

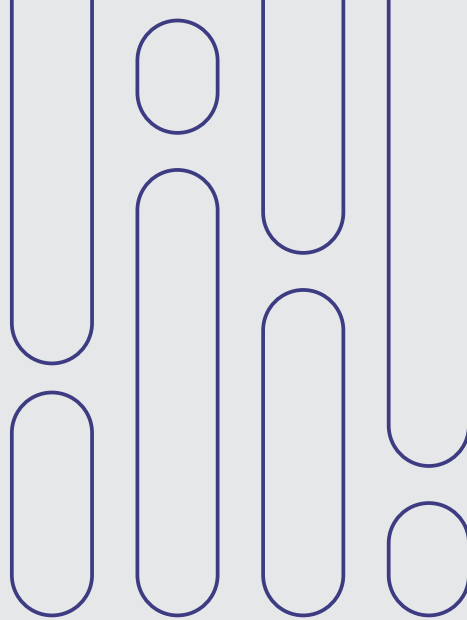
**Position Paper**

# **The Iran-China 25- Year Comprehensive Strategic Partnership: Challenges and Prospects**

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China signed a landmark partnership agreement with Tehran on March 27, 2021. The importance of this agreement lies in its timing, the nature of its provisions, its longevity, the amount of investment, and its potential ramifications on the regional and international scenes, especially in light of China's desire to expand its political and economic influence in the Middle East while permitting Iran to join its strategic "Belt and Road Initiative" to reach out to European markets.

According to the strategic partnership, China will provide investments as well as economic and security services worth \$400 billion over 25 years in return for a steady supply of oil from Iran to the Chinese economy. The agreement is nothing new, but its timing is important as it indicates signals and motives. The agreement was first floated in 2016 during the visit of Chinese President Xi Jinping to Iran but it did not take off at that time.

It came in the aftermath of Iran's signing of the nuclear deal, which resulted in an openness towards Western investments. But it gained significance last year after the grave economic consequences caused by the US withdrawal from the nuclear deal. The agreement has faced extensive criticism in Iran.

This position paper aims to analyze the motives behind the timing of the agreement, its major economic, security and military provisions and its potential ramifications for China, Iran, the United States and the Middle East, as well as the challenges facing the implementation of this agreement and ultimately the agreement's prospects.

## **I. The Motives Behind Signing the China-Iran Strategic Partnership**

Though the agreement was floated five years ago, it was announced by Iran only in the summer of 2020. At that time, it

stirred up massive controversy among Iran's political currents and opposition at home and overseas. They utilized the agreement to attack the government and political system, because they believed it did not take into consideration Iran's sovereignty and interests and contradicted the foundations of 'the Islamic Republic' and its foreign policy principles that were established by Khomeini. There must be signals and motives behind the recent visit of the Chinese foreign minister to Tehran and the signing of the agreement with China, with Iran's foreign minister describing Beijing as "a friend for hard times." The signals and motives are likely to be related to the current developments and interactions in the region.

For its part, China is waiting on Biden's policies and is acting cautiously. The new US administration plans to redirect its resources and capabilities to Southeast Asia to contain China, a rival superpower seeking to lead the global order, according to Chinese interpretations of remarks made by Biden on March 26, 2021. Biden's vision seeks to continue the policy of former US President Barack Obama, which he was not able to accomplish due to timing and developments in the Middle East. When Donald Trump took office in 2017, he reversed Obama's foreign policy.

Since Biden took office, the United States has focused on strengthening its position as leader of the world order. The new US administration has worked to forge international and regional alliances to curb the growing political and economic clout of Beijing. The US secretary of state met with European leaders in Brussels on March 24, 2021, and unified their views in regard to addressing China as a rival posing a threat to the current world order. Biden also held a virtual meeting on March 12, 2021 with the prime ministers of Japan, Australia, and India to forge an alliance to curb China's clout. Furthermore, the Unit-

ed States plans a military and security redeployment to emphasize its domination and clout in addition to bolstering its military growth to maintain the power gap with its closest rival China, which prompted the latter to act out of necessity.

As for Iran, despite the domestic controversy surrounding the agreement, it seems that a directive from the supreme leader led to the signing of the agreement. Perhaps this can be attributed to his and the government's feeling that the domestic crisis-riddled economic situation is extremely dangerous. The move is also in line with the supreme leader's directive for Iran to turn to the East, turning away from Europe or because the massive wave of expectations that followed Biden's election have vanished to a great extent. This agreement was signed against the backdrop of the Biden administration attempting to set conditions for Iran to return to the nuclear deal, and it is clear that Biden wants to take advantage of a host of factors to ensure that Iran is in a weak negotiating position. This includes taking advantage of Trump's maximum pressure campaign, exploiting Iran's deteriorating internal situation, reaching a cross-Atlantic consensus to impose more pressure on Iran to amend the existing nuclear deal, opening up discussions about the outstanding issues, particularly regarding Iran's ballistic missile program and its regional behavior.

Biden's moves are likely to have played a role at this time in pushing China and Iran to sign the strategic partnership agreement. China seeks to counter US pressure and is attempting by signing the agreement with Iran to contain its clout and curb its political and economic hegemony. Iran is a credible partner for China and a hostile regional rival to the United States.

China's relationship with Iran could be used to concentrate its conflict with the United States in the Middle East instead of moving it to Southeast Asia, as was the case during the term of

Obama. All in all, China has sent a message that it will not stand by idle in the midst of the challenges that the United States is attempting to impose on it.

For its part, Iran needs a strong ally like China to counter US pressure, especially regarding the revival of the nuclear deal. It also needs more economic openness with China, which is its most important trade partner to withstand US sanctions and help it to alleviate its deepening economic crisis.

## **II. The Most Important Provisions of the Agreement and Its General Features**

Iran did not announce the details of the agreement neither before nor after signing it, nor did the Chinese government, for its part, provide details. Tasnim News Agency, aligned with the IRGC and the clerical political system, explained this by arguing that “it is not necessary to publish the details of the nonbinding agreements, and due to the US sanctions, not publishing it was better.”

The agency added, “The Parliament won’t need to approve the agreement as it’s a framework roadmap, not a binding agreement.”

Even the agreement’s \$400 billion investment was not mentioned by either of the two countries’ officials. But an 18-page draft containing the agreement’s provisions was leaked to Iranian and US newspapers that confirmed this large investment sum. Even when pressure was imposed on the spokesman for the Chinese Foreign Ministry Zhao Lijian regarding the total sum of Chinese investments, he declined to answer, according to his remarks published in The Diplomat. He said,

“The plan focuses on tapping the potentials in economic and cultural cooperation and charting course for long-term cooperation [...] It 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.”

The International Institute for Iranian Studies (Rasanah) has previously addressed the details of the agreement in its 2020 Annual Strategic Report. Here we briefly shed light on the most important details of the leaked agreement:

1. Providing China with a constant supply of oil for 25 years at reduced prices in return for Beijing investing \$400 billion in Iran in diverse fields, including infrastructure, especially investment in railroads and ports such as Chabahar and others.
2. Creating a special mechanism to aid banking transactions between the two countries in the Chinese currency (yuan), and helping traders who operate between the two countries.
3. The possibility of building oil depots on Chinese territories to stockpile or even re-export without the need to pay taxes.
4. Intelligence cooperation and developing information infrastructure for a 5G telecommunication network.
5. Working to make Iran the center point of the Silk Road's commercial route in the Middle East, instead of passing through the Arabian Peninsula.
6. Cooperation with Russia to connect the Sea of Oman and the Arabian Gulf with northern Europe via Azerbaijan and Russia, and the coast of southern Iran with the Baltic Sea.
7. Establishing gas and oil pipelines from southern Iran to the Mediterranean via Iraq, Syria, and Lebanon, connected to the Syrian port of Baniyas and the Lebanese port of Tripoli.
8. Military, defense, and security cooperation including training, research, and interaction on strategic issues.

### **III. The Agreement's Outcomes and Ramifications**

There is no doubt that there are several potential ramifications of this agreement for China, Iran, the United States, and the entire region, whether in the short or longer term in case China proves serious about implementing and abiding by the provi-

sions of the agreement. Some of these outcomes are as follows:

### **1.China's Gains**

The agreement undoubtedly enables China to make several gains in case it is implemented, mainly gaining more geopolitical clout in West and Central Asia, playing a bigger political role in the Middle East, countering US policies intending to contain it and curb its growing global role in the longer term. Some likened the recent Chinese moves to a Cold War. This is in addition to making new important economic gains within the framework of its “peaceful rise policy” and the influence it has gained from investing in economic projects.

On the other side, the agreement opens new markets for Beijing in Iran and its neighboring countries and gives it an impetus to carry out joint ventures. Its products will reach Central Asian markets and get quicker access to Europe.

The agreement will also help China to mitigate the geopolitical risks on its economy by allowing it to diversify the source of its oil in the Middle East, which meets about 60 percent of its oil needs. This is in addition to ensuring a steady supply of oil and petrochemicals at lowered prices and even a reduction in China's shipping costs if Iran builds oil depots on Chinese soil.

### **2.Iran's Gains**

Perhaps the most important gain for Iran from the agreement in the short run is having an influential ally in the international arena that will allow it to achieve a degree of equilibrium amid US efforts to isolate it. This is in addition to gaining China's support as one of the parties to the nuclear deal and prompting the United States to accelerate the pace of negotiations related to the nuclear deal, leading to the removal of sanctions which are crippling the country's economy. Regarding the economic aspects, Iran critically needs Chinese support, with Beijing over the past 10 years being Tehran's number one trade partner.



This partnership has deepened when international sanctions are imposed on Iran. Hence, Iran's Foreign Minister Mohammad Javad Zarif described China as "a friend for hard times" as mentioned earlier. China alone in 2020 imported a quarter of total Iranian exports. In the event of establishing special mechanisms to aid financial exchange, Iran's dependence on China will increase further. If China is serious about its commitments with Iran, Iran will reap important economic, political, and military benefits in the short and long term, such as:

A. Bilateral trade increasing between the two countries, which went down from \$52 billion in 2014 to about \$20 billion during the Iranian fiscal year 2020/2021. Amid this decline – mainly due to sanctions and a drop in oil prices – China remains the most important and largest partner of Iran. It imported 26 percent of Iran's total exports to the world during the 2020/2021 fiscal year. Oil and petrochemicals top the list of Iranian exports to China, with the latter being a sustainable market for selling these products.

B. A long-term development of Iran's infrastructure will ensure that it plays a significant role in regional trade for a long time. Iran developing Chabahar port and constructing railroads will allow it to reach out to neighboring countries such as Afghanistan and other Central Asian countries. In addition, because of investment in infrastructure, international investments will flow into the country, once US sanctions are lifted.

C. Expanding Iran's role in international "transit" trade, after joining the Silk Road project, and implementing plans to establish international corridors for the passage of goods from India, China, and Asian countries to Europe through its ports on the Arabian Gulf, passing via Iran, Azerbaijan, and Russia, and ending in Eastern Europe via high-speed trains. Therefore, Iran's ambassador to Moscow quickly rushed to exploit the crisis of

the stranded ship in the Suez Canal to promote investment in the so-called “North-South” corridor as a shorter and less expensive alternative. Nevertheless, the feasibility of this corridor has not yet been confirmed compared to Egypt’s Suez Canal.

D. Advancing Tehran’s qualitative military capabilities through its security, intelligence, and defense cooperation with a major superpower like China, thus acquiring Chinese weapons that can be used to support its proxies in the region, whether in Yemen, Syria, Lebanon, or Iraq. This means boosting Iran’s strength at the expense of the rest of the region’s countries.

### **3. The Agreement’s Impact on US Positions**

Obviously, the signing of the agreement between Iran and China is directly related to their current conflict with the Biden administration. It is a reaction to Biden’s hostile approach towards both Beijing and Tehran. Therefore, the recent alliance between Beijing and Tehran is a challenge to the Biden administration, while the United States seeks to mobilize its allies against China. Commenting on the agreement and the growing partnership between China and Iran, Biden said it “worried me for years.” The agreement offers the two parties an opportunity to confront US pressure and overwhelm Biden’s calculations and moves on the international scene. Thus US Secretary of State Anthony Blinken described it as “the biggest geopolitical test in the world.” It also undermines Washington’s global influence and standing in the region before the prospective nuclear negotiations with Iran.

Therefore, the signing of the agreement may speed up the process of settling differences with Iran over the nuclear agreement, although the Biden administration is extremely preoccupied with internal files and addressing the ramifications of the coronavirus pandemic. There is a prospect that such an agreement will encourage the Biden administration to seek another

means to strengthen its waning political influence in the world, and to assert its control over the global economy, before Washington loses its economic superiority to China.

#### **4. Ramifications on Regional Countries**

The Chinese-Iranian agreement will have economic, political and security ramifications on the Middle East, especially for the Gulf states and some Arab countries.

On the one hand, some provisions of the agreement may impact the commercial roles of regional countries, such as its provision that talks about making Iran a central hub for the Silk Road project instead of the Arabian Peninsula. The latter was and still is the main point on the Silk Road and now competes with other commercial corridors that are promoted by Iran.

On the other hand, Chinese-Iranian military cooperation poses a direct threat to the security and stability of the Gulf states and Arab countries, such as Iraq, Syria, Lebanon, and Yemen, and it might even cause an imbalance in regional military power. This may threaten the region's security and stability entirely, especially if Chinese weapons are sent to Iranian militias in the region, and international peace and security, if Chinese-Iranian cooperation reaches the level of exchanging nuclear knowledge, as some of the leaked provisions of the agreement indicate.

#### **IV. Challenges**

In spite of all the important aforementioned impacts whether for Iran, China or the global system as a whole, and the dangerous ramifications on the region, there are no guarantees that the two countries will proceed according to a fixed timetable nor meet the agreement's specific provisions, goals and projects. It is also unclear whether or not this agreement will have an impact on the US sanctions imposed on Iran. There is a high probability that the actual implementation of the agreement will be far less than expected. This is due to the fact that

many of the leaked provisions of the agreement fall within China's general policy towards the entire region, and not towards Iran in particular, and that China is trying to include Iran within its overall policy.

We found that China's investments in Iran between 2010 to 2020 amounted to \$18.2 billion. During the same period, China invested \$30.6 billion in Saudi Arabia, and \$29.5 billion in the UAE, meaning that China has invested highly in other regional countries, while Iran lags behind. China is trying to include Iran within the framework of its overall strategy for the Middle East.

In light of this, there are number of issues that need considering:

1. Ambiguity: there is ambiguity surrounding the agreement, perhaps intentionally done to raise its importance, or to provoke anxiety and apprehension. It is a move by Iran and China to pressure the United States to gain pressure cards in many other controversial files.

2. The lack of the "binding" nature of the agreement: it is a framework agreement that is not binding on the two parties, and will not be presented to the Iranian Parliament to approve, meaning that each party is able to cancel its commitment to this agreement when it is no longer needed, as was the case when it was proposed in 2016, and it also has no clear and measurable goals.

3. The nature of the Iranian political system: Iran has concerns about long-term binding agreements, especially economic ones, due to historical considerations and precedents with Britain and Russia before the 1979 revolution, and persistent fears related to foreign hegemony over its territories and resources. There are also growing internal protests against the agreement at the moment.

4. The impact of US sanctions: the impact of US sanctions on trade and economic relations between China and Iran is still tangible. Iran is still in need of trade and investment relations with the rest of the world. In other words, there is an urgent and dire need to lift the US sanctions on the Iranian economy as soon as possible.

5. The common political and economic interests between China and the Gulf states: the size of these interests cannot be overlooked, especially with the Kingdom of Saudi Arabia, which has more Chinese investments than Iran. It is also the largest supplier of oil and petrochemical products to China. Therefore, Beijing cannot part with Saudi Arabia, at least in the short term.

## **V. The Future of the Agreement**

In light of the opportunities and challenges facing the implementation of the agreement, it can be said that there are several possible scenarios; first, the possible activation of the agreement and its entry into force; second, freezing the agreement; finally, maintaining the current level of cooperation, with both countries taking into consideration their positions and the regional and international pressures.

### **1. Scenario of Activating the Agreement**

This scenario will happen if an understanding between the United States and Iran is not reached regarding a return to the nuclear agreement, and Iran continues to be frustrated with the Biden administration's conditions, and the US sanctions imposed on it are not lifted. As a result, Iran's economic crisis will be exacerbated. This will prompt Iran to activate the agreement with China, helping it to alleviate its internal crises.

Iran also needs China to balance US pressure, and to achieve a balance within the 4 + 1 group, to support its negotiating position, and to impede any Western demands in regard to modifying its regional behaviour and starting negotiations over its

ballistic missile program.

From China's perspective, the US withdrawal from the region is tempting it to strengthen its presence within the framework of its strategy to draw in other parties and move the confrontation with the United States away from its direct borders.

It is also important to mention here the geo-economic significance of Iran to China within the framework of its Belt and Road Initiative, which is competing with the US project in partnership with India to access to Central Asia and Europe. China also needs to secure additional, stable and cheap energy supplies from Iran.

The agreement gives the two parties important geopolitical advantages and economic benefits. This strengthens the trend towards activating it in the future, especially as Iran is aware of its mistake when it betted on opening up to the West, and wants to reassure China that it will not revoke their partnership in case the nuclear agreement is revived.

The two countries have ambitions to advance their influence regionally and internationally, and the agreement gives them mutual advantages to achieve this end. Therefore, they may be eager to activate the agreement and enter it into force.

## **2 .The Agreement as a Maneuver**

This scenario is strengthened by the internal opposition in Iran to the agreement, because it is inconsistent with one of the most important principles of Iranian foreign policy, which is the principle of independence, and the rejection of any foreign hegemony. China has worried some countries as its economic investments may lead to political leverage over them.

There are also domestic economic forces, such as the Revolutionary Guards) IRGC, (that have concerns about the economic influence of major powers such as China because this will be

at the expense of their share in the Iranian market .Therefore , they may undermine this agreement .The IRGC enjoys an influential political and economic status, and has access to decision-making institutions. This political influence may increase if one of its candidates wins the upcoming presidential elections.

In spite of the economic significance of the agreement, if US sanctions remain, it would be meaningless and deactivated, and they will impede the implementation of its provisions.

As both Iran and China perceive the agreement as a move to pressure the United States ,they are not going to activate the agreement if the move achieves its goal .After the nuclear agreement in ,2015 Iran prioritized European and even US investments ,especially in advanced industries such as aviation. At the same time ,it suspended the discussion of this agreement in ,2016 which can recur during the next stage .China definitely expects it.

### **3 .Partial Activation Scenario**

This scenario is strengthened by the steady growth of economic relations between the two countries ,and the close cooperation in a number of economic and commercial spheres .In some areas ,the agreement provides mutual incentives and common goals ,especially regarding the economic and commercial spheres ,but it will be difficult to implement its provisions regarding security ,military ,and strategic cooperation.

The two countries have an interest in oil exchange .Iran wants to diversify its exports if the sanctions are lifted ,and China wants to secure greater sources of energy .They also have an interest in completing plans for trade routes ,such as the Silk Road project and the Belt and Road Initiative ,because of their economic and geopolitical benefits for the two countries .In addition, China realizes that if it fully activates the agreement ,it

will ignite confrontation with the United States, especially if it decides to have a military role on Iranian soil. This is in line with China's current foreign orientations — which are based on spreading its influence through the economy, avoiding any political and military confrontation, and competing for the leadership of the world order — the agreement will focus on developing current relations between the two countries, and will avoid provoking regional states, with which China has important economic and political relations. In light of this, the two countries will likely make sure not to expand the level of their partnership beyond a certain limit, due to internal and geopolitical considerations. They also will not allow any regression in their relations because each party has common interests that need to be advanced. Therefore, both countries will be guaranteed mutual benefits without incurring additional costs.

## **Conclusion**

It can be said that although it has reduced its presence in the region, the United States is still the most influential power, and it takes into account the moves of China and Iran. Probably, before the agreement enters into force, there will be a move to test US reactions. In this case, the two countries would be satisfied with merely reaching their mutual goal; achieving a balance against US pressure, given the fact that the agreement does not include a binding clause on any party. Or they would only activate some aspects of the agreement, within the framework of growing relations especially regarding economic and trade aspects, including energy projects and trade routes.

In all cases, however, this agreement is an important step within China's quiet steps to play greater political and economic roles in the Middle East and the world. Therefore, it is of great importance for Arab countries to take measures in advance against the economic, political and security challenges that such



a qualitative Chinese-Iranian rapprochement may pose due to the dangers of Iran's external ambitions —which are stated in the Iranian Constitution.

