranked 13th in the world
٨	Imports	\$ 238 Billion	Ranked 21st in the world
٩	Economic Complexity Index (ECI)	٠.٥٨	Ranked 45th in the world

Source: (World Bank and <https://oec.world>)

In 2019, the latest statistics reveal that the country's largest exports included crude oil (\$123 billion), refined oil (\$66.2 billion), gas oil (\$26.3 billion), coal (\$17.6 billion), and wheat (\$8.14 billion).

Additionally, as illustrated in Figure 1, Russia's primary export destinations are:



Source: (<https://oec.world>)

Figure (1): Countries to which Russia exports the most (billion dollars)

The most important countries and products to which Russia exports are shown in Table 2:

Table (2): Destination countries and the key export products of Russia in 2019

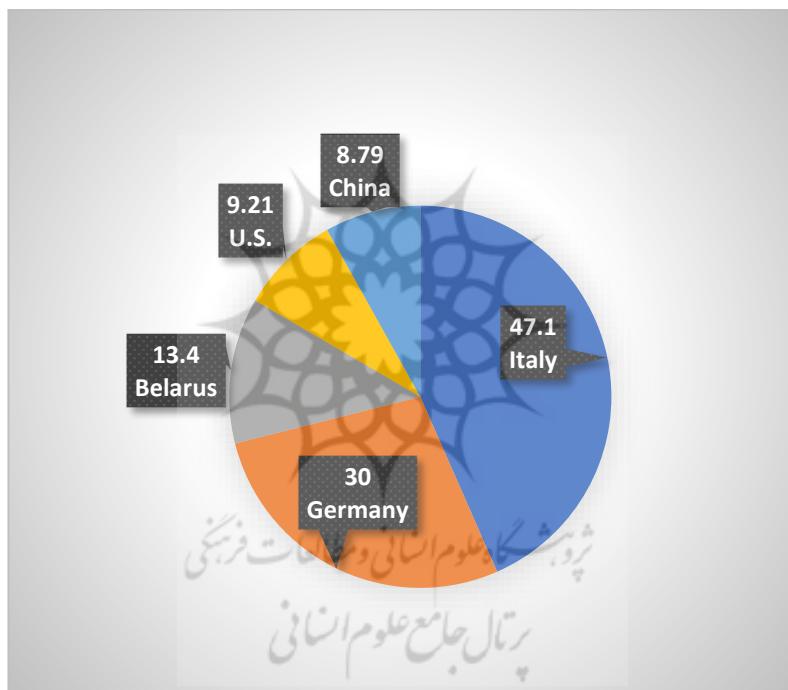
Row	Country	Share/Amount of Russia's exports to these countries	The most important goods exported to these countries
۱	China	۱۴.۳٪ ۰۵۸.۱ میلیارد دلار	Crude oil, refined oil, saw wood, etc.
۲	Netherlands	۱۰.۳٪ ۰۴۱.۷ میلیارد دلار	Crude oil, refined oil, refined copper, etc.
۳	Belarus	۵.۰۵٪ ۰۲۰.۵ میلیارد دلار	Crude oil, gas oil, machinery, etc.
۴	Germany	۴.۶۵٪ ۰۱۸.۹ میلیارد دلار	Crude oil, refined oil, coal, etc.
۵	Italy	۴.۱٪ ۰۱۶.۷ میلیارد دلار	Crude oil, gas oil, refined oil, etc.

Source: (oec. World)

In 2019, Russia stood as the world's largest exporter of several key commodities, including wheat (\$8.14 billion), semi-finished iron (\$6.99 billion), coal tar oil (\$4.49 billion), crude nickel (\$4.03 billion), and nitrogen fertilizers (\$3.05 billion).

On the import side, Russia's primary purchases for that year included automobiles (\$11 billion), packaged medicines (\$10.2 billion), auto parts (\$8.21 billion), broadcasting equipment (\$6.75 billion), and aircraft, helicopters, and spacecraft (\$4.81 billion).

Also shown in Figure 2, the most common import partners of Russia are:



Source: <https://oec.world>

Figure (2): Countries from which Russia imports the most (billion dollars)

The most important countries and products from which Russia imports are shown in Table 3:

Table (3): Key Imported Products of Russia by Country in 2019

Row	Country	"Proportion of Russian Imports / Volume of Imports from These Countries"	The most significant goods imported from these countries.
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Row	Country	"Proportion of Russian Imports / Volume of Imports from These Countries"	The most significant goods imported from these countries.
1	China	19.8% ОЧІ 1 0000000	Machinery and household appliances, vehicles and their parts, electrical machinery and equipment, plastics, etc.
2	Germany	12.9% ОЧІ 0 0000000	Machinery and household appliances, vehicles and their parts, pharmaceutical products, etc.
3	Belarus	5.6% ОЧІ 4 0000000	Dairy products and other animal products, machinery and household appliances, vehicles and their parts, plastics, etc.
4	United States	3.88% ОЧІ 2 0000000	Airplanes, helicopters or spaceships, machinery and household appliances, vehicles and their parts, etc.
5	Italy	3.69% ОЧІ 1 0000000	Machinery and home appliances, dairy products, etc.

Source: (OECD. world)

In 2019, Russia emerged as the world's largest importer of several products, including refractory cement (\$162 million), wallpaper (\$144 million), sedimentary copper (\$141 million), hydraulic turbines (\$75.6 million), and architectural applications (\$20.1 million).

On May 7, 2018, the President of the Russian Federation issued Directive No. 204, titled "On the National Objectives and Strategic Development Tasks of the Russian Federation for the Period up to 2024. The Directive sets out the following tasks:

life expectancy to 78 years, enhancing citizens' effective income and pension benefits, halving poverty rates, and improving housing conditions for over 5 million families, accelerating technological

Additionally, it focuses on accelerating technological development, with plans for a 50% increase in technological institutions, fostering the rapid implementation of digital technologies across the economy and social sectors. The overarching goal is to establish Russia among the world's five

largest economies, achieving an economic growth rate that exceeds the global average while maintaining macroeconomic stability, including keeping the inflation rate below 4%. A significant objective is to develop a high-yield export sector across key sectors of the economy, like agriculture and industry, leveraging contemporary technologies and a highly skilled workforce.

Table (4): Summary of Russia's Goals and Vision for 2024

Row	Areas	Goals & Vision
١	Demographic development	Achieve the following goals and benchmarks: Raise the healthy life expectancy to 67 years and increase the total fertility rate to 1.7. Increasing the percentage of citizens leading a healthy lifestyle and increasing the number of individuals who regularly engage in physical fitness and sports activities.
٢	Healthcare	Disease rates related to the circulatory system are projected to drop to 450 cases per 100,000 population, while tumor-related mortality rates are expected to reach 185 cases per 100,000. The infant mortality rate to drop to 4.5 cases per 1,000 births. To tackle these issues, we need to address personnel shortages in primary care, ensure annual preventive check-ups for all citizens, and guarantee sufficient care facilities. Access to primary care should be available to everyone, including those in remote areas. This can be achieved by optimizing operations in care centers, reducing waiting times, and simplifying appointment scheduling. Additionally, the aim is to increase medical service exports to nearly four times the 2017 level, targeting \$1 billion annually.
٣	Training	Ensuring the global competitiveness of Russian education aims to position Russia among the top ten countries in the world regarding the quality of public education. This includes educating well-rounded and socially responsible individuals grounded in the moral and spiritual values of the Russian people.
٤	Housing and Urban Environment	The following goals and objectives have been established: to provide affordable housing for middle-income families, including the option to purchase or build homes through loans with interest rates below 8 percent. Boosting housing

Row	Areas	Goals & Vision
1	Employment Support	resource economy by a minimum of 5% annually; ensuring participation from at least 10 regions of the Russian Federation each year in the aforementioned program. Additionally, involving at least 10,000 medium and large enterprises from these key non-resource sectors is also a goal of this initiative.
2	Science	To ensure Russia remains among the top five countries in scientific advancement, it is crucial to conduct research and development in priority areas. Attracting both distinguished Russian and foreign scientists, along with promising young researchers, is essential. Additionally, there must be a significant and swift increase in domestic funding for scientific research and development from all sources, outpacing the growth of the country's GDP.
3	Digital Economy	A three-fold increase in domestic expenditure (calculated as a proportion of GDP) is anticipated for the development of the digital economy compared to 2017. This includes the establishment of a stable and secure information and telecommunication infrastructure to facilitate the rapid transfer, processing, and storage of large volumes of data accessible to all organizations and households. A strong emphasis on the utilization of locally developed software by government authorities and public and municipal organizations.
4	Culture	<ol style="list-style-type: none"> 1. Социокультурное развитие (Social and cultural development) emphasizing its spiritual, moral, and cultural values. 2. Культурное наследие (Cultural heritage) including concert halls, theaters, and creative institutions. 3. Культурные институты (Cultural institutions) such as libraries, museums, and other necessary materials. 4. Молодежная культура (Youth culture) including a National Youth Symphony Orchestra. 5. Культурное развитие в сельской местности (Cultural development in rural areas) and develop municipal

Row	Areas	Goals & Vision
		Planned enhancements for the Baikal-Amur and Trans-Siberian railways aim to increase capacity by 1.5 times to 180 million tons, alongside boosting port access in the Azov-Black Sea basin.

Source: (authors)

Attracting foreign investment is a key objective of Russia's foreign policy. In the wake of stabilizing its market economy, the government has made it a priority to implement policies that incentivize investment. The Ministry of Industry and Trade oversees the coordination of government efforts to attract foreign investment, and the Foreign Investment Development Center operates under its supervision, with offices located in Frankfurt, Paris, and Amsterdam. The Center focuses on several key objectives, including:

- Promoting investment projects through its overseas offices
- Encouraging capital inflow into the Russian economy
- Analyzing investment projects and facilitating partnerships with potential investors
- Establishing a standardized framework for attracting long-term foreign capital
- Offering pre- and post-investment services to foreign investors
- Providing guidance, consultancy, and administrative support for foreign companies operating in Russia.

The Foreign Investment Advisory Council was established by the government in collaboration with Western business companies in 1994 to improve the investment climate. Several notable Western companies, including Coca-Cola, Renault, British Petroleum, and Siemens, are represented on the council. The Council's primary objective is to evaluate the investment landscape in Russia and provide advisory recommendations to enhance it, ultimately boosting Russia's image among foreign investors. The Ministry of Economic Development and Trade is tasked with coordinating the council's activities.

According to the Investment Law, foreign investors are allowed to invest in the territory of the Russian state through the following means:

- Participation in the capital of institutions created by Russian natural and legal persons.
- Setting up institutions with 100% ownership of foreign investors and establishing branches of foreign legal institutions
- Acquisition of plots of land, other natural resources, buildings, and immovable assets

- Purchase of stocks and securities of Russian business organizations and state securities
- Any investment activity that is not prohibited by Russian laws

Regional authorities and local self-governing bodies within the Russian Federation can grant concessions to foreign investors and provide financial support for their initiatives, by their jurisdiction. Under the Investment Law, the federal government has certain responsibilities, including:

- Policy in the field of foreign investments
- Creating prohibitions and restrictions on the implementation of foreign investments
- Establishing regulatory measures on the activities of foreign investors
- Preparation of a list of priority activities in investment
- Designing and Implementing Federal Programs to Attract Foreign Investment
- Attracting investment loans from international financial organizations and foreign governments
- Working with the regions of the Russian Federation in the field of cooperation with the investment sector
- Supervising Investment Agreements with Foreign Investors on the Implementation of Major Projects
- Conclusion of international agreements of the Russian Federation on the encouragement and mutual protection of investors

The Russian government has obligations regarding investments based on the Federal Investment Law, some of the most important of which are:

- Observance of the principle of equal treatment of foreign investors and Russian investors
- Legal support for the investment process regarding the profit gained from foreign investments
- Full and unconditional protection of the rights and interests of foreign investors on the territory of the Russian Federation
- No forcible confiscation and nationalization or confiscation of the foreign investor's assets, except in certain cases and based on reasons established by federal law or the International Treaty of the Russian Federation. In the event of confiscation, the price shall be paid to the foreign investor.
- Ensuring the transfer of income earned from profits and interest on investments, intellectual property, and amounts related to the liquidation of foreign companies and the seizure of invested assets and the payment of compensation out of the Russian Federation

- Effortless exit (without quotas, obtaining licenses, and other non-tariff-regulating foreign trade) of assets and information in documented form or on electronic devices that have entered the territory of the Russian Federation as foreign investment
- Participation in the privatization process of industries
- No changes in customs duties and federal taxes that hurt foreign investors. This includes companies where 25% of their capital is foreign or have invested in priority projects. Stability in the legal conditions governing companies is valid for 7 years from the start of the foreign investor's activity.

According to the United Nations Conference on Trade and Development (UNCTAD), Russia was ranked as the fourth most attractive destination for foreign direct investment between 2007 and 2009, following China, India, and the United States. It has also prioritized investment in the petrochemical sectors and refinery projects. European Union member countries have been the most important investors in various economic sectors of Russia. In 2013, Russia managed to become the third most attractive country for foreign investors for the first time, following the United States and China. Although after the Western sanctions against Russia, the country faced difficulties in terms of foreign investment, it tried to manage this challenge by attracting investment from Arab countries.

The most promising sectors for investment in Russia are primarily oriented toward services. The key areas of investment in the country include:

- Financial & Accounting Services
- Information and Communication Technology
- Electrical Equipment
- Media & Multimedia Services
- Insurance & Banking Services
- New technologies like electronics and biotechnology
- Professional Business Services
- Distribution and packaging of food and agricultural products
- Wholesale & Retail
- Tourism
- Transportation
- Food Industry
- Agricultural Tools & Equipment
- Structure & Machinery
- Telecommunications, Network & Remote Communications

The Russian economy is heavily reliant on the export of raw

materials, a dependency that has hindered its overall economic development. Modernization has become a critical issue for Russian officials, who assert that it cannot be allowed to delay any longer.

Nevertheless, the challenges posed by the Ukraine crisis have greatly impeded the achievement of these objectives. Despite these setbacks, they remain a crucial aspect of the Russian government's medium-term strategy.

Investment for Legal Entities: This type of investment, made through a company, can be applied in various fields, including projects, securities, currency, real estate, and services.

Project Investment: A foreign investor provides financing for a project located within Russian territory.

Direct Investment: A foreign investor directly allocates capital into Russia's financial and commercial sectors.

A foreign investor is allowed to transfer their shares to another party as per the terms of the contract. The Russian government ensures the unrestricted transfer of foreign currency and profits derived from investments outside the country. Furthermore, it guarantees the free transfer of real estate, loans, and business information related to the company outside of Russia. The government also permits foreign investors to buy, sell, and exchange both governmental and non-governmental securities for recognized goods.

The foreign investor can participate in the privatization process and has the right to do so. The Russian government is obliged to provide legal and judicial coverage to the investor's company within the framework of the country's federal laws. The Russian

government is obliged to pay the loss of the investment that is caused by illegal cases, such as a domestic company filing a lawsuit in court under Russian law. The investment has no fixed limit and can go as high as possible. Reinvestment: In this form of investment, the profits earned from another company are used as the capital of the third company..

The exclusive representation of the foreign investor or its Russian commercial company, which is introduced by the investor, enjoys his legal status.

Transactions made through foreign countries, international organizations, or organizations under their control, resulting in access to more than 25% of the votes for authorized capital shares, must be coordinated in advance. Federal law regulates those transactions on how foreign investment is carried out in economic institutions of strategic importance to the country's defense and security. In the event of changes in Russian laws, those changes do not affect a foreign investment project within its 7-year time period. If the investment exceeds 1 billion rubles and a project is considered a priority investment, this period can be increased. There are four types of free economic zones in Russia.

There are various benefits for the investor in free economic zones, including tax benefits, special customs regimes, etc.

Following the stabilization of the market economy, the Russian government prioritized the implementation of policies to encourage investment. The law governing foreign investment in Russia is the Federal Law on Foreign Investment, which was adopted on July 9, 1991. This law aims to protect investors' rights concerning investment and income, as well as the employment conditions for foreign investors in Russia. This law aims to transfer capital resources, advanced technologies, and foreign management expertise to the national economy. In addition to creating suitable conditions for foreign investors, it ensures that the legal regime governing foreign investments aligns with international law and customary practices in investment cooperation. Despite the economic challenges resulting from recent sanctions against Russia, which have led to a significant decrease in

foreign investment and the withdrawal of Western capital, there are still numerous advantages for foreign investments in Russia. Some of these advantages are outlined below:

- Wide consumer market
- Expert workforce
- Easy access to the market of allied independent countries
- Russia is one of the wealthiest countries in the world based on natural resources

From a commercial point of view, the percentage of tariffs imposed on goods imported to Russia fluctuates between 5 and 50 percent. However, the average tariff for imported goods is about 14.92 percent. The average tariff for industrial goods is 26.2 percent, and the average tariff of industrial goods is 12.69 percent. VAT on imported goods is levied based on 18% of the value of the inventory in Russian customs. Based on the general system of preferences, Russia grants a 25% discount on customs tariffs to developing countries, including Iran, which is one of the comparative advantages of exporting to Russia.

The opportunities in the trade relations between the two countries are due to the conditions that are mentioned below.

The diversity in the production of industrial goods in the Russian market and the increasing demand for the consumption of various products are some of these characteristics. Another issue is the low cost of Iran's industrial products compared to Russia's, which is mainly due to the low energy costs for industrial uses, transportation, and labor wages.

The reduced transportation costs due to the close distance between the two countries also facilitate trade between Iran and Russia. This connection is mainly done through shipping in the Caspian Sea and the movement of trucks. Efforts have been made to assist this process by establishing regular airlines between various cities in the two countries, diversifying the airlines, and signing air transport agreements. Good relations between the two countries can also be effective in developing economic cooperation and increasing exports to Russia.

In summary, Russia's economic advantages for our country's economy in the industrial and commercial fields can be summarized in the framework of Iran's export priorities to Russia as follows:

- Export of petrochemical and chemical products to Russia. The Embassy of the Islamic Republic of Iran in Moscow has succeeded in meeting some of the needs of the Russian domestic market for petrochemical products in cooperation with our

country's petrochemical complexes. Iran's petrochemical products are favored by Russian consumers due to their high quality and lower cost.

- Automotive and auto parts industry: In the past years, the Iranian embassy was able to obtain a license to export Samand (a car model) to the Russian market. Iran Khodro started its operations in the Russian market in 2007 and had exported 12,000 cars to Russia by 2009, but in 2009, due to the standards governing the Russian car market and due to the nonconformity of the products with those standards, exports to Russia were stopped, and Iran Khodro was forced to supply the Russian market through Belarus. Since 2012, with a change in the quality of manufactured cars, operations began to start once again in the Russian market, and finally, in late 2013, an export license to Russia was obtained.
- Food, fruits, snacks and agricultural products
- Handicrafts, carpets, leather, and textile products

Russia stands as the largest country in the world, encompassing 11.5% of the world's total land area. The country is characterized by a cold climate, and home to a diverse array of ethnic, cultural, and religious groups. Although it is often recognized for its technological capabilities, Russia primarily exports energy and raw materials. On the international stage, Russia is an influential country with an emerging economy that relies heavily on imports. While it serves as a consumer market, it also maintains a positive trade balance. The country's favorable economic and industrial conditions enabled Iran to take advantage of the Russian market, especially for industrial products, to meet its needs during the period when Iran faced international sanctions.

Additionally, the geographical proximity of the two nations, along with lower transportation costs, enhances their trade relations. Notably, the Caspian Sea Shipping Company operates 25% of the total vessels in the Caspian Sea and handles 20% of the cargo traffic. In this context, Iranian trucks enter Iran via the Dagestan border after traversing the Republic of Azerbaijan, and they significantly outnumber Russian trucks in terms of their share in transportation between the two countries; the total number of trucks traversing is nearly 7000.

The presence of diverse transportation infrastructures, including air, sea, and land routes, along with equipping Astara Customs with the necessary facilities for the timely clearance of cargo, contributes significantly to the logistics landscape. The active involvement of

the Iranian private sector at the port of Salyanka, located at the mouth of the Volga River in Astrakhan, and the operations of the Caspian Sea Shipping Company further enhance this framework. Efforts are underway to establish regular airline routes between cities in both countries and diversify airline options, emphasizing the need for air transport agreements.

Additionally, the political and strategic relations between the two countries play a crucial role and should be paid more attention. As neighbors, their interests align on numerous international issues. Moreover, the shared cultural interests, particularly in the southern regions of Russia, represent another significant opportunity for collaboration.

The shared commitment of both countries to enhance non-oil exports also serves to strengthen their bilateral relations. As significant producers of hydrocarbons, including oil and gas, they recognize the importance of utilizing oil revenues to promote the development of other economic sectors, particularly by bolstering domestic production.

In summary, Russia's economic strengths for our country's industrial and commercial sectors can be framed within Iran's import priorities from Russia as follows:

Iran's imports need to encompass a wide array of resources, including nearly all minerals, such as coal, oil, gas, and chemicals, along with metals, the heavy metal sector, aircraft and aerospace industries, automotive production, and military sectors such as radars and missiles. Furthermore, this includes shipbuilding, advanced electronics, tractors, road construction, transportation, communications, power generation, nuclear energy, textiles, pharmaceuticals, food production, handicrafts, strategic minerals, rare earth elements, timber, and agricultural products such as wheat, sugar, barley, sunflower seeds, fruits, milk, and meat. These represent the comparative advantages of importing from Russia.

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Dynamics

The total trade between Iran and Russia in 2019 was equivalent to \$1.58 billion. In 2020, the total trade between the two countries was \$1.19 billion, while Iran's exports to Russia stood at \$0.39 billion.

The figures on Russia-Iran foreign trade are shown in Table 5:

**Table (5): Statistics on Russia-Iran Foreign Trade
(in billion dollars)**

Years	Russian exports to Iran	Russian imports from Iran	Trading volume	Trade Balance
۲۰۱۱	۰.۷۷	۰.۳۵	۱.۱۳	-۰.۴۲
۲۰۱۲	۱.۶۴	۰.۴۳	۲.۰۷	-۱.۲۱
۲۰۱۳	۰.۷۵	۰.۴۳	۱.۱۸	-۰.۳۱
۲۰۱۴	۰.۶۵	۰.۳۶	۱.۰۰	-۰.۳۹
۲۰۱۵	۰.۵۸	۰.۲۴	۰.۸۲	-۰.۳۴
۲۰۱۶	۱.۰۴	۰.۳۰	۱.۳۵	-۱.۲۴
۲۰۱۷	۰.۷۰	۰.۳۹	۱.۱۰	-۰.۳۱
۲۰۱۸	۱.۳۴	۰.۵۳	۱.۸۸	-۰.۸۱
۲۰۱۹	۱.۲	۰.۳۹	۱.۵۹	- 0.81

Source: (Trademap.org)

The figures regarding Iran's imports from Russia are displayed in Table 6.

Table (6): Iran's Imported Goods from Russia (\$1,000)

International Commodity Code (HS code)	Commodities (Top 15 Commodities According to 2019)	۲۰۱۶	۲۰۱۷	۲۰۱۸	۲۰۱۹
۱۰	Grain	۳۱۴,۹۲۰	۳۵۵,۱۰۷	۴۹۵,۰۴۳	۴۷۹,۷۵۳
۱۵	Animal or vegetable fats and oils and their products	۱۹,۰۶۳	۱۴۶,۴۴۹	۲۲۰,۰۴۴	۴۲۸,۸۰۰
۴۴	Wood and Wooden Objects	۹۷,۷۰۴	۱۲۵,۷۰۲	۱۱۴,۵۱۸	۷۱,۲۷۱
۷	Edible meat and other meat products	۰	۲,۰۱۸	۵۷,۰۶۰	۴۰,۴۷۶
۸۵	Electrical machinery and equipment and their parts; recorders, TVs, etc.	۴۳۷,۷۲۹	۴۲,۲۸۲	۵۵,۲۶۶	۳۴,۴۸۶
۸۴	Machinery, Mechanical Appliances, Nuclear Reactors	۶۷,۰۵۲	۹۳,۴۰۲	۲۲,۹۰۰	۲۲,۱۵۱
۹۹	Goods not specified elsewhere	۳۱۶,۶۷۷	۲,۴۳۹	۱,۴۷۴	۱۹,۷۹۰
۸۷	Vehicles other than railways and their parts and accessories	۱۳۵,۴۴۰	۳۶,۰۵۱	۱۳,۷۵۹	۱۲,۴۶۴

International Commodity Code (HS code)	Commodities (Top 15 Commodities According to 2019)	۲۰۱۶	۲۰۱۷	۲۰۱۸	۲۰۱۹
۹۰	Optical Instruments, Photography, Videography, Measurement, Checking, Medical or Surgical	۶,۰۰۰	۸,۱۲۴	۶,۵۰۳	۱۰,۳۱۲
۹۸	Paper & Cardboard	۲۱,۰۷۹	۲۲,۷۹۸	۲۶,۷۴۶	۸,۴۹۳
۹۷	Edible vegetables and special roots and tubers	۴,۲۶۵	۸,۴۸۳	۹,۷۹۹	۸,۴۶۸
۹۹	Organic Chemicals	۲,۱۹۶	۷,۵۸۶	۸۸۲	۸,۲۶۵
۹۹	wood pulp or other fibrous cellulose material; recycled paper	۴,۹۶۸	۲,۶۲۰	۷,۱۸۷	۶,۶۸۸
۹۷	Artifacts made of iron or steel	۷,۹۱۲	۱۷,۶۸۴	۱۷,۰۸۹	۶,۳۷۷
۹۳	Ships, boats, and floating structures	۲,۷۶۰	۱۰,۲۱۹	۵,۳۳۸	۴,۸۵۸

The figures related to Iran's exports to Russia are shown in the following table:

Table (7): Iran's Export Goods to Russia (\$1,000)

International Commodity Code (HS code)	Commodities (Top 15 Commodities According to 2019)	۲۰۱۶	۲۰۱۷	۲۰۱۸	۲۰۱۹
۰۸	Edible fruits and nuts, citrus peel or melon	۱۱۰,۱۵۱	۱۲۰,۳۲۰	۲۰۷,۰۸۴	۱۴۸,۴۸۰
۰۹	Edible vegetables and special roots and tubers	۱۰۳,۹۸۴	۱۱۹,۹۲۳	۱۰۵,۰۲۹	۱۲۷,۶۷۶
۰۴	Dairy products, bird eggs, natural honey, edible products of animal origin	۱,۳۰۳	۹,۹۳۷	۵,۸۲۶	۱۹,۶۹۲
۳۹	Plastic and its artifacts	۱۰,۸۶۹	۲۰,۱۶۸	۱۴,۳۵۶	۱۴,۹۲۶
۳۰	Pharmaceutical Products	۸,۹۰۳	۱۳,۸۶۲	۱۳,۵۵۲	۱۲,۹۶۰
۷۲	Iron & Steel	۰	۵۵	۱,۴۸۱	۱۰,۸۷۸
۷۵	Salt, sulfur, soil and stone, plasterwork, lime and cement	۲,۸۸۰	۶,۴۰۶	۵,۸۷۴	۹,۰۰۳
۷۰	Preparation of vegetables, fruits, nuts, or other parts of plants	۱۰,۴۷۴	۱۳,۷۳۱	۱۶,۶۴۷	۶,۸۵۵
۵۵	Handmade Original Fibers	۱۱۵	۷۳	۳,۳۰۰	۵,۱۷۷
۶۸	Stone, gypsum, cement, or	۱,۳۳۰	۲,۷۷۸	۳,۲۲۸	۳,۷۶۳

International Commodity Code (HS code)	Commodities (Top 15 Commodities According to 2019)	۲۰۱۶	۲۰۱۷	۲۰۱۸	۲۰۱۹
	similar materials				
۸۴	Machinery, Mechanical Appliances, Nuclear Reactors	۶,۶۶۸	۳,۴۳۳	۵,۳۷۸	۳,۶۱۰
۶۹	Ceramic Products	۸۷۱	۱,۲۴۳	۲,۶۲۸	۳,۱۷۲
۹۹	Goods not specified elsewhere	۲۵,۵۰۳	•	•	۳,۱۵۲
۸۷	Vehicles other than railways and their parts and accessories	۱,۲۷۰	۱,۸۲۷	۳,۱۸۸	۲,۸۶۲
۲۹	Organic Chemicals	۳,۳۹۰	۵,۱۱۸	۴,۱۶۰	۲,۳۱۰

Table 8 shows a summary of Russia-Iran bilateral trade in 2019:

Table (8): Summary of Bilateral Trade between Russia and Iran in 2019

Row	Variable	Description
۱	Bilateral trade with the Islamic Republic of Iran	۰۱ مطالعات اسلام و ایران
۲	Iran's exports	\$ 390 Million
۳	Iran's Imports	۰۱.۲ مطالعات اسلام
۴	Trade Balance with the Islamic Republic of Iran	۰۸۱. مطالعات اسلام و ایران
۵	Iran's most important export items	Dried fruits, fruits, petrochemical products and petroleum products, building materials, carpets, aquatic products, dairy products
۶	The most important items imported to Iran	Wood & Timber, Steel & Iron Machinery, Industrial Machinery, Chemical Products & Petroleum Products
۷	Bilateral Trade Growth Percentage	-۹.۰۳٪. مطالعات اسلام و ایران
۸	Date of the last meeting of the Joint Economic Commission of the two countries	۱۶-۱۸ می ۲۰۱۹
۹	The Iranian agency responsible for the economic commission of the two countries	Ministry of Energy

Row	Variable	Description
10	Bilateral Economic Basic Agreements	-
11	List of Agreements	Trade and Investment Cooperation Documents, Energy, Eurasian Economic Union, Customs and Health, Agriculture, Electricity and Energy, Nuclear Energy, Transit and Transportation, Signing of the Agreement on the Cancellation of Group Tourist Visas between the Nationals of the Two Countries, and Preparation of its Executive Document

Source: (Deputy of Economic Diplomacy of the Ministry of Foreign Affairs of the Islamic Republic of Iran)

۴. اقتصادی ایران و روسیه- این دو کشور را چگونه می‌توانند

Iran's economic relations with Russia face several interrelated challenges that hinder the growth and optimization of bilateral trade. These challenges can be broadly understood through the lens of infrastructure deficiencies, organizational weaknesses, and external geopolitical constraints. First, the issue of commercial infrastructure—both physical and institutional—presents a major barrier to the expansion of trade. On the tangible side, Iran lacks adequate facilities in key areas such as ports, roads, maritime and air transportation, warehousing, cold storage logistics, and passenger terminals. These shortcomings undermine the efficiency of goods movement and limit Iran's ability to engage in large-scale trade with Russia. In parallel, the soft infrastructure required to support trade is also underdeveloped. A major deficiency lies in the absence of a regulatory framework that aligns with the specific requirements of the Russian market. Harmonizing customs processes, reforming outdated trade regulations, and adapting to Russia's bureaucratic and legal expectations are crucial steps that need to be taken to improve the functionality and reliability of bilateral trade mechanisms. Second, the weak organization of Iran's foreign trade affairs represents another structural problem. The current institutional framework managing trade relations with Russia lacks coherence and coordination. One prominent issue lies in the underdeveloped monetary and banking infrastructure, which suffers from a lack of integration and capacity to handle

international transactions efficiently. Compounding this issue is the limited awareness among Iranian business actors of the economic environment, opportunities, and standards in Russia. Many Iranian entrepreneurs are either unfamiliar with the competitive advantages of the Russian market or are inadequately prepared to meet its stringent product standards. In many cases, the quality requirements for goods entering Russia surpass even those of European markets, and Iranian products have struggled to meet these expectations, limiting their competitiveness and acceptance. Third, the role of the international political economy cannot be overlooked as a major constraint on Iran-Russia trade. The shadow of Western sanctions and the complexities of global economic alignments have significantly affected the potential for deeper economic ties. Many Russian companies that maintain trade relations with the United States are hesitant or outright unwilling to engage with Iranian partners due to the risk of secondary sanctions or loss of access to Western markets. This geopolitical pressure has driven up transaction costs, discouraged investment, and reduced the willingness of Russian firms to engage in sustained commercial relations with Iran. As a result, the volume of trade between the two countries remains relatively low, despite shared political interests and regional cooperation. In summary, the primary challenges and issues affecting Iran's economic relations with Russia can be illustrated in Figure 3.

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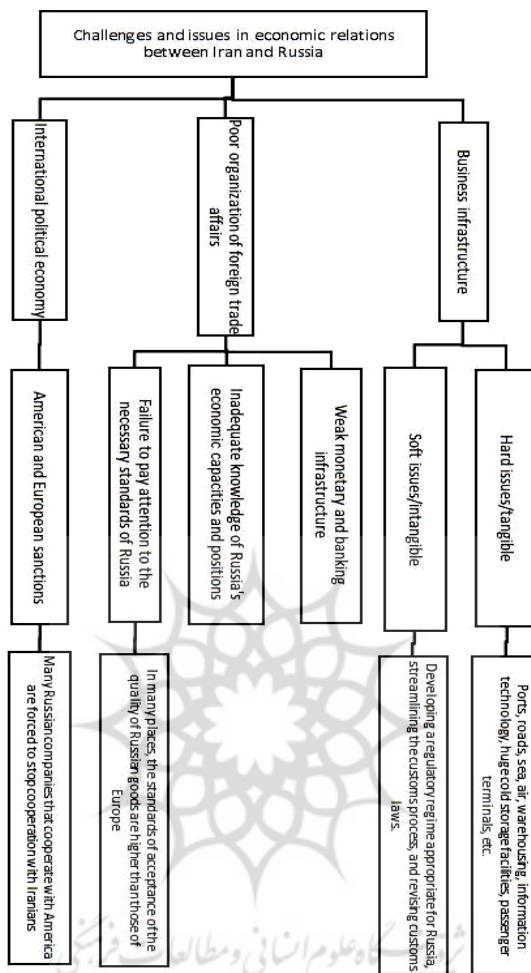


Figure (3): Challenges and Issues in Iran's Economic Relations with Russia

Strategies for enhancing Iran's economic relations with Russia can be categorized into four main groups: To effectively enhance Iran-Russia economic relations, it is crucial to prioritize the development of physical infrastructure, diversify trade approaches, improve market intelligence, and expand the range of exported goods. The current state of trade infrastructure between the two countries remains underdeveloped and demands urgent attention. A key step in this direction is initiating and completing strategic projects such as the Rasht-Astara railway and the broader North-South Corridor, which could significantly increase transit capacity

and generate considerable revenue for Iran. Additionally, expanding maritime transportation by developing shipping routes in the Caspian Sea and optimizing port operations in Anzali, Astara, Nowshahr, Amirabad, and other coastal hubs would enhance the logistical efficiency and utilization of existing port infrastructure. Moreover, the economic potential of Iran's land borders and customs posts with CIS countries remains largely untapped. By activating underutilized land and rail connections, Iran can strengthen trade channels and broaden its regional economic footprint. Addressing the challenges in the customs sector, particularly resolving outstanding issues with Azerbaijan, will further streamline trade operations and improve bilateral commercial flows.

Another important strategy involves moving beyond the traditional model of commodity exports and embracing joint ventures, particularly in the oil, mining, and energy sectors. Collaborative projects in these areas can stimulate long-term cooperation, generate investment, and substantially increase trade volumes. Rather than merely focusing on exports, joint ventures offer a sustainable and mutually beneficial path to deeper economic integration. Equally vital is the enhancement of information and marketing capabilities. Establishing a comprehensive and accessible database that covers various economic sectors—including manufacturing, trade, export, and mining—would allow Iranian businesses to make informed decisions and respond more strategically to market demands. Expanding economic and trade advisory services, especially through the active involvement of institutions like the Ministry of Foreign Affairs, can provide the necessary support for entrepreneurs and investors. At the same time, promoting Iranian products through retail outlets and exhibitions in Russia will improve visibility and market access. Finally, capturing a larger share of the Russian market requires a deliberate effort to diversify the range of exported goods. Despite Russia's vast \$240 billion market, only a small fraction is currently accessible or tapped by Iranian exporters. Of this amount, \$32 billion constitutes an accessible market, \$34 billion remains inaccessible, and an overwhelming \$170 billion is considered untapped. With strategic planning and market-oriented export policies, Iran has the potential to penetrate this untapped segment and significantly boost its share in Russia's import portfolio.

To summarize, the most crucial strategies for enhancing Iran's economic relations with Russia can be outlined in Figure 4:

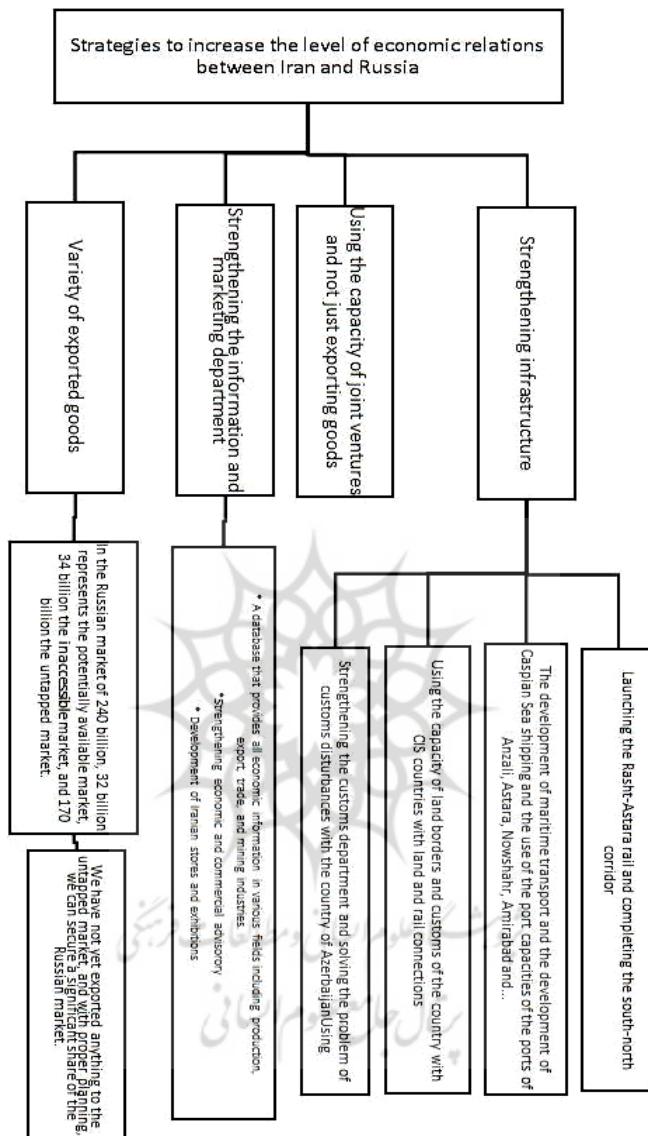


Figure (4): Strategies to Increase the Level of Iran's Economic Relations with Russia

Conclusion

The economic performance of the country over the last decade has been significantly hampered by a combination of exogenous factors, such as sanctions, and endogenous issues, including inadequate

implementation of privatization policies and mismanagement within the banking system. As a result, the country has experienced subpar economic growth, averaging less than 2 percent, alongside rampant inflation exceeding 20 percent and a low rate of GDP fixed capital formation, averaging around minus 5 percent. Consequently, the country has been categorized as a low-income nation in international assessments.

Furthermore, the end of the lucrative era of crude oil sales has led to increasingly stringent restrictions on access to programmable financial resources for the Iranian government. Therefore, the Iranian economy urgently requires the development of a new avenue for value creation. This endeavor seems essential for reconstructing the country's trade flow and for harnessing existing capacities in other countries, particularly neighboring and peripheral nations, while also defining new areas for economic activities. Therefore, while conventional and classical definitions of politics suggest that economic diplomacy serves as a means to enhance a country's political standing on the global stage through the expansion of foreign trade and the creation of new markets, in our context, it should be viewed primarily as a vital avenue for overcoming the current impasses faced by the national economy. In this context, this study examines the challenges and strategies for enhancing trade between Iran and Russia. The key obstacles to trade between the two nations include A) inadequate trade infrastructure, B) poor organization of foreign trade operations, and C) the complexities of the international political economy. Conversely, the strategies to elevate trade levels comprise A) bolstering infrastructure, B) leveraging joint investment opportunities beyond mere goods exportation, C) enhancing the information and marketing sector, and D) diversifying the range of goods exported.

In this context, the following recommendations are proposed:

- A. Enhancing the infrastructure by completing the Rasht-Astara corridor and strengthening the capabilities of the Caspian Sea ports.
- B. Leveraging joint investment opportunities within the energy sector.
- C. Strengthening the information and marketing sector through the appointment of an economic consultant and the strengthening of perpetual exhibitions.
- D. Diversifying the export of goods beyond just agricultural commodities.

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