I. New Economic Order

China and Iran Reach Important 'Oil for Construction' Deal

by Hussein Askary

Aug. 30—Iran's Tasnim News Agency has reported a new contract signed by the Iranian Transport Ministry and Aviation Authority with an unnamed Chinese company to expand the Imam Khomeini International Airport in Tehran. The cost of the contract, equivalent to $2.7 billion, will be covered by Iranian oil shipments to China. This is the first "oil for construction" contract which paves the way for the "trade without currency" advocated by Lyndon LaRouche since 2000. The mechanism circumvents the unilateral sanctions imposed by the United States and European Union on Iran.

Articles from Tasnim News Agency and other Iranian media gave only scanty details of the contract, but confirmed its existence.

The latest China-Iran contract is clearly part of the 25-year Comprehensive Strategic Partnership Agreement signed in March 2021. Most of the economic cooperation will potentially be carried out in this manner of "oil for construction" and "oil for technology."

This breakthrough contract, which is beyond the question of de-dollarization and the use of local currencies, is reminiscent of the LaRouche's "oil for technology" policy of the 1970s. It is the first attempt of its kind since the Iraq-China "oil for reconstruction" agreement struck in September 2019, but aborted after Iraq's then Prime Minister Adel Abdel-Mahdi was overthrown in a color revolution.

Details of that 2019 agreement, and how it was sabotaged, were explained by this author in a January 2020 *EIR* interview, following the assassination of Iranian military leader Gen. Qasem Soleimani in Baghdad on orders of President Donald Trump. That assassination was the final nail in the coffin of both the Iraqi government and the deal with China. The oil-for-construction mechanism includes important elements of Hamiltonian credit, as *EIR* editor Paul Gallagher explained separately in the interview just cited: Iran will pay for this contract with physical oil, but China is effectively paying for the oil in credit extended in its currency, the renminbi (RMB), to its own construction company. That company may borrow more than the current market value of the agreed volume of oil, since the construction will expand and involve subcontracts.

Trade Without Currency

A most interesting comment on the new Iran-China contract came from economist Michele Geraci, former Italian Undersecretary of State and negotiator of Italy's MoU with China on the Belt and Road Initiative. On his Twitter/X account Aug. 28¨, Geraci called his comment "Iran and China rehearse de-dollarization":

"Instead of thinking about a new currency … Iran and China are exchanging goods and services without using any currency: China builds an airport extension in Iran worth $2.5 billion, and Iran ships oil worth $2.5 billion….

"Rather than being back to barter—'I'll build you an airport in exchange for oil'—the BRICS countries are doing dress rehearsals of using a new currency of their own.

"But this new currency is not the RMB or the Indian rupee, because these are currencies that—as Russia discovered once it sold so much oil to India and India paid in rupees—can go unused because there is no secondary market for these currencies.

"Instead, the new currency that the BRICS countries can use must have characteristics of total fungibility, and acceptance even in markets outside the BRICS countries themselves, and it must be liquid. What then?

"Oil. With the entry of Iran, Saudi Arabia, and UAE into the BRICS, the percentage of the world's oil reserves held by the BRICS increased from 7% to 43%."

Recall India's proposal to Russia, that Russia's excess rupees from oil exports go into infrastructure project bonds of big Indian construction firms. Were those firms planning projects in Russia's Far East, another example of "oil for development credit" trade could be provided.