

# Beyond Geopolitics: A Geoeconomic Perspective of China-Iran Belt and Road Initiative Relations

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# Beyond Geopolitics: A Geoeconomic Perspective of China-Iran Belt and Road Initiative Relations

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## ABSTRACT

The Belt and Road Initiative (BRI) is the largest regional development project in the history of global development. It is estimated that Chinese companies will invest up to \$1.2 trillion in infrastructure development in Asia and elsewhere in the coming years. However, there are many obstacles to the successful implementation of this initiative in the host countries, including geographical factors, local culture, geopolitical contestation, public attitudes, institutional capacity, and governance quality. These challenges can substantially diminish the coherence of the BRI and prevent its effective implementation. This study aims to develop an analytical framework for exploring the risks associated with and challenges of executing BRI projects in Iran. To this end, all risks are categorized into three broad groups: operational, financial, and geopolitical. The results show that Iran generally faces many internal and external challenges in attracting foreign investment. The critical question is: Why is Iran receiving substantial investment from Chinese companies despite its unfavorable business environment? A geoeconomic approach is used to develop a theoretical framework to explain Iran-China BRI relations. In this context, Iran's geoeconomic significance is the main factor encouraging the flow of Chinese investment into the country. The BRI comprises mostly functional cooperation between China and countries along the Silk Road based on a specific geospatial environment. Iran's geospatial environment encourages Chinese investments in infrastructure, which is the main content of functional cooperation.

**Keywords:** Belt and Road Initiative, geospatial environment, risk assessment, geoeconomic

## Jeopolitik Ötesi: Çin ve İran'ın Kuşak ve Yol Girişimi İlişkilerine Jeoekonomik Bakış

### ÖZET

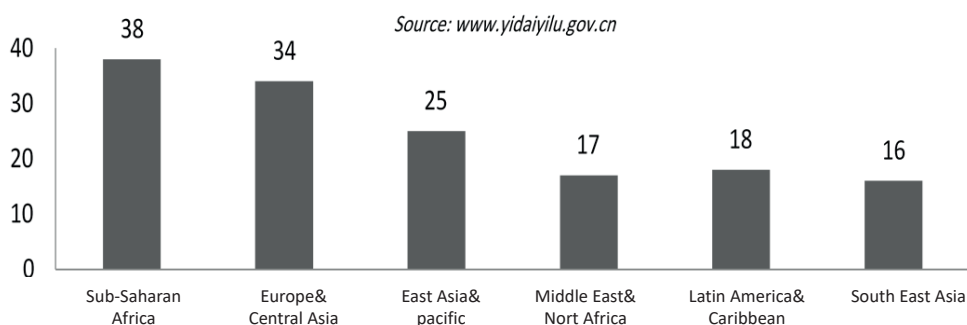
Kuşak ve Yol Girişimi (BRI), küresel kalkınma tarihindeki en büyük bölgesel kalkınma projesidir. Çinli şirketlerin gelecek yıllarda Asya'da ve başka yerlerde altyapı geliştirmeye 1,2 trilyon dolara kadar yatırım yapacağı tahmin edilmektedir. Ancak, bu girişimin ev sahibi ülkelerde başarılı bir şekilde uygulanmasının önünde coğrafi faktörler, yerel kültür, jeopolitik çekişme, kamu tutumları, kurumsal kapasite ve yönetim kalitesi gibi birçok zorluk bulunmaktadır. Bu zorluklar, BRI'nin tutarlılığını önemli ölçüde azaltabilir ve etkili bir şekilde uygulanmasını engelleyebilir. Bu çalışma, İran'da BRI projelerinin yürütülmesiyle ilgili riskleri ve zorlukları tespit etmek için analitik bir çerçeve geliştirmeyi amaçlamaktadır. Bu doğrultuda, tüm riskler operasyonel, finansal ve jeopolitik olmak üzere üç geniş gruba ayrılır. Sonuçlar, İran'ın genel olarak yabancı yatırımları çekmede birçok iç ve dış zorlukla karşı karşıya olduğunu göstermektedir. "İran, olumsuz iş ortamına rağmen neden Çinli şirketlerden önemli miktarda yatırım alıyor?" sorusu kritiktir. İran-Çin BRI ilişkilerini açıklamada teorik bir çerçeve geliştirmek için jeoekonomik yaklaşım kullanılmaktadır. Bu bağlamda, İran'ın jeoekonomik önemi, Çin yatırımlarının ülkeye akışını teşvik eden ana faktördür. BRI, Çin ile İpek Yolu üzerindeki ülkeler arasında belirli bir jeo-uzamsal ortama dayalı olarak işlevsel iş birliğini içermektedir. İran'ın jeo-uzamsal ortamı, işlevsel iş birliğinin ana içeriği olan Çin'in altyapı yatırımlarını teşvik etmektedir.

**Anahtar Kelimeler:** Kuşak ve Yol Girişimi, jeo-uzamsal ortam, risk değerlendirmesi, jeoekonomi

## Introduction

In September 2013, Chinese President Xi Jinping proposed the revival of the ancient Silk Road in Kazakhstan. In October of the same year in Indonesia, he proposed the Maritime Silk Road Initiative (MSRI), calling these two projects “One Belt, One Road (OBOR)”<sup>1</sup>. The new project would start with a network of highways, railways, and pipelines extending from Xi’an in central China to the Chinese city of Urumchi near the Kazakhstan border, and from there to Iran, Iraq, Syria, and Turkey. The BRI connects to Bulgaria, Romania, the Czech Republic, Germany, and Venice in Italy from Istanbul, Turkey. The sea route is a network of ports and coastal infrastructure that connects South and South-east Asia to East Africa and the North Mediterranean. In all, the BRI covers 148 countries, from Asia to Europe and Africa (Figure 1).

**Figure 1.** Number of Countries of the Belt and Road Initiative (BRI) across Continents



By implementing the BRI, China is pursuing significant goals in the international economy, such as expanding its sphere of influence into various regions, gaining access to global markets, and creating more cost-effective communication and transportation networks. It also aims to advance the Silk Road Economic Belt project to improve China’s western infrastructure. Based on studies published by international economic organizations and research centers, \$2.9-6.3 trillion will be needed every year to invest in infrastructure development.<sup>2</sup>

China has taken practical measures to fill the gap relating to insufficient investment in infrastructure. In November 2014, China established a \$40-billion Silk Road fund. In April 2015, Xi Jinping proposed a \$46-billion investment plan in Pakistan. China also signed a \$30-billion deal with Kazakhstan, a \$15-billion deal with Uzbekistan, a \$3-billion deal with Kyrgyzstan, and a \$1.4-billion deal with Sri Lanka for the reconstruction and development of the Port of Colombo. Beijing has significantly promoted BRI diplomacy and increased hopes, especially among developing countries. However, several challenges are hindering the BRI’s implementation. In particular, some infrastructure projects such as railways, highways, and power plants mainly rely on continuing and substantial

1 According to the Chinese government’s decision in 2016, the term OBOR was changed to the “Belt and Road Initiative” (BRI). It was said that the emphasis on “One” could lead to misinterpretation. For further information, see Bērziņa-Čerenkova UA. “BRI instead of OBOR—China edits the English Name of its most ambitious international project”, *Latvian institute of international affairs*. 2016.

2 Amar Bhattacharya et al., *Delivering on Sustainable Infrastructure for Better Development and Better Climate*, Washington DC, Brookings Institution, 2016.

government support. Nevertheless, several countries, like Pakistan and Myanmar, suffer from frequent political turmoil, destructively influencing policy sustainability. Likewise, many of these countries lack a transparent and efficient judicial system. Their legal and regulatory systems may also be incomplete and unproven to be able to handle foreign investments.

Despite the obstacles mentioned above, the literature mostly focuses on China's motivation for the BRI initiative rather than the significant challenges and prospects.<sup>3</sup> Political, security, and economic challenges in the host countries might potentially jeopardize the successful realization of the BRI. Moreover, as an important country involved in this initiative, Iran's roles, opportunities, and challenges are still unclear. Iran has been the second-largest recipient of China's investments in the Middle East since 2014, one year after President Xi formally announced his new initiative.<sup>4</sup> China is fully aware of the geoeconomic significance of Iran as a node for connections between Europe, Central Asia, and the Middle East.

This study's orientation provides a framework for assessing the risks and challenges associated with Iran's BRI projects. By establishing a theoretical framework, the study also explains why China's investment in Iran is significant, even though the country's business environment is not particularly favorable to foreign investment. This study is divided into two sections to address the research question. Initially, the BRI faces unique obstacles in Iran, and the research examines investment risks in Iran in three economic, political, and geopolitical sectors. Further, survey research was designed to compile data from investment and trade experts in Iran and China. This study analyzed this data to evaluate the risks associated with BRI projects in Iran.<sup>5</sup> To this end, purposive sampling was used to send questionnaires to 86 experts on Iran-China economic and trade cooperation. Since the results obtained in this study are qualitative in nature, conducting a questionnaire data analysis can offer an important perspective in measuring the accuracy of the issues raised in this research.

Second, while the BRI can be analyzed in terms of cost-effectiveness, it should be viewed from a geoeconomic perspective. Unlike popular discourse, which views the Chinese initiative solely through geopolitical, political, or economic lenses, this study demonstrates that geoeconomics plays a much more significant role in the dynamics of China's investment relations with Iran. Although few studies have examined the challenges to the BRI's implementation in Iran in detail, to the author's knowledge no study has examined geoeconomics and its effects on the dynamics of Iran-China BRI relations.<sup>6</sup> In other words, this is the first time a geoeconomic framework has been used to analyze China's BRI investment behavior in Iran. Few recent studies have provided a more descriptive assessment of the current state of Iran-China relations in the context of the BRI.<sup>7</sup> Several other articles attempted to explain

3 Colin Flint, and Cuiping Zhu, "The Geopolitics of Connectivity, Cooperation, and Hegemonic Competition: The Belt and Road Initiative", *Geoforum*, No 99, 2019, p. 95-101; Fabio Indeo, "The Impact of the Belt and Road Initiative on Central Asia: Building New Relations in a Reshaped Geopolitical Scenario", Wenxian Zhang, Ilan Alon, and Christoph Lattemann (eds.), *China's Belt and Road Initiative*, Cham, Palgrave Macmillan, 2018, p. 135-153.

4 Data obtained from The China global investment tracker, published by the American Enterprise Institute and Heritage Foundation. For further information, see: <http://www.aei.org/china-global-investment-tracker/>.

5 Replication data for this article is available at: <https://doi.org/10.7910/DVN/MV73XW>.

6 Przemyslaw Osiewicz, "The Belt and Road Initiative (BRI): Implications for Iran-China Relations", *Przegląd Strategiczny*, Vol. 8, No 11, 2018, p. 221-32; Mohsen Shariatinia and Hamidreza Azizi, "Iran-China Cooperation in the Silk Road Economic Belt: From Strategic Understanding to Operational Understanding", *China and World Economy*, Vol. 25, No 5, 2017, p. 46-61.

7 Osiewicz, "The Belt and Road Initiative (BRI)".

the BRI relationship between Iran and China using a conventional geopolitical approach.<sup>8</sup> However, no previous studies have analyzed Iran's relations with China from a geoeconomic standpoint. The present study systematically reviews previous studies to facilitate theory development and uncover new areas requiring more in-depth research.

The paper proceeds as follows to develop and illustrate a geoeconomic analysis of China-Iran BRI relations. Initially, it reviews the existing literature on geoeconomics as an analytical tool for studying international relations. The critical point to emphasize in this section is the distinctions and similarities between geoeconomics and geopolitics. Second, geoeconomics analyzes the international system's power relations by emphasizing economic factors and integrating them with geography and economic security. After establishing the analytical framework, Iran's significant political, economic, and geopolitical risks are examined. Finally, the paper investigates how Iran's geoeconomic significance influences BRI relations between Beijing and Tehran, even though Iran's foreign investment environment is fraught with difficulties and risks.

## Literature Review

### ***Geoeconomics: Power through Economic Means***

Although economic tools have long been used in politics, "geoeconomics" was increasingly introduced in domestic and foreign policies as a new method of governance after the Cold War and globalization, when economic approaches attracted more attention.<sup>9</sup> The term was first coined by Luttwak, although it failed to attract much attention.<sup>10</sup> Luttwak and his successors considered economic power in the post-Cold War era as an essential factor in developing the countries' strategic goals. Geoeconomics highlight economic vulnerability and state that countries pursue strategic and security goals relying on economic measures.<sup>11</sup> While competition is still a significant factor in the analysis, competition in the international arena is not solely based on military and political power. The economy can considerably affect the external behaviors of governments.<sup>12</sup>

Indeed, the term "geoeconomics" has come to the forefront amidst the diminishing importance of military power and increasing importance of economic power.<sup>13</sup> Unlike geopolitics, which is conducted through military force and political power, geoeconomics shows how countries in the international arena rely on economic instruments to pursue their national interests. In this context, Hsiung defined geoeconomics as shifting attitudes from military concerns to economic security concerns.<sup>14</sup> "Geoeconomics" is defined in international relations as the strategic application of economic

8 Maha S. Kamel, "China's Belt and Road Initiative: Implications for the Middle East", *Cambridge Review of International Affairs*, Vol. 31, No 1, 2018, p. 76-95.

9 Gyula Csurgai, "The Increasing Importance of Geoeconomics in Power Rivalries in the Twenty-First Century", *Geopolitics*, Vol. 23, No 1, 2018, p. 38-46.

10 Edward N. Luttwak, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce", *The national interest*, 1990, p. 17-23.

11 John T. Fishel, "War by Other Means? The Paradigm and its Application to Peace Operations", *The Savage Wars of Peace*, Routledge, 2019, p. 3-17.

12 Sören Scholvin, and Mikael Wigell, "Power Politics by Economic Means: Geoeconomics as an Analytical Approach and Foreign Policy Practice", *Comparative Strategy*, Vol. 37, No 1, 2018, p. 73-84.

13 Samuel P. Huntington, "Why International Primacy Matters", *International security*, Vol. 17, No 4, 1993, p. 68-83.

14 James C. Hsiung, "The Age of Geoeconomics, China's Global Role, and Prospects of Cross-strait Integration", *Journal of Chinese Political Science*, Vol. 14, No 2, 2009, p. 113-133.

power. As a result, countries employ geopolitical and geoeconomic tools to accomplish their regional and international strategic objectives.

Governments shape foreign policy by acting rationally in the international arena, using criteria such as “cost-benefit analysis” and “relative gains.” In an ideal world, states would use economic tools to influence other international actors’ behavior to achieve relative gains. Moisió classifies economic instruments of power that are exercised in international relations into four categories.<sup>15</sup> Economic sanctions, on the top of the list, are used to exert pressure on other governments. The second significant category is a state’s economic interests, precisely its trade policies. Thirdly, global and regional economic powers can influence a government’s behavior by implementing a package of economic assistance and foreign investment policies. Finally, natural resources, trade routes, and infrastructure can help a country improve its geoeconomic position to preserve or alter regional relations.<sup>16</sup>

### ***Balance of Power: China’s Geoeconomic Approach to the BRI***

China’s economic rise and its leaders’ determination to leverage its economic potential internationally have increased the importance and credibility of the geoeconomic analysis. Insofar as economics is used to project Chinese power internationally, geo-economy is critical as a concept encompassing geography, power, and economic security. From one perspective, China’s economic miracle results from integrating its economic system into global capitalism. From another perspective, its economic miracle stems from the country’s integration into global capitalism.<sup>17</sup>

The BRI reflects China’s foreign policy evolution over decades of economic reforms on the global stage. The dramatic rise of China’s economic power, on the one hand, and the desire of its ruling elites to materialize this power in the international arena, on the other hand, as well as China’s military and political constraints within the U.S.-led international system, have all compelled China to take an economically prudent approach to enhance its international position. Following the implementation of the BRI, the literature was saturated with scholarly highlights of BRI’s geopolitical and geoeconomic characteristics.

Wang Jisi, a Chinese strategist, argued that the U.S.-Japan pivot encircled China in East and Southeast Asia and suggested that the Chinese government pursue an engagement strategy with West Asia to balance its regional situation.<sup>18</sup> Jisi was not the only intellectual to advocate for refocusing China’s attention on West Asia, and more Chinese elites raised the issue in subsequent years. While Wang Jisi described the Chinese new Silk Road as a defensive strategy aimed at rebalancing the U.S. offensive approach in Asia, Blanchard and Flint focused on China’s motivations and concluded that the BRI is intended to advance China’s political and economic influence in Asia. In this context, the BRI will create enormous opportunities for economic cooperation with West Asia due to its formation, thereby bolstering China’s regional influence.<sup>19</sup>

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15 Sami Moisió, “Re-thinking Geoeconomics: Towards a Political Geography of Economic Geographies”, *Geography Compass*, Vol. 13, No 10, 2019.

16 *Ibid.*, p. 4.

17 Raoul Bunskoek, and Chih-yu Shih, “‘Community of Common Destiny’ as Post-Western Regionalism: Rethinking China’s Belt and Road Initiative from a Confucian Perspective”, *Uluslararası İlişkiler*, Vol. 18, No 70, 2021, p. 85-101.

18 Wang Jisi, “China’s Search for a Grand Strategy: A Rising Great Power Finds Its Way”, *Foreign Affairs*, Vol. 90, No 2, 2011, p. 68–79.

19 Jean-Marc F. Blanchard and Colin Flint, “The Geopolitics of China’s Maritime Silk Road Initiative”, *Geopolitics*, Vol. 22, No 2, 2017, p. 223–245.

BRI has also been viewed through the lens of economic security. The initiative can help China to expand its economic cooperation with West Asian countries and strengthen its economic security by developing infrastructure and communication channels. Economic security is a critical component of geoeconomic analysis when combined with geography. China seeks to ensure its economic security through the BRI member countries by establishing economic corridors, constructing energy lines, and developing special economic zones. For instance, the China-Pakistan Economic Corridor (CPEC) will be one of the Chinese initiative's primary trade axes. CPEC will connect China's western regions to the Indian Ocean via the port of Gwadar, avoiding the Indian subcontinent entirely.<sup>20</sup> China's regional influence will grow due to CPEC and the energy lines connecting the Middle East and Central Asia to China.<sup>21</sup>

## China's Obstacles and Challenges Regarding the Implementation of the Silk Road Megaproject

Infrastructure does not materialize in a vacuum. Instead, it is a very land-based and physical undertaking that conforms to or manipulates an environment. Geographical factors, local culture, geopolitical contestation, public attitudes, institutional capacity, and governance quality can significantly affect the implementation of infrastructure projects. The BRI is a considerable collection of investments in infrastructure and various economic and industrial sectors that will be spread over a vast geographical area. The first significant challenge goes back to project dimensions. Many member states with entirely different political, social, and economic systems will make it very difficult, if not impossible, to coordinate policies across the regions.

Furthermore, Yusuf highlighted the not-so-favorable indicators of BRI member countries in various areas such as good policy, economic performance, and private sector economic productivity.<sup>22</sup> He argued that massive Chinese investments are exposed to high institutional risks. Lawrence and Toohey argued that regional trade in many reciprocal countries along the Belt and Road route, especially in Africa and Asia, has been held back by underdeveloped legal institutions, numerous customs procedures, restrictions on foreign direct investment (FDI), weak financial credit systems, and complicated civil and commercial laws. This means that many initially promising projects will be challenging to pursue later.

The literature on barriers to the initiative has also focused on regional challenges and geopolitical risks. These include security risks, regional rivalries, and the intensification of geopolitical rivalries between world powers. While China is substantially expanding its economic presence in the countries along the BRI, security challenges are emerging. Approximately 847,000 Chinese are currently working in more than 16,000 enterprises worldwide, as reported by China Daily in 2016.<sup>23</sup> China's overseas economic presence exposes its citizens and assets to unprecedented civil threats and anti-Chinese

20 Ali Gholizadeh, Seyedashkan Madani, and Saba Saneinia, "A Geoeconomic and Geopolitical Review of Gwadar Port on Belt and Road Initiative", *Maritime Business Review*, 2020, ahead-of-p. ahead-of-print.

21 Seyedashkan Madani, "The BRI and its Implications for China's Energy Security: The Four as Model Perspective", *International Journal of Energy Economics and Policy*, Vol. 11, No 4, 2021, p. 549-559.

22 Shahid Yusuf, "China's Belt and Road Gamble: Can It Deliver?", *The SAIS Review of International Affairs*, 2018.

23 Zhong, Nan, "Overseas Security to Get Upgrades", *China Daily*, 22 April 2016.

sentiment.<sup>24</sup> Moreover, due to cultural, ethnic, racial, linguistic, economic, political, geopolitical, and strategic conflicts and arms races of countries along the Silk Road, converging and reaching joint decisions approved by all member countries is complicated and time-consuming.<sup>25</sup>

### **Obstacles to BRI Implementation in Iran**

In the case of Iran, its economy has faced various significant challenges in recent decades. The gravest structural problems in the Iranian economy are the inefficient banking system, high annual inflation, reduction in domestic investment, the government's heavy reliance on oil revenues, and budget deficit. External factors have also negatively affected trade and investment attraction in Iran. U.S. pressure has severely reduced Iran's oil exports as its primary source of revenue, leading to a significant reduction in government revenues. In its latest report on Iran's economic situation, the International Monetary Fund (IMF) estimated that the economic growth rate would be -5.8% in 2020.<sup>26</sup> While the IMF has assessed economic growth in many countries as negative due to the Coronavirus pandemic, it is the third consecutive year Iran has had a negative economic growth rate. Iran's economy grew negatively by 4.9% in 2019, which could be attributed to the decrease in oil exports, and the non-oil sector contracted by 2.3% (Table 1).

**Table 1.** Iran's Major Macroeconomic Indicators

Year	2017	2018	2019	2020 (e)
GDP growth (%)	3.7	-4.8	-4.9	-5.8
non-oil GDP growth	4.6	-4.8	-4.6	0.5
Inflation (yearly average, %)	9.6	30.5	35.7	31
Budget balance (% GDP)	-1.8	-2.5	-4.4	-5
Current account balance (% GDP)	3.8	4.1	-2.7	-3.4
Public debt (% GDP)	39.5	32.2	30.7	28.8

(e): Estimate.  
 \* Iranian calendar: 2020 year runs from March 20, 2020, to March 21, 2021.  
 Source: Iran's Central Bank time-series database, World Bank database, and IMF annual reports.

Despite the government's efforts to support economic enterprises in various ways, including increasing banking facilities, a significant portion of capital is wasted through non-productive channels. Indeed, the liquidity injected into the society, instead of increasing production, has led to higher prices, while the country's manufacturing sector has always faced the problem of insufficient liquidity. Barriers to investment in Iran are not limited to structural failures. The current rules for starting a new business are highly complex and challenging.

24 Liu Haiquan, "The Security Challenges of the One Belt, One Road Initiative and China's Choices", *Croatian International Relations Review*, Vol. 23, No 78, 2017, p. 129–47.

25 Michael Clarke, "The Belt and Road Initiative: China's New Grand Strategy?", *Asia Policy*, Vol.24, No 1, 2017, p. 71–79.

26 World Economic Outlook, "Tentative Stabilization, Sluggish Recovery?", *IMF*, 2020.



The careful examination of the World Bank's annual assessments regarding the ease of doing business indicates that no marked changes have occurred in recent years to improve the business context. Iran has performed weakly in most sub-sectors. Apart from the dispute resolution index, Iran's scores on other indices have decreased, highlighting its problems in improving the business context. For example, the situation in Iran has worsened for the ease of starting a new business. This index considers the challenges related to starting a new business activity (i.e., the process of registering a new company), including the number of steps that need to be taken by an entrepreneur for starting a new business activity, the average time required for completing the process, and the ratio of cost and minimum capital required for starting the activity (gross national income per capita) (Table 2).

**Table 2.** Starting a Business, Iran

Indicator	Iran, Islamic Rep.	Middle East	OECD high income	Best regulatory performance
Procedure – Men (number)	10	6.5	4.5	1
Time – Men (days)	72	19.7	9.2	0.5
Cost – Men (% of income per capita)	1.1	16.7	3	0
Procedure – Women (number)	11	7.9	4.9	1
Time – Women (days)	73	20.3	9.2	0.5
Cost – Women (% of income per capita)	1.1	16.7	3	0.2
Source: World Bank Group, Comparing 190 economics, Iran profile, 2020.				

Furthermore, Iran's situation concerning the corruption assessment indices reveals its inappropriate position in the world. In 2018, the country scored 28/100 points, which is one-third lower than the overall average of 43 and ranked 138<sup>th</sup> out of 180 countries in the Corruption Perceptions Index (CPI).<sup>27</sup> Since then, Iran's average overall score has decreased to approximately 27.5, indicating a high public corruption rate. Yaluh cited several examples of corrupt practices by Iranian politicians and officials and reported 4,500 cases of rules violations and bribery in different branches of the government.<sup>28</sup> Likewise, Dadgar and Nizari pointed to corruption activities increasing from 8,792 cases in 1984 to 256,990 cases in 2010, indicating a general trend over a relatively long period of time.<sup>29</sup>

Concerning geopolitical risks, U.S. pressure on Iran's nuclear program, the Trump administration's withdrawal from the Iranian nuclear deal, the conflict between the U.S. and Iranian policies over crises in the Middle East, particularly Syria, and Iran's opposition to U.S. hegemony in the region have led to growing tensions between Tehran and Washington. The U.S. strategy in the Middle East is generally based on limiting and isolating Iran. The escalation of tensions between the two countries, which began with the U.S. withdrawal from the nuclear deal, has led to some developments in the region over the

27 Index, Corruption Perceptions. "Corruption Perception Index", *Transparency International*, 2018.

28 Ramin Ylough, "Financial and economic corruption in Iran: difficulties and challenges [in Farsi]", *Al-Arabi Research and Policy Research Center*, 2013.

29 Y. Dadgar, and Reza Nazari, "The Impact of Oil Revenue on the Economic Corruption in Iran", *Actual Problems of Economics*, Vol. 2, 2012, p. 375–386.

past few years, such as drone strikes on Saudi Arabian oil facilities, attacks on several ships in the United Arab Emirates' port of Fujairah, and Strait of Hormuz, as well as against Iranian tankers in the Red Sea, and illegal seizure of Iranian tankers in the Strait of Gibraltar. Geopolitical risks increase uncertainty about a country's business environment. Long-term political tensions with the United States and sanctions against Iran have always been significant obstacles to attracting foreign investments.

## Analytical Framework

The assessment and management of risks associated with investment are considered one of the most important preconditions for any successful investment. However, most studies on investment risks have focused on particular uncertainties while failing to consider the role and effect of other factors.<sup>30</sup> In this regard, most research on investment risk assessment has focused on one general aspect of either political or economic factors.<sup>31</sup> However, several researchers have criticized analyzing just one factor or a set of factors influencing investment risks without considering them in an interrelated context.<sup>32</sup>

Additionally, most assessments by international risk assessment and insurance companies have often emphasized some uncertainties more relevant to corporate performance, thus neglecting the role of other macro-factors associated with strategic investment management. These institutions have commonly applied several factors together for many countries without considering their diverse socio-economic and political characteristics. As Oetzel et al. maintained, most risk assessment institutions have failed to predict crises and risks.<sup>33</sup>

In the present study, an integrated risk assessment analysis was developed for alternative studies treating uncertainties in isolation. An integrated analysis enables strategic management researchers to determine and consider all relevant factors contributing to uncertainty, which could be a valuable approach to study risks in BRI projects. The BRI possesses both economic and strategic dimensions. Therefore, it is essential to develop a suitable analytical framework to study different project dimensions and analyze investment risks. There is no agreed-upon comprehensive definition of investment risk in the international arena. The risk could refer to any unanticipated changes that increase uncertainties and negatively impact the costs, earnings, dividends, revenues, and market shares of foreign investment. From an economic point of view, Jurado et al. defined uncertainty as an unstable situation that economic agents could not predict.<sup>34</sup> The term "uncertainty" in strategic management means environmental unpredictability, which affects foreign investment performance.

While macroeconomic risks are not directly observable, their effects are easily considerable, similar to other social phenomena. Researchers can investigate these effects to apply proxies to measure risks. The concept of risk as a negative variation of the business environment is widely used in strategic management, economics, and international business. In the country-level analysis, risks are

30 R. D. Morgenstern et al., "Comparative Risk Assessment: an International Comparison of Methodologies and Results", *Journal of Hazardous Materials*, Vol. 78, No 1-3, 2000, p. 19-39.

31 Ibid., p. 23.

32 Ibid., p. 31; V. Acharya et al., "Capital Shortfall: A New Approach to Ranking and Regulating Systemic Risks", *American Economic Review*, Vol. 102, No 3, 2012, p. 59-64.

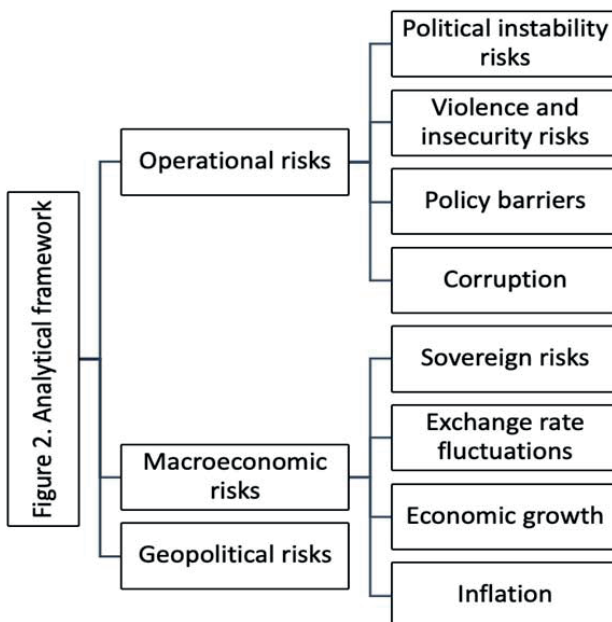
33 Jennifer M. Oetzel et al., "Country Risk Measures: How Risky Are They?", *Journal of World Business*, Vol. 36, No 2, 2001, p. 128-145.

34 Kyle Jurado et al., "Measuring Uncertainty", *American Economic Review*, Vol. 105, No 3, 2015, p. 1177-1216.

assigned to both internal and external factors. Internal risks (e.g., political, financial, economic, and intellectual property risks) affect the country’s investment climate at the macro-level. In contrast, external risks refer to uncertainties created around a country’s peripheral environment, reducing the predictability of investment activity outcomes. External tensions with neighboring governments or regional and global powers and geopolitical rivalries are considered significant external risks. By reviewing many previous studies, the present research categorized the risk components into operational, economic, and geopolitical risks (Figure 2). Risk factors are defined in Appendix A.

- A) Operational risks refer to all practical and potential risks of implementing substantial construction projects in host countries, including infrastructure, security, legal and regulatory, political stability risk, and corruption.
- B) Macroeconomic risks are defined as a collection of factors that manifest themselves suddenly and uniformly in a state. Suddenly, this implies that they are unpredictable in their occurrence. The risks’ generality also implies that their effects are not limited to a single company but an entire industry or country’s economy. Economic risks are analyzed in the context of a country’s monetary and fiscal policies, and their implications are determined by the financial markets and industries’ reactions.
- C) Geopolitical risks: China’s initiatives across multiple regions are hampered by geopolitical competition among global powers. The United States, Russia, India, Japan, and the European Union view the BRI as China’s new grand strategy, with the potential to expand its influence in Eurasia and throughout the world. Despite Beijing’s emphasis on economic development, global actors’ responses indicate that they seek to engage with BRI via various diplomatic and economic activities. Other major powers have recently proposed several new initiatives for Asia’s development. These new political and economic actions could jeopardize China’s fostering of coherence and coordination in other countries’ BRI policies.

**Figure 2.** Analytical Framework



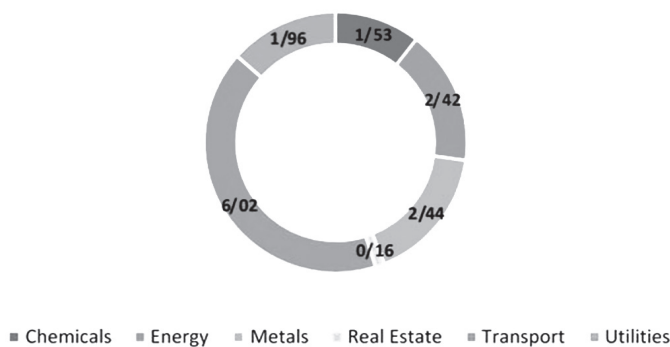
Dividing the various risk components does not necessarily mean that the perception is understood differently across these three levels. It also does not mean that all scholars have similar views about the factors in these three levels. The perception of each factor in each level can vary depending on the individuals' characteristics. However, risk classification can pave the way for conducting analytical studies, which is necessary for scientific research.

## Iran-China BRI Relations

Following President Xi's visit to Iran in 2016, along with a 25-year comprehensive cooperation partnership agreement, the relations between the two countries have entered a new phase.<sup>35</sup> Based on this agreement, China is supposed to invest in various Iranian economic sectors, such as transport and manufacturing infrastructure, petrochemicals, and oil and gas, most of which will be in line with the BRI projects in Iran. Furthermore, more than 17 cooperation documents, which outline the framework for economic cooperation between the two countries along the Silk Road, have been signed in various economic sectors. In 2017, the China International Trust Investment Corporation (CITIC) Group, a state-owned investment company, announced that it had invested \$10 billion in financing industrial projects and infrastructure development in Iran. In the same year, China Development Bank (CDB) announced the possibility of providing Iran with a \$15-billion loan for construction projects. In 2017, the Bank of China granted a \$1.5-billion loan to Iran's Bank of Industry and Mine to upgrade the Tehran-Mashhad railway. Upon completing this project, a 926-km railroad from Tehran to Mashhad's eastern city in Khorasan Razavi Province will be electrified.<sup>36</sup>

China's investments in Iran are not limited to the development of the transportation network. China has recently invested in several industrial projects in Iran (Figure 3). In 2016, China finalized a \$3-billion investment plan in Iran's fishing industry, based on which fish farms have been built on the southern island of Qeshm and in the southern port city of Bandar Abbas to produce 325,000 tons of fishery products every year. In addition, Chinese automobile companies are very active in the Iranian market. In 2015, SAIPA (the second-largest light car manufacturer in Iran) established a new production line by cooperating with the Chinese Brilliance Automobile company.

**Figure 3.** Chinese Investment and Contracts in Iran (2012-2019), \$ billion.



Source: The China Global Investment Track (CGIT)

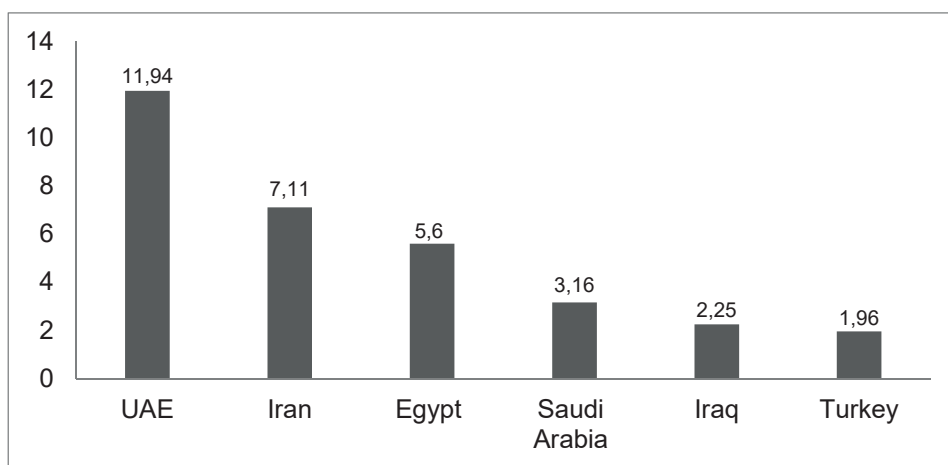
35 Full text of Joint Statement on Comprehensive Strategic Partnership between the I.R. Iran, P.R. China. Available at <http://www.president.ir/EN/91435>

36 Tehran Times, "China to finance Iran's northeastern railway construction project", 25 May 2017.

Energy constitutes an essential part of BRI-related projects. Since 2007, Chinese companies have invested more than \$11.1 billion in the upstream and downstream of the Iranian oil and gas industry. The Iranian petrochemical sector has also attracted \$1.53 billion of Chinese investment. In 2016, Iran handed over the privilege of developing two key oil and gas reservoirs to Chinese companies. According to the National Iranian Oil Company (NIOC) decision, the Chinese CNPC company became the executor for developing the second phase of the North Azadegan project in 2016. Additionally, Sinopec Company will complete the second phase of the Yadavaran project. A \$550-million contract to build an oil terminal on Qeshm Island was awarded to China's heavy industry enterprise in the same year.

China has always paid considerable attention to Iran as an important country in the Middle East. Iran was the second-largest recipient of China's investment in the region between 2016 and late 2017. As shown in Figure 4, after the United Arab Emirates received \$11.94 billion in investment, Iran became the second-largest recipient of Chinese investment in the region by attracting \$7.11 billion. It is almost twice the amount of investment in Saudi Arabia and the total investments made by the Chinese government in Iraq, Egypt, and Turkey.

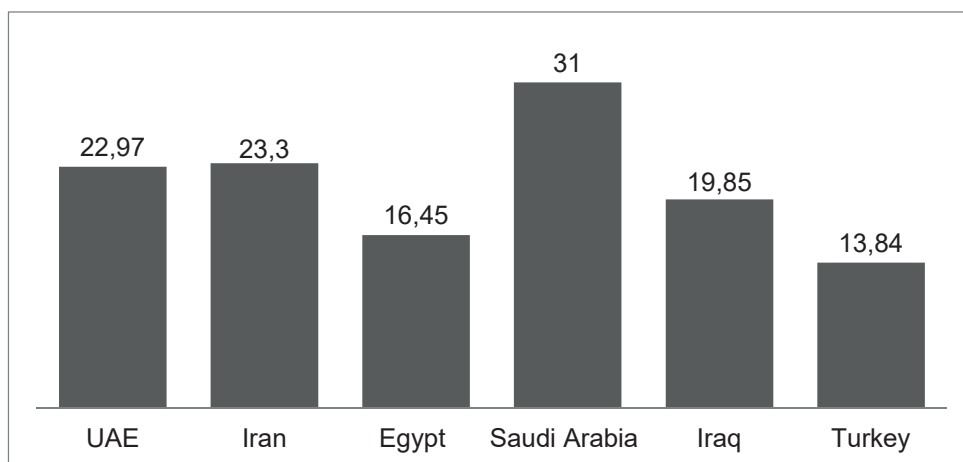
Figure 4. China's FDI in the Middle East, 2016-2017, \$ billion.



Source: The China Global Investment Tracker (CGIT)

China's total foreign investment in Iran between 2005 and 2017 was more than \$23.3 billion, which is considered the highest amount after Saudi Arabia in the Middle East and North Africa region (Figure 5). Furthermore, during the visit of the Iranian foreign minister to Beijing in 2020, the two countries reached a new agreement for a comprehensive bilateral economic cooperation, according to which Beijing agreed to inject an unprecedented amount of investment equal to \$400 billion into Iran's economy.<sup>37</sup>

37 Ariel Cohen, "China's Giant \$400 Billion Iran Investment Complicates U.S. Options", *Forbes*, 2019.

**Figure 5.** China's Stock FDI in the Middle East, 2005-2017, \$ billion.

Source: The China Global Investment Tracker (CGIT)

The central part of this agreement will be \$280 billion in Iran's oil and gas sector. The two sides also agreed that China would allocate \$120 billion to develop Iran's transportation and other infrastructure sectors.

## Geoeconomic Significance of Iran

As an important country located in Southwest Asia, Iran has a privileged geoeconomic position to supply energy to other countries, including China.<sup>38</sup> Due to its excellent attributes, such as privileged geopolitical position, abundant gas resources, and geographical proximity to the seas and the strategic Strait of Hormuz, Iran plays a significant role in supplying oil and gas to Asian countries compared to other rival countries. Iran is located next to the Persian Gulf, the world's hydrocarbon heartland. The Caspian Sea, which is the world's second-largest energy priority, is in the north. Hence, Iran's geopolitical and geoeconomic link in the Caspian Sea and Central Asia and its position in the Persian Gulf, which contains more than half of the resources of this region, is a significant factor in expanding its role in Asia and Europe.

China is making significant efforts to expand its energy partnerships with key oil-exporting countries such as Iran, which is currently a significant center of gravity in China's energy security structure. Iran is the only oil-exporting country in the Middle East and an OPEC member, which shares borders with Central Asian countries. This feature has provided Iran with double and conventional power if we combine this feature with other elements of power. In addition to its positive and direct impact on China's trade with Iran, the development of Iran's infrastructure will facilitate the transit of goods from western China to the Middle East, Europe, and North Africa. The port of Chabahar in southeastern Iran is of great geoeconomic importance to China.

<sup>38</sup> Seyedashkan Madani et al., "Factors Influencing China's Oil Diplomacy in the Middle East", *The Journal of Social Sciences Research*, Vol. 6, No 10, 2020, p. 890-899.

The port of Chabahar, due to its access to international open waters and proximity to countries such as Afghanistan, Pakistan, and Central Asia, can play a crucial role in regional trade and link important regional and trans-regional markets. The development of the port's infrastructure region can turn Chabahar port into a crossroad of the north-south corridor. This port can become a connection terminal for three markets as the center of transportation and distribution of global cargo, namely the Persian Gulf, Eurasia, and the countries of South and Southeast Asia.

## Research Design

The survey research was designed to collect data on each risk category using the proposed analytical framework. As Gelo (2008) noted, survey research examines people's attitudes, values, behaviors, and attitudes to explain social phenomena.<sup>39</sup> Survey research is used to describe characteristics and to identify possible trends or patterns in this regard. This design is entirely consistent with the study's objective of determining investment risks in Iran. Further, Leila and Nummela (2006) argued that questionnaires are an efficient data collection method.<sup>40</sup>

The Likert scale is one of the most frequently used measurement scales in research based on questionnaires (range). According to the research subject, the researcher distributes items (questions) to participants (respondents) to ascertain their tendency based on multiple-choice responses. The Likert scale contains between 15 and 30 items. The Likert scale is frequently used to quantify non-visible but influential factors in audience behavior, such as views, feelings, and opinions. The numerical scale used is determined by the nature of the question. If a concept or idea in a question, such as customer satisfaction, has a positive to a negative connotation, a range of five or seven points is appropriate. These are bipolar concepts, and it is best to use a numerical scale to quantify two-sided concepts. The responses are multiple-choice in this formulation; for example, in the five-point mode, the options include completely disagree, disagree, neutral, agree, and completely agree.

Additionally, the current study collects data using the five-point Likert-scale questionnaire method. The target risks were determined after conducting a review of prior studies and making necessary adjustments. Details of the resources used are given in Table A.1.<sup>41</sup> According to Hinkin's instructions, a questionnaire was designed to elicit respondents' perspectives.<sup>42</sup> The following items are considered in the questionnaire:

- Using words in options: It is recommended to use appropriate words and phrases instead of numbers in multiple-choice answers, which can prevent respondents' confusion and help them better determine their tendency based on the options.
- Selecting correct items: It is vital to choose the right items in a questionnaire. Thus, ambiguous and irrelevant statements were avoided.

39 Omar, Gelo et al., "Quantitative and qualitative research: Beyond the debate", *Integrative psychological and behavioral science*, Vol. 42, No 3, 2008, p. 266-290.

40 Hurmerinta-Peltomäki, Leila, and Niina Nummela. "Mixed methods in international business research: A value-added perspective", *Management International Review*, Vol. 46, No 4, 2006, p. 439-459.

41 The appendix for the article is available at: <https://doi.org/10.7910/DVN/MV73XW>.

42 Timothy R. Hinkin, "A Brief Tutorial on the Development of Measures for Use in Survey Questionnaires", *Organizational Research Methods*, Vol. 1, No 1, 1998, p. 104-121.

- Choosing the suitable interval for the options: In this study, the options were selected in a complete interval (from completely agree to disagree) and one-dimensional.
- Avoiding asking two questions in one item: This common problem in designing items is one of the ambiguous items, making it difficult for the respondent to choose the answer. The purpose of the question should be clear and distinct so that different people can have the same understanding.
- Including a neutral option: An option can be used as a neutral option depending on the subject and the type of options.

Finally, the following research questions were raised for the purpose of this study.

Question 1: What are the main investment risks in Iran?

Question 2: What is the prioritization of investment risks in Iran?

The purpose of this study is to compile data from investment and trade experts in Iran and China. This study will analyze the data collected to determine the risks associated with BRI projects in Iran. To this end, purposive sampling was used to send questionnaires to 86 experts on Iran-China economic and trade cooperation. All economics and international investment experts, geopolitics, and international relations experts were included in the statistical population. The demographic characteristics of the respondents to this questionnaire are detailed in Table A.3.

## **Results of data analysis**

**Question 1:** What are the significant investment risks in Iran?

The results of the single sample mean test are shown in Tables 3 and 4. As illustrated in Table 4, the probability of t-statistics for political stability, physical security, nonviolence, regulatory quality, exchange rate, economic growth, inflation, and geopolitical risks are less than 5%, making them significant. The statistical results obtained are entirely consistent with the risks highlighted in this study.

Nonetheless, corruption and sovereign risk management are statistically insignificant. The corruption variable's lack of significance could be explained by divergent views on the effect of this factor on the flow of foreign investment to developing countries. While it is widely believed that corruption impedes the flow of foreign investment into the public sector, scholars in the existing literature have reached no such consensus.

Due to the inefficiency of developing-country bureaucracies, Leff (1964) argued that corruption could act as a catalyst for economic activity in these countries.<sup>43</sup> Over the years, researchers have conducted empirical analyses of this theory, termed the *inefficient grease hypothesis*, and their findings corroborate it.<sup>44</sup> The insignificance of sovereign risks also fits the current Iranian situation. Although Iran's domestic and foreign debts have increased in recent years, the total of these debts does not exceed 45% of GDP, indicating that the country does not meet any global risk criteria.

43 Nathaniel H. Leff, "Economic Development Through Bureaucratic Corruption," *American Behavioral Scientist*, Vol. 8, No 3, 1964, p. 8–14.

44 Heba E. Helmy, "The Impact of Corruption on FDI: Is MENA an Exception?," *International Review of Applied Economics*, Vol. 27, No 4, 2013, p. 491–514; Douglas A. Houston, "Can Corruption Ever Improve and Economy," *Cato J.*, Vol. 27, 2007, p. 325.



**Table 3.** One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Political Stability	86	3.4128	0.81599	0.08799
Security and Absence of Violence	86	3.3895	0.76081	0.08204
Control of Corruption	86	3.1337	1.05280	0.11353
Regulatory Quality	86	3.5174	0.77250	0.08330
Operational Risks	86	3.3634	0.68884	0.07428
Sovereign Risk	86	3.1163	0.99609	0.10741
Exchange Rate	86	3.6337	0.74132	0.07994
Economic growth	86	3.2965	0.88244	0.09516
Inflation	86	3.3140	0.90113	0.09717
Macroeconomic Risks	86	3.3401	0.70415	0.07593
Geopolitical risks	86	3.8140	0.61857	0.06670

**Table 4.** One Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Political Stability	4.691	85	0.000	0.41279	0.2378	0.5877
Security and Absence of Violence	4.748	85	0.000	0.38953	0.2264	0.5527
Control of Corruption	1.178	85	0.242	0.13372	-0.0920	0.3594
Regulatory Quality	6.212	85	0.000	0.51744	0.3518	0.6831
Operational Risks	4.892	85	0.000	0.36337	0.2157	0.5111
Sovereign Risk	1.083	85	0.282	0.11628	-0.0973	0.3298
Exchange Rate	7.928	85	0.000	0.63372	0.4748	0.7927
Economic Growth	3.116	85	0.002	0.29651	0.1073	0.4857
Inflation	3.231	85	0.002	0.31395	0.1208	0.5072
Macroeconomic Risks	4.479	85	0.000	0.34012	0.1891	0.4911
Geopolitical Risks	12.203	85	0.000	0.81395	0.6813	0.9466

**Question 2:** What is the prioritization of investment risks in Iran?

Table 6 shows the number of observations, the statistical value of Chi-square, the degree of freedom, and the significance level. Since the significance level is less than 5%, the null hypothesis is rejected, and the hypothesis ‘the investment risk rating’ is the same is not accepted at a 95% confidence level.

Table 5 indicates the descriptive statistics and the mean rankings of each index. Since ‘corruption risk control’ has the lowest average, it includes a higher investment risk index. In general, corruption control risks, financial risks, and macroeconomic risks have the highest priority, respectively. In contrast, physical security and nonviolence risks, quality law risks, and political stability risks have the lowest priority in risk assessment, respectively.

**Table 5.** Friedman Test

	Mean Rank
Political Stability	6.14
Security and Absence of Violence	5.92
Control of Corruption	4.74
Regulatory Quality	6.57
Operational Risks	5.65
Sovereign Risk	4.83
Exchange Rate	6.85
Economic Growth	5.75
Inflation	5.87
Macroeconomic Risks	5.71
Geopolitical Risks	7.97

**Table 6.** Test Statistics

N	86
Chi-Square	74.913
df	10
Asymp. Sig.	.000
a. Friedman Test	

## Conclusion

The BRI studies place a premium on China’s implementation of the project and its objectives. Researchers have discussed the feasibility of BRI implementation by addressing China’s internal constraints and barriers or by highlighting various risks faced by member states in general. Indeed, no systematic and consistent study has been conducted to identify and evaluate risks across host countries. Several regional studies have looked at investment barriers across a wide geographic area. Nonetheless, these risks are examined mainly from a global perspective, with little attention paid to the specific challenges at the national level.

Furthermore, much of the literature on the BRI focuses on geopolitical factors as the primary driver of China's behavior analysis. China's motivations have been interpreted concerning conventional international relations theories and global powers' foreign policy objectives regardless of economic considerations. While this study does not reject China's strategic objectives, focusing exclusively on geopolitical objectives ignores the importance of other critical factors such as geoeconomics and the host country's general situation. In other words, the BRI encompasses both economic and strategic goals. As a result, it is critical to establish an appropriate analytical framework for examining the project's various dimensions and risk analysis.

By connecting economic objectives to geography, geoeconomics established a new framework for analyzing inter-state relations. The economy's influence on regional cooperation results from the diminished importance of military and political power since the Cold War's end. As a result, an analysis of the Chinese initiative that ignores recent global developments and relies exclusively on Cold War-era analytical parameters will not accurately convey the project's dimensions. The study attempted to move away from established political geography theories and toward a more geoeconomic perspective to paint a more complete picture of China's investment behavior in Iran.

In doing so, this study aimed to provide a new and more accurate interpretation of China's investment behavior in Iran from a geoeconomics perspective. Iran's presence in the BRI is significant, and China has recently encouraged Iran to become an active participant in the initiative, as Beijing's effort to expand mutual economic cooperation signals. On the other hand, Iran has a considerable motivation to expand its relations with China. Iran's political tensions with the West and the long-term sanctions imposed by the United States have made Iranian officials pay more attention to China to fulfill the country's economic needs. From this perspective, Tehran views the BRI as a new opportunity to deepen its relations with China. However, the presence of Chinese capital in the Iranian market could have challenges and risks. Nonetheless, a large body of research has focused on the importance of the BRI in expanding bilateral relations while failing to consider the challenges in advance.

The present study aimed to fill in this gap by addressing the challenges of implementing the BRI in Iran. All risk components were categorized into operational, economic, and geopolitical risks by reviewing many previous studies. Furthermore, survey research was designed to compile data from investment and trade experts in Iran and China. This study analyzed the data collected to evaluate the risks associated with BRI projects in Iran. To this end, purposive sampling was used to send questionnaires to 86 experts on Iran-China economic and trade cooperation. According to the findings, Iran faces numerous internal and external barriers to attracting foreign investment. Operational risks, political instability, and corruption control have become significant barriers to foreign investment in Iran, which is consistent with previous studies on the country's current situation.

Additionally, in terms of economic risks, currency fluctuations are the primary impediment to foreign investment. Due to increased U.S. sanctions and a decline in oil revenues in recent years, the Central Bank of Iran has had limited access to foreign exchange resources. Despite the government's efforts, the market's negative outlook on Iran's currency situation has accelerated the national currency's devaluation. Finally, this study identified geopolitical risk as a significant factor. The decline in Iran's foreign investment could mainly be attributed to the tensions with the United States.

Despite the relatively undesirable environment, the flow of Chinese foreign investment to Iran has significantly increased to the extent that Iran has become one of China's most important invest-

ment destinations in the Middle East in recent years. The 25-year Iran-China Strategic Partnership Agreement in 2020 and China's commitment to invest \$400 billion in various sectors of the Iranian economy indicate that China is investing in Iran. Furthermore, the behavior of Chinese investment in Iran cannot be described in the context of conventional risk assessment.

The nature of China's relationship with Iran is geoeconomically vital for China. Beijing views Iran as a key hub in China's westward overland thrust, expanding its influence overland through Central Asia to the Persian Gulf and Europe. Iran's involvement in the initiative will allow China to secure the overland flow of energy from the Middle East and Central Asia to trade off the risk of maritime interdiction.

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