



THE IRAN-CHINA DEAL: A NEW STRATEGIC PARTNERSHIP IN THE MAKING?

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July 22, 2020

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



Iran and China are reported to be in the final stages of finalizing a \$400 bn deal for strategic partnership including massive Chinese investments in energy and infrastructure projects, closer defense cooperation, intelligence sharing and sale of discounted oil from Iran to China. Once finalized, the deal will have a major impact on the geopolitics and economics of this critically vital region.

During a state visit to Tehran in 2016, the Chinese President Xi Jinping had proposed a comprehensive deal to forge a long-term strategic partnership between the two countries.¹ The draft for this robust package of investment and energy partnership is said to have been approved by the Iranian side. The 18-page long agreement highlighting the various significant sectors of cooperation between a major world power and a sanction-hit economy in the region indicates a massive shift in the global geopolitical arena. Terms of the deal have not been made public by China and it still requires the Parliament's approval in Iran. But the Iranian Foreign Minister Mohammad Javad Zarif confirmed earlier this month that the two sides were indeed negotiating a massive deal.²

What Does the Deal Entail?

Based on a leaked 18-page long document secured by the *New York Times*, the deal entails China's presence in various sectors of the Iranian economy such as banking, telecommunications, ports,

¹ Srijan Shukla, "The China-Iran strategic partnership, and how it can change geopolitics in the Middle East", *The Print*, July 14, 2020. <https://theprint.in/theprint-essential/the-china-iran-strategic-partnership-and-how-it-can-change-geopolitics-in-the-middle-east/460080/>

² Golnaz Esfandiari, "Explainer: Why Are Iranians Angry Over A Long-Term Deal With China?", *RFERL*, July 13, 2020. <https://www.rferl.org/a/explainer-iranian-china-deal-anger-among-iranians/30724344.html>

railways and several others. In return, Iran is offering long-term oil supply on discounted rates over the period of the next 25 years. Pages from the document also indicate proposed Sino-Iran cooperation on fighting cross-border terrorism and drug and human trafficking.³The most significant aspect seems to be the proposed defense cooperation framework in the deal including military cooperation through joint trainings and exercises, joint research, weapons development and intelligence sharing.⁴Chinese investments would total \$400 billion over a period of 25 years, with \$280 billion in the energy sector while the rest of the \$120 billion to other economic sectors in Iran.⁵

The deal encompasses both economic and defense cooperation turning it into a massive long-term 'strategic partnership' between the two rivals of the United States. Proposed projects to be included in the deal compose of high-speed railways and subways, free trade zones in northwestern Iran and in Abadan which marks the entry point of the river Shatt al-Arab into the Persian Gulf and on the gulf island of Qeshm.



Source: <https://silverfox175.com/tag/shatt-al-arab/>

Nature and type of the proposed projects underlined in the agreement seem to be in perfect alignment with China's Belt and Road Initiative (BRI) which shows the Chinese inclination to increase its presence in the Gulf region much to the detriment of America's somewhat diminishing foothold

³ Farnaz Fassihi and Steven Lee Myers, "Defying U.S., China and Iran Near Trade and Military Partnership", *The New York Times*, July 11, 2020. <https://www.nytimes.com/2020/07/11/world/asia/china-iran-trade-military-deal.html>

⁴ Ibid.

⁵ Sarang Shidore, "The Iran-China deal deepens India's strategic bind in an increasingly hostile neighbourhood", *Scroll.in*, July 18, 2020. <https://scroll.in/article/967781/the-iran-china-deal-deepens-indias-strategic-bind-in-an-increasingly-hostile-neighbourhood>

in the region. In a bid to safeguard its cyberspace from frequent Israeli and American interventions, Iran has also agreed to China's offer to build the 5G telecommunication network infrastructure in the country.⁶

Sino-Iran Deal and US Sanctions

The crippling US sanctions against Iran have severely limited the country's capability to export its oil while scaring away potential international investors ultimately backing Iran into a corner. Under President Trump's maximum pressure campaign, all roads had been closed to Iran with projections of its economy shrinking by 9.5% under these sanctions.⁷ Combined with these strict sanctions, the coronavirus pandemic reduced its oil output and revenues from 4 million bpd in 2018 to only 2 million bpd this year.⁸ This deal threw a much need lifeline at Iran which is still grappling to recover from the severe blow of sanctions plus the pandemic which had halted all internal economic activity as well. Rigid US stance of piling on the pressure without considering the humanitarian or political implications of its sanctions regime created room for another global power to showcase its strategic depth translating into this robust Sino-Iranian partnership. The deal provides a mechanism to evade sanctions whilst boosting e-RMB, China's new digital currency against the US dollar.⁹ Although this is not a recent development as financial gurus have repeatedly pointed out that US sanctions against trading with Iran in US dollars will benefit China's Yuan as it would continue to buy Iranian oil despite sanctions.¹⁰

Strategic Dimensions of the Deal: US in Dismay

Being an energy centric economic agreement with several diverse areas of cooperation, the Sino-Iranian deal has an added strategic advantage for both countries involved, i.e. defying US interests in the region, thus making it all the more attractive for both countries. With about a 100 different projects on the cards, the deal is in tandem with BRI's theme of regional connectivity while the aspect of military cooperation between the two has certainly caught America's immediate attention.

⁶ Ariel Cohen, "China's Giant \$400 Billion Iran Investment Complicates U.S. Options", *Forbes*, September 19, 2019. <https://www.forbes.com/sites/arielcohen/2019/09/19/chinas-giant-400-billion-iran-investment-snubs-trump/#2517594c84d1>

⁷ News Desk, "Iran economy to shrink 9.5% this year amid tighter US sanctions, says IMF", *Reuters*, October 15, 2020. <https://www.reuters.com/article/us-iran-economy-imf/iran-economy-to-shrink-95-this-year-amid-tighter-us-sanctions-says-imf-idUSKBN1WU28M>

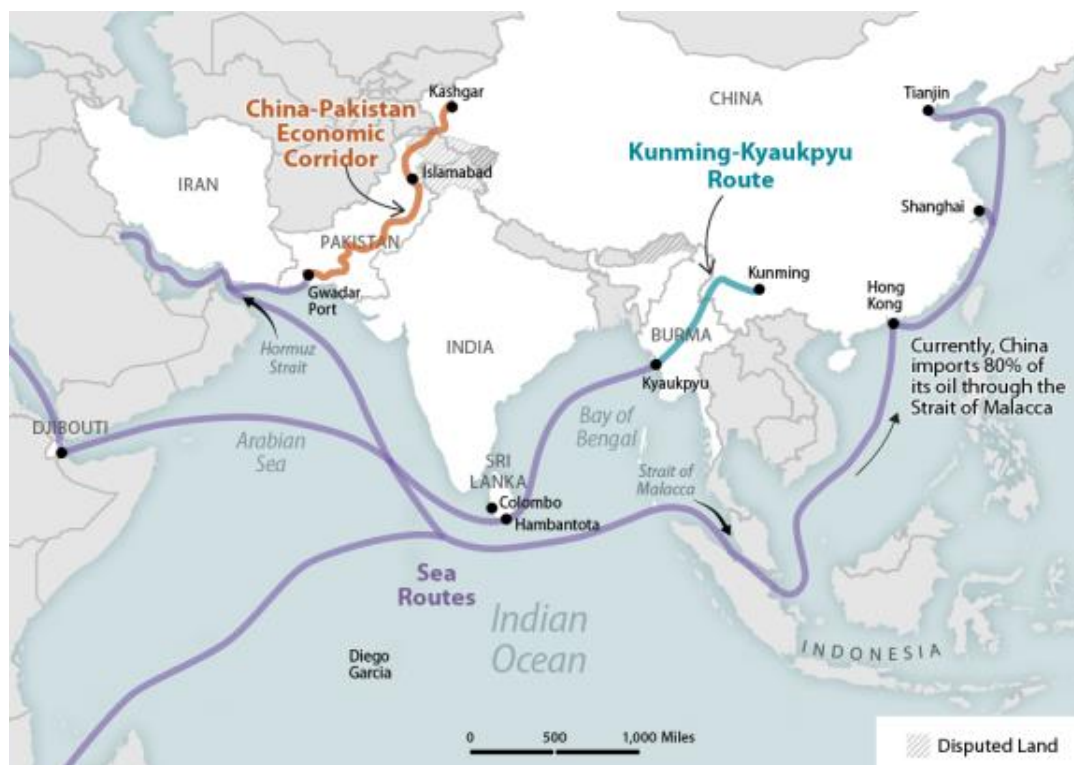
⁸ Ariel Cohen, "China And Iran Approach Massive \$400 Billion Deal", *Forbes*, July 17, 2020. <https://www.forbes.com/sites/arielcohen/2020/07/17/china-and-iran-approach-massive-400-billion-deal/#73e101452a16>

⁹ Ibid.

¹⁰ Kate Duguid, "Iran oil sanctions could advance China's 'petro-yuan'", *Reuters*, May 11, 2018. <https://www.reuters.com/article/uk-iran-nuclear-china-oil/iran-oil-sanctions-could-advance-chinas-petro-yuan-idUSKBN1IB32H>

China has proposed building several ports in Iran especially at Jask in the Strait of Hormuz¹¹ which means it will have unencumbered access to one of the major chokepoints of oil supply in the world.

Having maintained a heavy presence in Gulf waters and the entire Middle East for years, this new development is bound to fluster the US as China has already built numerous ports along the Indian Ocean from South China Sea to the Suez Canal.



Source: <https://www.everycrsreport.com/reports/R45194.html>

In 2015, China had opened its first overseas military base in Djibouti¹² which has worried the US despite the latter's heavy military deployment all over the waters of the Persian Gulf for years. This Sino-Iran partnership comes at a crucial point in time for United States which faces internal turmoil, racial protests and the devastating impact of the coronavirus pandemic on its health sector. Presidential elections make the future even more uncertain as Trump's presidency has surely brought US global leadership capabilities into question.

¹¹ Anthony H. Cordesman "China in the Gulf: A New Partnership with Iran?" *CSIS*, July 15, 2020. <https://www.csis.org/analysis/china-gulf-new-partnership-iran>

¹² Max Bearak, "In strategic Djibouti, a microcosm of China's growing foothold in Africa", *The Washington Post*, December 30, 2019. https://www.washingtonpost.com/world/africa/in-strategic-djibouti-a-microcosm-of-chinas-growing-foothold-in-africa/2019/12/29/a6e664ea-beab-11e9-a8b0-7ed8a0d5dc5d_story.html

Particularly with reference to Iran, Trump's unilateral withdrawal from the Iranian nuclear deal was an ill-advised step that not only strengthened Iranian defiance of US policies but indicated its inability to abide by multilateral agreements. It also undermined US leadership clout within the European Union (EU) where signatories of the JCPOA continuously urged US to return to the deal. Thus, this lack of foresight seems to have placed China into an advantageous position vis-à-vis Iran and the entire Middle Eastern region. Once Iran becomes an integral part of the BRI project, its regional Arab rivals would also seek China's cooperation based on their already existing economic ties. This move could seriously undermine US influence in the Middle East as the only dominant power.

Sino-Iranian Bonhomie and the Indian Blunders

Indian media is ablaze with fury and speculation over the recent rumors about Iran's decision to exclude India from a joint Chabahar-Zahedan rail project citing delays from the Indian side in initiating work.¹³ In the backdrop of the new Sino-Iranian deal, this development certainly made for a rather humbling experience for India which has been displaying unnecessary jingoism and aggression toward the entire neighborhood. Indian newspapers reported that the Iranian Transport and Urban Development Minister Mohammad Eslami inaugurated the track-laying process for the 628 km rail project which will extend to Zaranj across the border within Afghanistan. Debates continued in the Indian media about whether India delayed the project for the fear of violating US sanctions against Iran although due to urgent need for development in Afghanistan, it had been granted sanctions waiver from the US administration.¹⁴

¹³ New Desk, "Iran drops India from key Chabahar project", *Dawn*, July 15, 2020.
<https://www.dawn.com/news/1569090>

¹⁴ Suhasini Haidar, "Iran drops India from Chabahar rail project, cites funding delay", *The Hindu*, July 14, 2020.
<https://www.thehindu.com/news/national/iran-drops-india-from-chabahar-rail-project-cites-funding-delay/article32072428.ece>



Source: <https://www.thequint.com/voices/opinion/if-india-wants-chabahar-to-work-it-has-to-avoid-us-iran-crossfire>

Iran denies leaving India out of the project but since it has been initiated already without India, it has created a lot of stir within India about the future of the Chabahar port project. Indian fears are not baseless as Iranian government has often referred to the Gwadar and Chabahar as ‘sister ports’. The Bandar-e-Jask port which is part of the new deal signed between Iran and China is only 350 km away from the Chabahar port¹⁵ thus it provides China with an excellent opportunity to keep Indian maritime ambitions in check. Former Indian Ambassador to Iran, K.C. Singh was reported saying that the deal impinges on Indian strategic relations with Iran while China would have access to the entire Iran-Pakistan coastal line through Gwadar, Chabahar and now the Jask port. Iran has kept its ties with India separate from its other neighbors and it enjoys a strong economic relationship with China. The Sino-Indian Ladakh border spat has left India rattled in its regional ambitions which have been rather aggressive to say the least. Now that Iran has been brought into the regional connectivity policy of China of which Pakistan is already a significant part, it has certainly made India wary of what may unfold next in the region.

Pakistan, China and Iran: Prospects for Increased Cooperation

Iran has shown its inclination to participate in the China-Pakistan Economic Corridor (CPEC) on several occasions, calling it an opportunity for regional prosperity.¹⁶ Now that Iran and China are

¹⁵ Ibid.

¹⁶ News Desk, “Iran expresses interest in becoming part of CPEC”, *The News*, December 15, 2019.

close to signing a comprehensive deal with features of energy and transport infrastructure that are quite similar to that of CPEC, it seems quite plausible that Iran could also participate in CPEC projects. Pakistan and Iran need to utilize this opportunity to enhance their economic cooperation and exploring a way to revive the Iran-Pakistan gas pipeline project by inviting China to be a part of this historic connectivity venture. However, even with the signing of this deal, circumventing US sanctions will be an uphill task and this does not undermine the stability of the US dollar in the international market. But surely, it marks a significant shift in global political and economic atmosphere which shows that China is a new and powerful global player to be reckoned with.

There have been reports of criticism from within different opposing political sections of Iran who have echoed concerns of the Western media about China's so-called 'covert' intentions behind this deal. There are several objections and questions being about nature of loans and control of Iran over its ports and fossil fuel reserves. But Iran has turned to China after the EU signatories of the deal failed to bail it out financially. These issues will surely be discussed at length in the Iranian Majlis when the deal is put up for approval. Pakistan has had to face similar questions regarding CPEC from anti-Pakistan and anti-China elements. But for a country riddled with sanctions, dire economic challenges and serious regional security threats, this deal seems like the only logical way out of the quagmire.