

# The Political economy of Iran and Germany Relations: The Case of Foreign Investment

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## Abstract

Today, foreign investment is one of the most sophisticated financing sources in the world. Most of the countries are seeking to attract these resources by creating political and legal reforms. Political factors are very influential on the attraction of foreign investment. In early 2001, by adoption of Foreign Investment Protection Act, Iran has been struggling to attract foreign investment in the country. In this regard, Germany was one of the most important partner and target country for Iran. During 1997 to 2017, there were some fluctuation in trend of German investment into Iran, due to various political components.. From 1997 to 2004 when the political tensions were at the lowest level, the German investment in Iran were at the best position. The question raised here is concerned with factor which served as a basis for the political economy of German FDI in Iran. Hypothetically, the fluctuations in trend of German investment in Iran is a sequent of various components including US policy, Middle Eastern peace processes, terrorism and human rights. The method of research is explanatory with referring to statistics and analyzing the trend of German investments in last 20 years. We will consider the influence of political component on the FDI of German companies during the presidency of Khatami,

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Ahmadinejad and Rouhani especially after the US withdraws from the JCPOA.

**Keyword:** *Iran, Germany, Foreign Investment, Economic Diplomacy*

## **Introduction**

As a pioneer of economic reforms and advances as well as the exports of technical and engineering services, the Federal Republic of Germany has always been a point of interest for many nations, including Iran. In the 2007–2017 period, Germany conducted an average annual investment of 92 billion dollars across the world and had a prominent presence in different areas and reputable economic projects via capable companies. During this period, the highest investment by Germany was in 2007 amounting to 169.351 million dollars and the least was in 2013 amounting to 39.492 million dollars. Further, in 2014 more than 9.49 percent of the investments of the EU nations were in Germany and in 2019 more than 3.12 percent of the total investments by members of the Organization for Economic Co-operation and Development was performed by Germany.

Iran has sought after international financial resources considering major changes such as the eight-years of Iran-Iraq war, international or unilateral US sanctions, and the increasing need for employment, economic growth, and comprehensive development. Considering the effects and importance of employing German industries in different economic sectors of Iran and the potentials for cooperation and benefiting from the financial and technical capabilities of Germany, as well as the nation's willingness for economic presence in the Middle East and improving its independent political position; there is a very suitable condition for cooperation between the two sides. One of the major aspects of this mutual cooperation can be the use of potentials via attracting foreign investment from Germany.

Considering investment by nations, there are a number of effective sociopolitical factors causing foreign corporations to enter the market of another country. The main question of the paper concerns the political economy of Germany's investment in Iran and the contributing political factors. The paper hypothesizes that the trend of German investment attraction by Iran is fluctuating and follows variables such as US policies, Israel policies, the Middle East peace, human rights, and terrorism. It investigates the 20-year investment trend of German investment in Iran to identify the impact of key political factors on the amount and trend of this investment at the times of Khatami, Ahmadinejad, and Rouhani cabinets, especially following the US withdrawal from the JCPOA. It uses a descriptive method relying on statistical analysis. The first part investigates the literature background of the subject. Second part describes the foundations of German economic diplomacy and its approach to the Middle East. The third part addresses Iran's position in Germany's foreign policy and investigates the effective political variables in the economic relationships of the two nations. In the final part, the investment of German companies during Khatami, Ahmadinejad, and Rouhani governments is investigated, the research hypothesis tested, and the result presented.

### **I. The Foundations of Germany's Economic Diplomacy**

The foreign relations of the Federal Republic of Germany consist of the theories, principles, and objectives of its foreign policy. Despite major changes caused by the collapse of the USSR and the bipolar system, the fundamental principles remain intact. The key points of this policy is multilateralism, Eurocentrism, supporting the development of the European system, strengthening beyond-Atlantics relations, increasing activities in international and regional organizations, enhancing economic capabilities, increasing economic relations with other nations, maintaining peace, defending collective security and human rights, and combating terrorism. Overall, Germany's foreign

policy consists of four major directions:

1. Maintained and deepened cooperation with the EU; 2. Maintained and enhanced NATO participation; 3. Subsiding the conflicts with the east;

And 4. Cooperating with third-world countries. (Kiani, Germany's Foreign Policy and the New International Geopolitics and European Union, 2012, pp. 140).

As a non-military power, the Federal Republic of Germany is interested in using economic partnerships as a mean towards its foreign policy objectives, which is why it is also referred to as a geo-economic power. In nations relying on geo-economic power, the state-society relationship differs. As German corporations provide half of the nation's GDP and the foreign policy relies on exports, the economic community of Germany plays a significant role in directing the foreign policies (Kiani, Germany's Foreign Policy and the New International Geopolitics and European Union, 2012, pp. 156)

Germany's foreign policy focuses on creating a reliable, fair financial and economic system. This policy supports an economic framework that can facilitate sustainable development across the globe using multilateral levers (External economic policy, 2018).

With the gradual efforts of German leaders toward normalizing its foreign policies after its reunion, the Middle East policies also changed. A concise classification of Germany's Middle East foreign policy: 1. After the WWII until 1999 ; Since 1995 until now.

In the first period, the Federal Republic of Germany had to follow a two-sided policy towards the Middle East due to the conditions enforced by greater powers:

- A. Moral obligation to defend the existence of Israel;
- B. Forming merely economic and commercial relations with the nations in the region.

The Federal Republic of Germany supports its corporations in third countries and the EU members to attain its economic goals. The main duty of these three bodies is collecting information and

giving consultation services to corporations and investors to maximize profit and minimize risk. Further, the domestic sector sees planning and efforts by industrial federations and provinces to increase foreign investment and trade. The said institutions are (External Economic Policy, 2018).

The envoys sent by Germany to foreign nations as embassies or consulates: Enhancing foreign investment and trade is one of the main duties of the foreign services department of the Ministry of Foreign Affairs and Ministry for Economic Affairs and Energy in Germany. More than 230 representatives of these three bodies pursue German corporation interests in the host countries. All of these bodies have a coordinating sector responsible for economic, agricultural, technological, scientific, financial and social collaborations and affairs.

The offices of German trade chambers in foreign nations and the representative offices of industrial and commercial associations :The extra-national trade chambers of Germany are the envoys sent by the industry and comprise volunteer economic activists with a background of partnering with the host country or those with a very high potential for partnering with it. These common chambers are supported by the Ministry for Economic Affairs and Energy. Their main goal is aiding the corporations to enhance their exports and to form consortiums for investment or shared brands for industrial or agricultural products according to the advantages of each hosting nation. These trade chambers have about 50,000 member companies. In some nations with little activity by German corporates or their trade chambers, embassies or consulates perform these duties. Currently, the Trade chamber of Germany has more than 130 offices in more than 90 countries. Therefore, identifying trade and investment opportunities and introducing them to the German trade or investment corporations is the primary duty of the said centers. They also provide meetings with local companies, multilateral sessions, and meetings with local authorities, pursuing the problems, resolving trade disputes and providing consultation for investment disagreements if

requested by German corporations.

Germany's Trade and Investment Agency (GTIA): Germany's Trade and Investment Agency is tasked with providing exact economic and investment information, status reporting on major economic indicators of target nations, determining political and economic risk hedging for each nation according to the Hermes Exports Insurance, attracting foreign investors, marketing and forming commercial and investment relations, requesting tenders, evaluating the commercial sectors and market analysis, publishing the imports and exports regulations, and providing trade guidance for nations. It attempts to facilitate the access of German corporations to international markets. The Investment and Trade Department procures and publishes the information required by foreign corporations regarding the economic divisions and markets, projects, tenders, customs regulations. It provides foreign companies and economic activists with the guidelines for partnership with more than 70 German bodies. It is a subset of the Federal Ministry for Economic Affairs and Energy (Germany Trade & Invest, 2018) .

German Foreign policies and economy: Germany's economic foreign policy pursues the two goals of increasing competitiveness for German corporations and maintaining Germany's appeal for foreign investment and business. These goals surpass conventional cross-border actions and include many domestic policies such as competitiveness, technology and regulations over subsidies. These two factors are increasingly focused on in international competition. Its foreign policy at domestic, extra-national (EU), and international levels is subject to certain constraints. Internationalizing domestic rules such as free trade, competitiveness, peace, stability, and security are highly pursued by the government and aim to contribute to national and international welfare and economic development (Koopmann, 2012, p. 8). In theory, Germany's economic diplomacy completes the foreign aspect of the market-oriented structural policy of its economy. This is pursued via three routes:

1-Implementing policies aiming to create regulations based on legal frameworks and economic institutions;2- Supporting competitiveness, free trade, and corporations;3- Market policy and ensuring its good performance.

The structural policy of Germany aims to contribute to growth and stability while adhering to the non-interference policy of government in corporate businesses in what or how to produce their goods. Accordingly, the nation's priority in foreign policy and involvement in other markets are first political stability and then, non-discrimination between the native and foreign investors (Maull, 2012, p. 159). This strategy has made Germany one of the great economic powers of the world. Currently, it has the largest European economy and the fourth highest GDP in the world. It is also a founder of EU and Euro monetary system. Its economic place in the world was defined after the industrial revolution and at the same time with it. It still remains a pioneering and innovative country which invests in research projects. Its economy follows the social economy of market. In 2014, Germany hit the record of the highest trade surplus (285 billion dollars). Its exports constitute 41 percent of the national product. Its GDP consists of services (70%), industry (29%), and agriculture (1%). 99 percent of German corporations are small to mid-size and are mostly run by families. of the 500 mega corporations by income, the central offices of 53 are in Germany (Krewson, 2018, p. 2).

Germany's Middle East Economic Diplomacy: With the publication of Germany's Foreign Policy Guideline [1] in 2002 by Joschka Fischer, the then foreign minister regarding the Arab-Israel conflict, the Middle-East foreign policy of this country was founded. Later, it further expanded this policy by mediating between the Palestinian National Authority and Israel, dispatching troops as international peacekeepers to the Middle East, dispatching troops to Afghanistan, going against the military action against Iraq, and innovating the plan for Iran's nuclear negotiations (Shafiie & Rezaee, 2015, pp. 544-545). Economic partnerships, especially providing the grounds for German



corporate in different regions—especially the Middle East—plays a prominent role in the foreign policy and foreign economic relationships of Germany. Its Middle East foreign policy must be regarded part of the common EU policy. Germany's interests lie in increased uniformity of this region and thus, it has to promote the role of itself and EU in key Middle East issues such as the Arab-Israel peace, human rights, Iran's nuclear program, and stability in North Africa and Persian Gulf nations. Germany is one of the main partners of the Middle East nations. However, its trade with Iran, Israel, and marginal Persian Gulf countries forms less than 3% of its total exports. Its investments in the region have not been significant so far; yet, areas such as oil and gas as strategic products are of high importance for some German corporations.

There is a great capacity for enhancement of the economic partnership between Germany and the Middle East. Further, economic liberalization not only contributes to the economic development of the countries of the region but also provides some of the economic and political interests of Germany (Grohe, Moosbauer, Perthes, & Sterzing, 2009, p. 22). The Arab-Israel dispute, especially concerning the relationships with Palestine, is the primary topic of Germany's foreign policy in the Middle East. Resolving this dispute is of high importance for Germany. It supports the formation of an independent Palestinian government. Since the constitution of the independent Palestinian government, Germany has remained one of the main supporting nations, always counting it as one of the highlights of its Middle East foreign policy. Nevertheless, Germany insists on the non-conditionality of this aid and maintains that it pursues the formation of a democratic government respecting human rights and peaceful cooperation with its neighbors. In recent years, Germany has promoted its role in the Middle East. This pivotal role is affected by its responsibility within the EU principles and policies as well as some recent issues:

First, the nation has received thousands of Syrian refugees which have increased the significance of Middle East changes for

it. Germany is one of the key players in negotiations concerning Syrian refugees; hence it's increased role in the formation of Syria's future. For European countries, refugees are a primary concern and a threat against the population integrity and existence of the EU. Germany's open-door policy to Syrian refugees has enhanced the inter-population relations, cultural exchange, and treatment of Syria. This can enhance the economic partnerships of Germany and the Middle East.

Second, some Turkish immigrants to Germany are not significantly attracted to Turkey under the influence of Erdogan policies and propaganda. This affects the policies and attitude of Germany towards Turkey. Turkey's efforts to combat the Gülen terrorism some of the contributors of which reside in Germany have increased their disputes. Further, as a powerful group of the chiefs of Kurd parties reside in Germany, a different Turkish population has formed in Germany which has further increased this nation's interest in the Middle East changes.

Third, Germany is one of the influential powers in Iran's nuclear program negotiations. With the US withdrawal from the JCPOA, the role of European nations, especially Germany, has increased. As one of the pioneers of the deal, it has to bear a stronger pressure and effort to preserve the agreement. The Middle East is also going to face further problems. The influence and presence of Russia in Syria, as well as Trump's policies, will increase the movement of refugees. Meanwhile, the Iran-Russia coalition against the US and its allies in Syria leads to a deepening crisis which increases the balancing role of the EU, notably Germany (Fakude, 2017, p. 2).

Joachim Gauk, the former president of the nation announced at the 50<sup>th</sup> Security Conference of Munich in 2014 that Germany now has to play an effective role in Middle East due to its political, military, and economic importance. He asked for dispensing with the self-incurred isolation from political changes and an effective role in international system. The said changes led Germany to turn from a silent player into an active one. This

change in direction was intensified after Brexit. The nation's affectedness by the Middle East risks and threats such as terrorism and illegal migration in addition to the US and Russian actions that have further intensified the regional chaos have led Berlin to seek a proper strategy toward addressing these problems. Accordingly, Angela Merkel has stated the following as its country's prioritized foreign policies towards the Middle East:

1-Key political and economic partnerships with important regional nations such as Iran, Turkey, and Israel; 2-Resolving the disputes among Arab nations, including Syria; 3-Balance of power among the regional nations; 4-Battling terrorist and militia groups; 5-Aiding the post-war rebuilding of nations (Pillars of Germany Foreign Policy for Middle Eastern Conflicts, 2017).

## **II. Germany's Economic Diplomacy toward Iran**

For more than a century, Germany has held a political representative in Iran. On June 11, 1873, Iran and the German Empire signed a friendship and sailing pact which also included permanent embassies in both nations. Eleven years after the pact and on Oct 20, 1884, the first German embassy was formed in Naseraldin Shah's court and Ernest Von Brunswick was dispatched to Iran as Germany's special agent. The German embassy has been active in Iran ever since. Currently, it pursues its mutual relations with Iran employing experts in economy, culture, and science-education. On July 21, 1975, the Chamber of Iran and Germany commerce was registered in the Company Registration General Office of Iran. At the onset, it had more than 137 Iranian and German members. Currently, with more than 2000 member companies, it is one of the strongest commerce chambers outside Germany. It is a significant institution in the trade and investment relations of Iran and Germany. Moreover, it is the only independent European chamber of commerce and industry in Iran which not only provides legal and natural persons with services, but enables the formation of new trade relations between the two countries and facilitates the expansion of current

links (Informationen zur Wirtschaft in Iran , 2018).

After the Islamic Revolution, despite the pessimistic attitude toward Iran and the support of the West for Iraq in the war, on July 1984 Genscher, the then German foreign minister visited Iran. It was the first trip of the foreign minister of a western, European and NATO country to the post-revolutionary Iran. He attempted to acknowledge the revolutionary identity and its sense of contrast with western values, separating Germany's attitude from that of other western nations. Germany also played a significant role in the adoption of 598 protocol of the Security Council acknowledging Iraq as the invading party. With the Rafsanjani government in Iran and the union of East Germany and West Germany in 1990, Germany could officially regain its whole independence and started a new level of multilateral cooperation between the two countries, especially in economy. At this time, the transactions of the countries reached over 10 million Marks (Shafiie & Rezaee, 2015, p. 546). Although at the same time, issues such as the death sentence for Salman Roshdi, the assassination of Kurd leaders in Mykonos restaurant and the court verdict, the detainment and trail of German citizens, and the assassination of Reza Mazlooman created tensions between the two countries, many analysts believe this period to be a special point in their relationships. At the time of Mohammad Khatami and with the tension-reduction policies and participation in international debates such as the idea of the dialogue among civilizations, these relationships increased. However, with the rise of Ahmadinejad in Iran and Merkel in Germany and the closeness of Germany with the US as well as the surfacing of topics such as holocaust, Iran's nuclear program, and Iran's aggressive regional policies toward Israel, these relationships faced a period of decline. In short, Germany's attitude towards Iran can be categorized as the Iran-EU talks. Accordingly, in the 1979-98 period, the critical interaction, from 1998 to 2003 constructive interaction, from 2003 to 2006 the conditional interaction, from 2006 to 2013 interactive restraint, and from 2013 onwards

increased economic and political cooperation were adopted. The foreign policy of the eleventh government and the effort to resolve problems with foreign states were welcomed by Europe, especially Germany. In such a development, the shared political, economic, and security interests make the nations closer in the future (Sanaee, 2015, p. 14).

Political factors affecting the economic relations of Iran and Germany: According to the above structure and to better understand the special role of Germany as a European power regarding Iran, we must take into account three key issues:

First: Germany is a main, strong player in preserving the geographic integrity of Israel while maintaining a traditional and stable relationship with Islamic Republic of Iran. Hence, it has always been acknowledged as a reliable negotiation partner by both sides.

Second: On one hand, Germany is a main, strong player in diplomacy and a critic of the US interferences. On the other hand, it has extensive economic interests in Iran. These two issues have led to the significant political and economic influence of Germany in the region and has rarely given rise to protests by Iran.

Third: Germany's Ministry of Foreign Affairs has noticeable technical knowledge in leading and furthering multilateral negotiations. Accordingly, Helga Schmidt was chosen as the senior negotiator to the EU for multilateral negotiations with Iran (Joukar, 2017, pp. 50-52)

As stated, many factors affect the Iran-Germany relationships which can be discussed. However, as the paper intend to focus on the key topics, it is attempted to discuss and study factors such as the role of terrorism and extremism, the US, Israel, and human rights as the key factors constantly affecting the mutual relations.

Combating international terrorism and extremism: The security cooperations of the two nations for combating terrorism started after the visit to Tehran by Brand Schmidt Bauer, the advisor to German Chancellor and the Federal Intelligence Coordinator in 1992. As a nation with a security and intelligence

system dominant over terrorist currents can aid Germany in combating terrorism and achieving one of the primary objectives of its national security (Sanaei, 2015:11). Combating terrorism has always been present in the Iran-Germany relationships on two different levels. The first level is combating ISIS in the last three years which was one of the primary issues linking Iran to regional problems and combating terrorism and extremism. This battle provided a good opportunity to negotiate with Iran and limited cooperations with the west, especially Germany. Stability in Iraq and Syria is the shared concern for both parties. While at the beginning of combating ISIS Iran sought to maintain a limited presence to lead the battle forces from the rear (within its own borders), it did not hesitate to empower local groups to fight ISIS. Attempting to weaken cultism in fighting ISIS in Iraq, Iran armed several forces including the Iraqi army and Sunni Kurds. This led to Iran's continuous presence in Iraq. Iran's ability to limit and control Shia forces in the fight against ISIS clarified the attitude of the Iraqi, regional powers, and the rest of the international community to Iran and its policies. Iran and Germany pursue similar goals in Iraq: Preventing the division, possible civil war and cult conflicts, the defeat of ISIS (Parsi, *An Eu Strategy for Relations with Iran after the nuclear deal*, 2016, p. 19). Although fighting ISIS in Iraq provides an opportunity to negotiate with Iran, Syria conflicts are more challenging. There, Iran and Germany pursue different goals. Iran wishes for the Alavi regime to remain in power, while Germany wants Assad and his regime to resign from power. Nevertheless, both wish to rid Syria of ISIS (Iran's Spoiler Role in Syria Peace Process, 2018).

The second level of terrorism-related issues in Iran-Germany relationships is terrorist or saboteur forces active in Iran or Europe. In general, the leaders of such terrorist forces inhabit other nations. On the Iranian side, one of the factors influencing Iran-Germany relations is the Terrorist group of Pejak which—despite numerous terrorist operations in Iran—some of its heads live in Germany as citizens. In the visit of Guido Westerwelle to

Iran, Salehi the Iranian Foreign Minister of the time requested him to prevent the activities of this terrorist group (Sanaee, 2015, p. 12). Part of the Mojahedin Khalg (MEK) terrorist group also remains active in Germany, a subject constantly protested against by Iran. Further, after the 1979 Iranian Revolution some nations, courts, or organizations have accused or convicted Iran for involvement in acts of terrorism or supporting terrorist groups. France, Germany, Argentina, Sweden, and Britain are among such nations. Germany has declared legal persecution against several high-ranking Iranian officials who were convicted to engagement in Terrorist acts in Mykonos court (Katzman, 2018, p. 55).

Select Iran-Sponsored Operational Activity in Europe, (2018)

Before September 11<sup>th</sup> in Brussels talks, the issue of terrorism was overshadowed by economic topics. However, after September 11<sup>th</sup> and with the increased US pressure on the EU, the attitude of the union became closer to the US and for the first time, a global alliance was formed to resolve this issue. The American government accused Iran of supporting multiple terrorist groups across the world, such as Hezbollah and Hamas. In the America's report on terrorism in 2016 published by the Ministry of Foreign Affairs on Jan 2017 and in seven chapters, it is claimed that Iran is still the main terrorism-supporting nation and its threats against the US and its allies have remained (Terrorism, 2016, p. 218). The US Ministry of Foreign Affairs declared that despite the consensus of global powers on Iran's nuclear program, it remains the primary supporter of terrorism in the world (Treasury Designates Iran, 2016).

The role of the USA: The first departure of Germany from the US attitudes in foreign policy was related to the restraint policy. Although after the cold war, the US has constantly attempted to isolate Iran via sanctions and international pressure, Germany not only adopted interactive change for its foreign policy toward Iran, but also turned it into a European approach within the framework of the shared European foreign policy (Kiani, 2013:170). However, this cooperation and intimacy declined for various

reasons. One of the main reasons for that was the rise of Christian Democratic Party led by Merkel in the 2005 elections as well as the success of the right-wing party in Iran and the presidency of Ahmadinejad. At the time, Iran's foreign policy discourse also changed. Among the European nations, Germany was the most affected by this policy, because it was the true inventor of critical negotiations and had made great efforts to resolve the nuclear issue. The new nuclear approach as well as denial of holocaust made Iran's case more prominent. At the same time, because German corporations adopted relatively independent policies towards relations with Iran, the US political pressures on Germany increased. After the referral of Iran's case to the UN Security Council and the issue of four protocols in four years according to Article Seven of the UN charter, the US pressure on Germany to reduce trade with Iran increased and even the German corporations contracting with Iran were threatened by the US. Accordingly, Hermes Insurance reduced the exports insurance limit of German corporations from 3.3 to 2.1 billion dollars. These changes greatly affected the Iran-Germany relationships (Najafi, 2017, pp. 128-129). After the nuclear deal and lifting of international sanctions, the influence of the US on European nations, especially Germany, somewhat diminished. Nevertheless, with the rise of Trump to power and the US withdrawal from the JCPOA and the return of sanctions, the limitations and constraints of German companies and banks in partnering with Iran renewed. Despite the joint declaration of the Foreign Affairs Representative of the EU and the Foreign Affairs Ministers of Germany, France, Britain as well as the joint declaration of their Ministers of Economy indicating their commitment to cooperate with Iran, some German companies that had announced their readiness to enter the Iranian market and invest in different industries withdrew due to the fear of US penalties. The primary such cases are:

Deutsche Bahn Co .The Deutsche Bahn Railway Company that intended to execute two projects in Iran via its subsidiary



company, the DB Consulting and Engineering Co., announced to Reuters in August that these projects were ceasing in August and September (Corporation which left Dreading the USA, 2018).

**Siemens Co :**The CEO of Siemens announced in May that due to the return of US sanctions, the company will not sign a new contract with Iran. The electrical railway between Tehran and Mashhad and the High-speed railway of Tehran-Isfahan were some of the projects included in the contract. The delivery of three gas turbines to Iran were also suspended (Wald, 2018).

**Doerr Co.** The Doerr automobile parts company announced in August that it ceases its activities in Iran due to US sanctions. One of the directors announced that in 2017 Doerr had signed two contracts with Iran. According to them, despite the flourishing of business in the last year, they had to abandon their activities for the time (Wald, 2018).

**Daimler Automotive Co.** In August, the company announced that until further notice, they cease their activities in Iran due to US sanctions. The company announced that Iranian market was weaker than what they expected and emphasized that they had not restarted the production or sales of automobiles or trucks in Iran. On Sep 12, 2017 the Daimler Trucks Co. had told BBC Persian that they had signed a contract for producing and distributing Daimler trucks in Iran with the IKCO or Iran (Corporation which left Dreading the USA, 2018).

**The DZ Bank of Germany** This bank announced that from the beginning of June, they would cease their transactions with Iran.

**Allianz Company of Germany:** This large insurance company announced a week after the withdrawal of US from the JCPOA that it was studying plans for reducing activities in Iran (Wald, 2018).

**BASF Company or Germany:** The largest chemicals corporations in the world announced its commitment to the US sanctions against Iran in September. It declared that it would attempt to maintain its business presence in Iran, but would adhere to all regulations. The company which intended to invest in Iran's

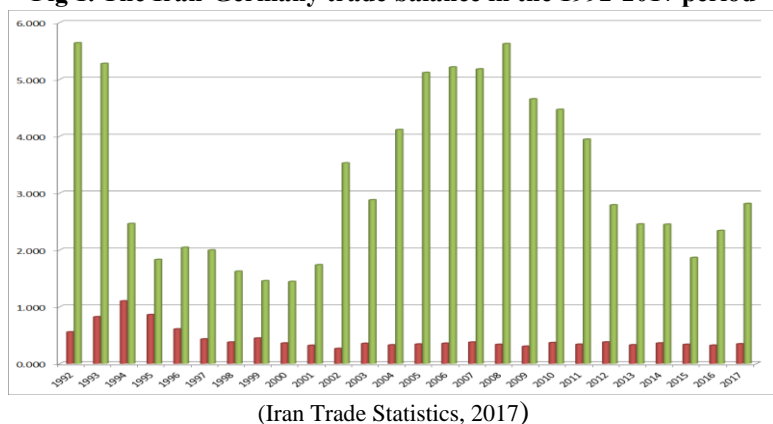
oil and gas industry faced severe limitations with the second phase of US sanctions and with its declared commitment to them.

Bilfinger Co. The Bilfinger engineering co. accounted in August that they would not sign any new contract with Iran. In 2016 the company signed a contract for controlling the systems of an Iranian refinery.

Deutsche Telekom Co. The company ceased its consulting operations in Iran in August. A spokesman told Reuters that until the time of ceasing their activities, their revenues in Iran had reached nearly 300,000 EUR (Corporation which left Dreadinf the USA, 2018) .

### **III. Germany's Investment in Iran**

After the nuclear deal and the lifting of sanctions by the UN, EU, and US, in May 2016 more than 100 German corporations participated in the Iran-Germany trade and investment seminar. In the June of the same year, Iran repaid its great debt of 575 million EUR to Hermes Insurance, a debt that remained from the pre-sanction period. Since then, this insurance announced its readiness for giving new credit to trade corporations and issuing business guarantees for German investors. Accordingly, the fifth meeting of the commission of economic cooperation of the two nations was held in Tehran after a fifteen-year halt and multiple documents of cooperation and contracts were signed between the companies of the two nations (External economic policy, 2018). At this time, the trade value of the two countries increased by 25% and reached more than four billion EUR. In the numerous visits by the officials of both nations, the two sides always stressed the necessity of and their willingness for increasing their business and investment cooperations.

**Fig 1. The Iran-Germany trade balance in the 1992-2017 period**

As shown, the peak trade was in the 2003-2009 period, which reduced with the increasing nuclear tensions and the international financial crisis. However, after JCPOA (2015-2017) the exports of Germany to Iran increased, yet it still was significantly lower than the previous level. Further, in the 1994-2001 period, despite the declared willingness of Iran for expanding economic cooperation with Europe, especially Germany, the trade value was not significant. In addition, political problems and disputes such as the Mykonos crisis, the issuance of the order for the murder of Salman Rushdie and so on were also effective at this time.

The Federal Republic of Germany has always been a point of attention for IR Iran from two aspects: First, its use of the technology and capabilities of German companies, and second, its use of their financial assets and investments for different economic sectors with high potential for partnership with German corporations. In spite of the history of the economic and political relations between the nations, the investment value of German companies in Iran is not comparable with that of other European nations, and also is not indicative of the potentials in both countries. Statistics suggest that the first investment of German companies in the post-revolutionary Iran occurred in 1994. Many German corporations have invested in different economic sectors of Iran over the past 20 years (1997-2017).

Khatami Government in 1997-2004: During the presidency of Mohammad Khatami and the comprehensive talks between Iran and European nations, the level of the economic and political relations of Iran and Germany reached its peak with the least vulnerability. At this time, German corporations collectively invested more than 225.1 billion dollars in different economic projects in Iran. Table 2 presents the said statistics.

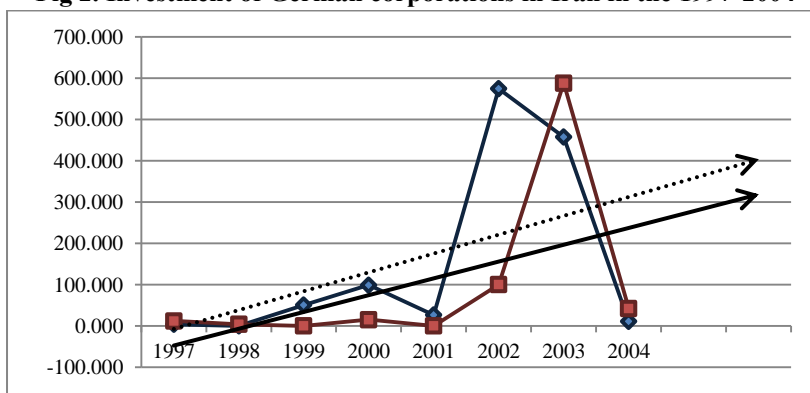
**Table 2: Investment statistics of German corporations in Iran between 1997 to 2004**

Year	declared	implement
1997	4 332	12 354
1998	295	4 332
1999	50 916	295
2000	99 300	15 501
2001	26 653	523
2002	574 775	100 257
2003	457 983	588 645
2004	11 276	42 637

(<https://ec.europa.eu/eurostat>, 2018)

(<https://unctad.org>, 2018)

As shown in Fig. 2, the investment current and interest of European companies for investment in Iran had a growing, promising trend. During the first and second governments of Khatami, Germany participated in multiple projects in Iran. For example, the visit of Werner Muller, the German Minister of Economy on Oct 2, 2009 to Iran in which two large projects for expanding the Imam Port Petrochemical Complex and the South Pars Zone (amounting to 850 million pounds) were assigned to Linde, a German Company. The dotted arrow indicates the declared investment while the solid arrow shows the capital entering the country. Hence, we can claim that the investment relations were not very affected in this period in spite of some political differences, and German companies had sufficient confidence for involvement in Iranian market.

**Fig 2. Investment of German corporations in Iran in the 1997-2004**

The contract for building six ocean Cruiser ships in 2002 (amounting to 189 million dollars) between IRISL and the Acker Shipbuilding Co. of Germany and giving the technology for container-carrier ships to Iranian companies was one such agreement. Further projects include a PVC factory by the UHDE Co. (509 million dollars) in the Imam Khomeini Special Economic Zone with the participation of the Industrial Development and Renovation Organization of Iran and the project for collaborative manufacture of engines for the buses produced by Idem Co. of Tabriz (supervised by IKCO), which amounted to 7 million EUR and 4000 engines per year. 22.5% of the company's share belonged to IKCO and 30% for Daimler. This period witnessed the lowest level of political disputes and differences in the mutual relationships.

**Ahmadinejad government in 2005-2012:** In this period, the rise of Christian Democratic Party in Germany, led by Merkel and the presidency of conservative candidate in Iran changed the attitude governing Iran's foreign policy. The new nuclear approach as well as denial of holocaust made Iran's case more prominent. Table 3 shows the investment of German corporations in Iran during this period.

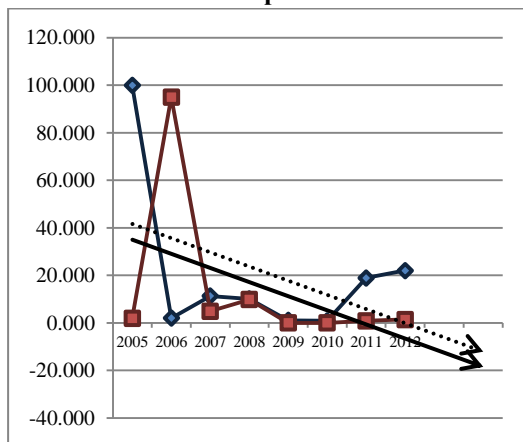
**Table 3: Investment statistics of German corporations in IR Iran; between 2005 to 2012**

Year	declared	implement
2005	99 946	1 994
2006	2 049	95 010
2007	11 322	4 936
2008	10 125	9 838
2009	1 100	0
2010	896	0
2011	18 956	896
2012	22 030	1 452

(https://ec.europa.eu/eurostat, 2018)

(https://unctad.org, 2018)

At the same time, because German corporations adopted relatively independent policies towards relations with Iran, the US political pressures on Germany increased. After the referral of Iran's case to the UN Security Council and the issue of four protocols in four years according to Article Seven of the UN charter, the US pressure on Germany to reduce trade and investment with Iran increased and even the German corporations contracting with Iran were threatened by the US. The dotted arrow represents the trend of the reported statistics of German corporations' investment which declined noticeably in this period. The investment-attraction statistics also gravitated to zero or negative direction with the same gradient. The political tension governing the mutual relations, including the cooperation of Germany with the US and international sanctions were among the key political factors affecting investment relationships in this period.

**Fig 3. Investment of German corporations in Iran in the 2005-2012**

**Rouhani Government in 2012-2018:** As Rouhani rose to presidency in the eleventh government, Germany's Ministry of Foreign Affairs congratulated him on this success and declared its hope for improved relationships with Iran. Further, Angela Merkel, the Chancellor of Germany congratulated this occasion via a letter. The message contained the following statement, "You are shouldering huge responsibility in difficult times. Your election promises the fruition of the hope that a new era of productive cooperation for regional and global peace and security may follow. Same as before, Germany will cooperate with its international partners to perform its part in order to find suitable resolutions for the current challenges via dialogue. I will be very glad if a good opportunity for deepening the good relationships between the two nations presents itself during your mission". After the nuclear deal and the lifting of sanctions by the UN, the EU, and US, in May 2016 more than 100 German corporations participated in the Iran-Germany trade and investment seminar. In the June of the same year, Iran repaid its great debt of 575 million EUR to Hermes Insurance, a debt that had remained from the pre-sanction period. Since then, this insurance announced its readiness for giving new credit to trade corporations and issuing business guarantees for German investors. Accordingly, the fifth meeting of the commission of economic cooperations of the two nations

was held in Tehran after a fifteen-year halt and multiple documents of cooperation and contracts were signed between the companies of the two nations (External economic policy, 2018). At this time, the trade value of the two countries increased by 25% and reached more than four billion EUR. In the numerous visits by the officials of both nations, the two sides always stressed the necessity of and their willingness for increasing their business and investment cooperation. Table 4 shows the investment of German corporations in Iran during this period.

**Table 3: Investment statistics of German corporations in IR Iran between 2013 to 2018**

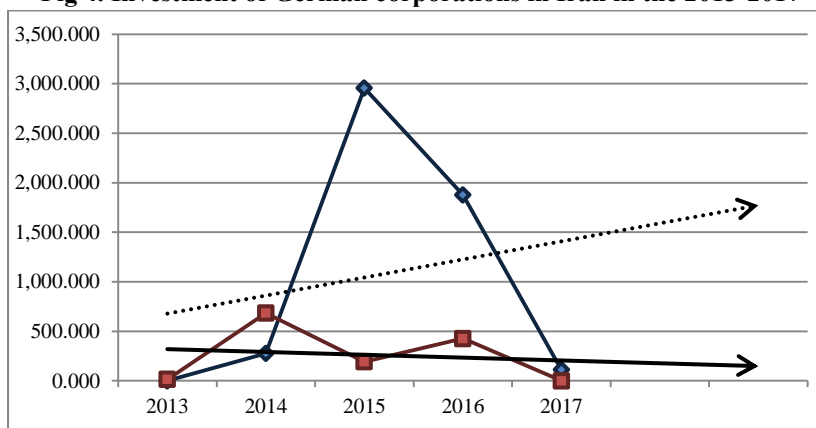
Year	declared	implement
2013	300	15
2014	276 415	683
2015	2 956 659	193
2016	1 877 013	427
2017	112 134	0

(<https://ec.europa.eu/eurostat>, 2018)

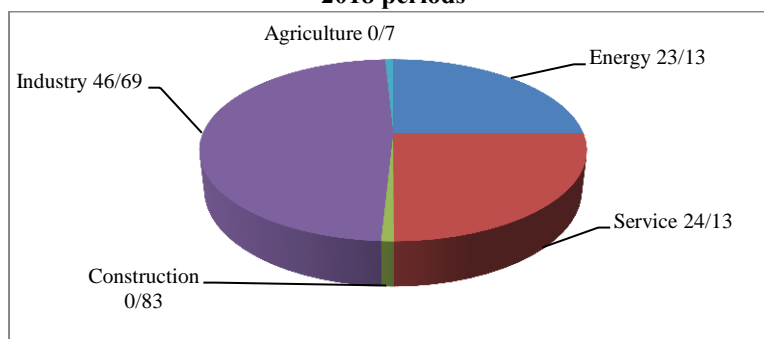
(<https://unctad.org>, 2018)

At this time, despite the eagerness of German corporations for investing in Iran, the attraction and entry of capital was quite slow due to two key reasons: First, the companies were concerned about the recurrence of sanctions or a change in attitude by Iran or any party to the JCPOA. Second, with the presidency of Trump in the US and his criticism and subsequent resignation from the deal, these concerns became real and led to the quitting of numerous European corporations from Iran, including Germans. Figure 4 shows the investment trend of German companies in Iran in this period. As indicated, despite the eager reception of German corporations (the dotted arrow) which led to growing involvement, the capital amount is not good and is declining.



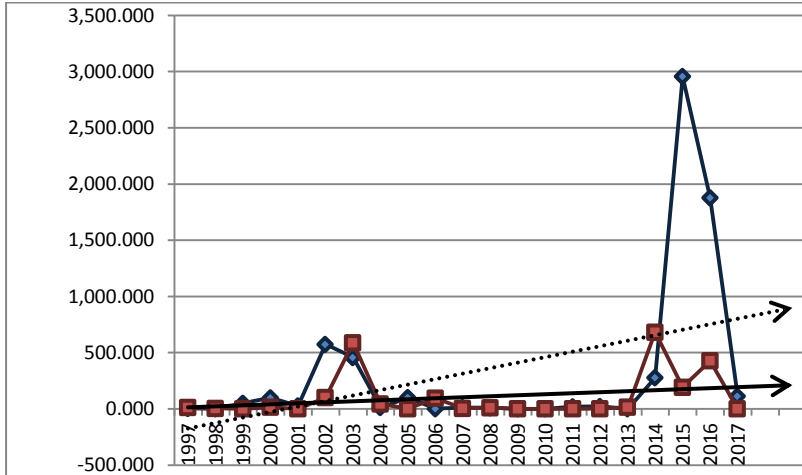
**Fig 4. Investment of German corporations in Iran in the 2013-2017**

A topic that must be considered in foreign investment is the difference between the declared investment and the received investment. The value of contracts and permits for the investment of German companies in Iran has always been on the rise with a significant value. However, the amount of the received investment is not that significant for different reasons. Considering the distribution of some of the said investments, note that of the total investments of the German companies in Iran, the industry sector with more than 46% has had the highest share. Further, the service and energy sectors each with more than 24% ranked after. Bear in mind that the agriculture and construction sectors with respectively 0.7 and 0.8 percent had the least attracted investment. Figure 5 shows the investment rate in each sector.

**Fig 5. Investment categories of German corporations in Iran in the 1997-2018 periods**

Considering these sectors and their attracted investment, we can conclude that the industry sector has the highest appeal for German corporations in Iran.

**Fig 6. Investment of German corporations in Iran in the 1997-2017**



## Conclusion

Based on the study, the political variables in the mutual relationships significantly affect the investment of German corporations in Iran. Figure 6 shows the dotted arrow indicating the direction of foreign investment including projects ratified in Iran. This trend shows the interest of German companies for involvement in Iran's economy. Considering the potentials and opportunities presentable to the said corporations, it shows a good value. The solid arrow shows the actual capital entering Iran via the transfer of capital, technology, or equipment by German companies. It properly shows the effectiveness of political factors on the investment of German companies in different economic sectors of Iran which mostly results from the constant political differences in the relationships of the two countries.

Hence, the high fluctuations of the said trend are caused by factors such as regional disputes, US limitations over trade and investment in Iran, deep differences concerning human rights and terrorism, and especially the issue of Israel. The discussed factors

significantly affect the investment of German corporations in Iran. As stated before, the highest political conflicts occurred in the 2005-2012 period. The above diagram properly shows the declining trend of investment in that period. During Ahmadinejad's time, the closeness of Germany to the US for countering Iran's nuclear program and numerous sanctions, Germany's criticism of human rights in Iran—especially after the protests following the second presidency elections—tensions over Israel and holocaust and the battle against terrorism, all led to the zero investment by German companies in Iran. In addition, after the nuclear deal and despite the numerous visits of the officials of the two nations and the declaration of willingness from investment companies for presence in Iran's market and the restarting of talks about terrorism, human rights and macro-level economics; the mentality of German banks and companies regarding the sanctions and the punishing acts of the US prevented a serious development in mutual cooperation. Note that the said cooperation had a positive trend in the 1997-2004 period, which was a result of the policy of tension-reduction and normalization of relationships in Khatami period. Hence, it is obvious that managing the effects of the said political variables can reduce their effect on foreign investment relations. To conclude, the development of political and economic relations will be in the interest of both nations. Accordingly, employing smart diplomacy, public diplomacy, and personal relationships with key political and economic figures of Germany can help promote the relationships of the two nations.

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