



CHINA-IRAN STRATEGIC COOPERATION AGREEMENT: CAUTIOUS EVOLUTION OF BILATERAL RELATIONS

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



On March 27, China and Iran concluded a bilateral agreement to deepen political ties and expand economic cooperation over the next 25 years. Officially called ‘Strategic Cooperation Agreement’, it envisions cooperation in critical sectors such as oil and mining to industrialization, agricultural and infrastructure development in Iran. It also calls for enhancing tourism and cultural exchanges between the two countries. Significantly, this agreement has been concluded in the year which will mark 50 years of diplomatic relations between Beijing and Tehran. Thus, it has been viewed as a booster for China-Iran relations with long-term impact on regional dynamics.

Agreement: Piecing together details

Officially, neither Beijing nor Tehran has released the signed agreement. Yet, speculation about the worth of the deal put it at USD 400 billion with one report even claiming a figure of USD 500 billion.¹ With such astronomical figures it is often difficult to source actual details of the agreement and analyse its implications. Nonetheless, reports in international media, as well as in Iranian and Chinese media give clues to the content of the agreement. A draft of the agreement was first reported by the *New York Times* in July, 2020. It is plausible that there will be no major change from the leaked draft. The draft had included cooperation in diverse areas such as energy, nuclear power

¹ Tom O'Connor, “U.S. Pressures China and Iran, They Move Closer to Their Own Deal”, *The Newsweek*, March 26, 2021, <https://www.newsweek.com/us-pressures-china-iran-move-closer-deal-1579144>

generation, petrochemicals, high-technologies, military, maritime projects and enhancing Iran's role in China's signature Belt and Road Initiative (BRI). At that time, it was reported that two sides are discussing the draft. As per Chinese diplomatic practice, Beijing and its affiliated media and think-tanks refrained from commenting on the leaked draft. Even this time around, Chinese media has offered minimal details while lauding the inking of agreement.

A key issue in the agreement pertains to the volume of promised Chinese investment in Iran. In July, 2020, the New York Times put the value of prospective Chinese investments in Iran at USD 400 based on an article published in a magazine called 'Petroleum Economist'.² It relied on anonymous sources and claimed that China would invest up to USD 280 billion in oil development sector and USD 120 billion in infrastructure projects. That article has been taken offline, however the figure of USD 400 billion has been repeated *ad nauseum*, with little effort at tracing the source. This time, however, both Chinese and Iranian sides went extra mile in clarifying that, at this point in time, financial details have not been quantified.

Two days after agreement was signed, Zhao Lijian, spokesperson of China's Foreign Ministry stated that this agreement "neither includes any quantitative, specific contracts and goals nor targets any third party, and will provide a general framework for China-Iran cooperation going forward."³ It focuses on "charting course for long-term cooperation". This statement undercuts the USD 400 billion investment tag propagated earlier about the China-Iran agreement.

Meanwhile, Iranian Foreign Ministry issued a separate statement after signing of the agreement and stated that "the document focuses on the capacities and perspectives for bilateral cooperation between the two countries in various areas including economic and cultural fields, among others."⁴ Moreover, a factsheet published by Iran's Foreign Ministry termed the agreement as a 'roadmap for cooperation' as it doesn't include any "contracts" as "prospects for cooperation whether economic, political, cultural or strategic, have not been quantified, therefore it does not include numbers on investment or financial and monetary resources."⁵ In a crucial clarification, fact sheet highlights that agreement doesn't allow any "management, administration or exploitation rights" of any territory of

² "China "pledges \$400bn" to develop Iran's energy, transport and manufacturing sectors", *Global Construction Review*, September 6, 2019, <https://www.globalconstructionreview.com/news/china-develop-arctic-silk-road/>

³ "Foreign Ministry Spokesperson Zhao Lijian's Regular Press Conference on March 29, 2021", Ministry of Foreign Affairs, March 29, 2021 https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/t1865136.shtml

⁴ "Statement on 'Document of Comprehensive Cooperation between Iran and China'", Ministry of Foreign Affairs of Islamic Republic of Iran, March 27, 2021, <https://en.mfa.gov.ir/portal/newsview/632866>

⁵ "Iranian Foreign Ministry Publishes 'Fact Sheet' On Sino-Iranian Agreement", *Iran International*, March 28, 2021 <https://iranintl.com/en/world/iranian-foreign-ministry-publishes-fact-sheet-sino-iranian-agreement>

Iran or “mutual or unilateral [trade] monopoly,”⁶ Moreover, Mr. Reza Zabib, head of East Asia division at Iranian Foreign Ministry termed the agreement a ‘non-binding document’. He stated that while “there is a legal requirement to publish agreements; however, the publication of non-binding documents is not common.”⁷

From these statements it becomes evident that China-Iran agreement, in its present shape, is an aspirational document outlining that areas in which both sides can undertake practical cooperation. This understanding, however, has not reached the stage of measurable goals or specific projects/programs.

Significance of Agreement

The conclusion of agreement is significant *in and of itself*. It is a major milestone in China-Iran bilateral relationship. It comes at a particularly difficult strategic moment for both countries as they navigate tensions with the United States (US). Iranian leadership has termed China as a ‘friend of difficult days’,⁸ and now when Iran is struggling to respond to economic pressures in the face of continued US sanctions, China’s decision to up-grade the relationship presents an economic lifeline.

The agreement however, is not alliance pact between China and Iran against the US. It is an evolution of 50 years of bilateral cooperation between two states which have a convergence of political and economic interests and face different pressures from a same external source i.e., the US.

The agreement lays out a ‘framework’ of future cooperation, but signals intent to upgrading China-Iran relationship both qualitatively and quantitatively. It brings China-Iran partnership to same level as China’s cooperation with other Gulf states. China has concluded Strategic Comprehensive Agreements with Gulf and Arab countries such as Saudi Arabia, Iraq, Egypt and the United Arab Emirates previously. Like Iran, those agreement are also non-binding and declare an intent to enhance bilateral cooperation in diverse fields.⁹

In this backdrop, for China, agreement with Iran provides enhanced stake in a major source of oil (even though share of Iranian oil in China’s overall oil imports is minuscule), ensures long-term

⁶ Ibid.

⁷ Ibid.

⁸ “Zarif says China is ‘friend of difficult days’”, *Tehran Times*, March 27, 2021
<https://www.tehrantimes.com/news/459287/Zarif-says-China-is-friend-of-difficult-days>

⁹ China’s emerging partnership network: what, who, where, when and why. July 15 2019, International Trade, Politics and Development, <https://www.emerald.com/insight/content/doi/10.1108/ITPD-05-2019-0004/full/html#sec002>

access to a large foreign market for Chinese goods, a prospective destination for Chinese investments (once US sanctions are withdrawn), and a boost to BRI with inclusion of Iran leading to expansion of China's regional influence and reach.

Next Steps

As Beijing and Tehran up-grade their bilateral relationship they are cautious of the reaction of the US and Iran's Gulf neighbours. For this reason, Chinese foreign ministry clarified that bilateral cooperation does not "target any third party". This also indicates that for Beijing, implementation of China-Iran agreement is linked to improvement in Iran-US relations, particularly, the return to nuclear agreement concluded in 2015. Enhancing of investment and trade between China and Iran requires resumption of Joint Comprehensive Plan of Action (JCPOA) which would ensure compliance of Iran and the US to the agreement and lead to removal of sanctions from Iran.

Chinese commercial firms, and even State-owned enterprises will move to swiftly explore and implement projects in Iran, if threat of sanctions is absent. At present, Tehran faces challenges in repatriating earnings from China-linked oil contracts.

In the interim, Beijing and Tehran will benefit from holding institutional dialogue between their respective economic planning, energy, defence, maritime, and private sector. This will afford both sides an opportunity to share their respective plans about the long-term cooperation. It will enable exploration of practical avenues for furthering bilateral cooperation, which is the goal of strategic comprehensive agreement.

This agreement was signed at the tail-end of the six-nation Middle East tour of Chinese Foreign Minister Wang Yi where Beijing also put forward five-point initiative for Middle East, offered to host Israel-Palestine dialogue as well as a multilateral Gulf Security Dialogue. When Beijing will move to institutionalize these initiatives, these will complement Strategic Comprehensive Agreement with Iran leading to balancing China's relations all countries of the region.