

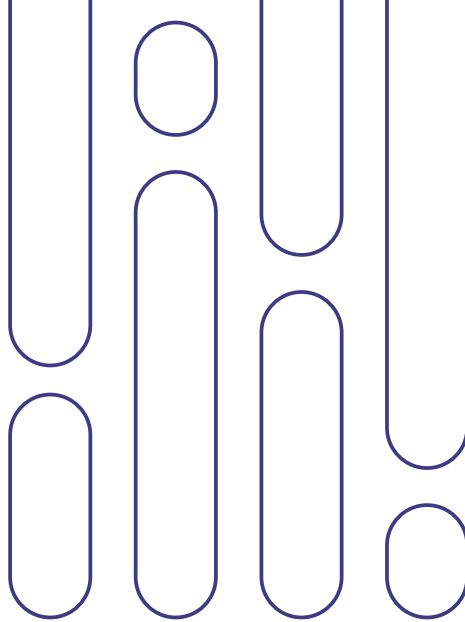
POSITION PAPER

Assessing the Iranian President's Visit to China: Timing, Objectives and Outcomes

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RASANAHA
المعهد الدولي للدراسات الإيرانية
International Institute for Iranian Studies



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Iranian President Ebrahim Raisi made a three-day visit to China on February 14, 2023. During the visit, Raisi and his accompanying delegation—which included the ministers of oil, finance, industry, economy, agriculture, roads and housing and foreign affairs as well as the Central Bank chief and Iran’s chief negotiator — met with the Chinese president and senior Chinese economic and political officials. They also met with Chinese businesspeople.

The visit aimed to achieve several mutual political and economic objectives. The political and economic significance of the visit was reflected through the fact that the majority of Raisi’s delegation consisted of economists. Hence, we will discuss in this position paper the importance of the visit in terms of the timing and significations. The paper will then touch on the political and economic objectives and dimensions of the visit as well as examine and analyze its outcomes to measure how far China will respond to Iranian demands considering their dimensions.

The Circumstances Surrounding the Visit and Its Timing

It is reported that Raisi’s visit came upon an invitation from his Chinese counterpart Xi Jinping. The visit does not appear to have been scheduled, as such visits are typically announced far in advance, with plenty of time, often months, to plan for the visit, prepare issues to be discussed and memorandums of understanding and agreements to be signed by both parties. This was not the case during Raisi’s visit to China. It was announced as a surprise visit, which is crucial when assessing the visit and its outcomes. The following discusses the most important aspects of the visit as well as the surrounding circumstances and timing:

- **Strained relations between China and Iran:** The visit came at a time when Sino-Iranian relations are strained against the

backdrop of the Chinese president's historic visit to Saudi Arabia in December 2022. This visit laid the foundations of a new era in relations between Riyadh and Beijing marked by strategic transformations. The visit led to outcomes that were of a strategic nature, throwing Tehran's calculus into confusion. Therefore, against this backdrop, perhaps Beijing through the visit of Raisi, wanted to reassure Tehran that it is still an important partner that should contribute to achieving security and stability in the Middle East, a strategic region for China, a global superpower strongly rising on the global stage. The Chinese aim is of course to ensure protection of critical waterways and trade routes through which strategic commodities pass to China.

Iran was angered by the China-GCC Summit's concluding statement which included a message to Iran to suspend its activities undermining security and stability in the region. Other parts of the statement blamed Iran for the regional disputes, the spread of violence and sectarian and terrorist groups and threatening the security of international trade and navigation. The statement reiterated that China and the Gulf states must repel threats to international navigation and trade routes as well as stand up to sectarian and terrorist activities and work to thwart all means of support provided to sectarian groups and illegal armed proxies. This is in addition to Sino-Gulf cooperation in the fields of preventing the proliferation of ballistic missiles and drones as well as working to ensure the safety of international navigation routes and protecting oil facilities.

Iran's anger at China further mounted as a result of the provision in the concluding statement supporting Emirati efforts to reach a peaceful settlement to the issue of the three occupied islands: the Greater Tunb, the Lesser Tunb and Abu Musa via the diplomatic path and in accordance with international norms. Iran vehemently opposed this proposal, insisting that the three

islands are an integral part of Iranian territories and non-negotiable. This Chinese position prompted Iran to summon the Chinese ambassador to Tehran and inform him of its deep resentment of the content of the summit's concluding statement. Iran reiterated that the three islands are under Iranian sovereignty, considering the statement's provisions as null and a manifestation of the Iranophobia policy.

• **Pressurized international and internal circumstances:** The visit came at a time when the two countries, heavyweights in their respective East Asian and Middle Eastern regions, are dealing with highly sensitive internal, regional and international circumstances as well as tensions with the West due to a number of outstanding issues. This is in addition to the strong Sino-Iranian mutual desire to build and deepen the Russia-China-Iran axis to counter the Western camp, bolstering the Asian camp that is antagonistic to Washington's policies and dictates at the global level. The three countries, China, Russia and Iran, embrace an identical vision of establishing a multipolar global order to challenge the United States' uncontested hegemony over the international order.

Regarding Iran, the visit occurred at a very sensitive time, notably economically, as a combination of domestic and external factors have aggravated the Iranian economic crisis. These factors include US sanctions, the ramifications of the coronavirus pandemic, the Russia-Ukraine war and domestic unrest. The Iranian government is burdened by a vast and growing fiscal deficit as well as limited oil revenues. Iran's trade balance with its commercial partners went from a surplus to a deficit, causing the local currency's value to plummet. Iran cannot access all of its frozen assets in order to ease its financial squeeze. The country is also suffering from slowing economic growth and rising inflation rates that have reached record levels, putting

additional pressures on the majority of Iranians and pushing millions into poverty.

Protests have erupted in response to the deterioration of living conditions. Due to the strains of Western sanctions and pressures exerted as a result of Iran's nuclear and missile ambitions, these protests have put enormous pressure on the Iranian government. Furthermore, Iran's ties with the West are at an all-time low due to the latter's charges that Tehran supplied Russia with drones in its war on Ukraine, a war that Moscow has so far failed to resolve in its favor, with Iran also failing to achieve its objectives. Iran has also accused Ukraine and Israel, both backed by the United States and Europe, of carrying out a series of bombings in Isfahan targeting sensitive military facilities. The West has also discontinued nuclear negotiations with Iran, dashing its hopes of selling more energy to help revitalize an economy already ravaged by sanctions. The talks between Riyadh and Tehran have also failed to move forward, stalling at the fifth round.

Since 2019, China has become Iran's most important economic variable. It has become Tehran's sole outlet in the face of the international siege imposed on it given that Beijing has been Tehran's biggest trading partner since the reimposition of sanctions on it. It is also the most important and biggest purchaser of Iranian crude oil and petrochemicals. It is the country most capable of helping Iran circumvent the sanctions to sell both its oil and non-oil products.

As for China, it is facing complicated global challenges against the backdrop of tensions with the United States at the commercial, military, security and technological levels. There is a crucial battle between the two over global leadership and the nature of the global order. This competition mounted to the brink of war over Taiwan in 2022. Perhaps one of the episodes of this com-

petition is the recent crisis sparked by the Chinese spy balloon which caused the cancellation of US Secretary of State Antony Blinken's visit to Beijing. The United States also constantly levels stinging criticisms against China for not condemning Russia for the war it is waging on Ukraine. Washington also criticizes Beijing's pursuit to replace the monopolar global order with a multipolar order that grants it a bigger role in influencing international affairs. China also believes that Iran has a growing desire to strengthen and deepen its ties with Russia, which Beijing regards as a strategic partner.

China benefits greatly from its quasi-monopoly trade relationship with Iran, obtaining considerable price cuts, particularly on energy pricing. This is important in the context of China abandoning its zero-COVID policy that recently provoked domestic protests and attempting to reinvigorate its economy. Iran is aware that China needs its support for its transboundary Silk Road project. Perhaps Iran is planning to use its proxy militias in the Middle East to secure the Silk Road. Or maybe China realizes that Iran is part of the strategic project to secure energy, not to mention its important geopolitical position as well as its security significance for Beijing in addressing security threats in Central Asia, Afghanistan and the member states of Shanghai Cooperation Organization (SCO). However, it is important to note that the Chinese position no longer relies on Iran solely. There are other regional powers with whom China could deal with to ensure the security and safety of international navigation and trade routes such as Saudi Arabia. Riyadh's significance for Beijing increased after the two countries signed a strategic partnership agreement. Saudi Arabia possesses potential and resources enabling it to play a powerful and influential role in regional and global affairs.

Economic Objectives

The economic objectives of the Iranian president's visit to China are salient given the nature and composition of his accompanying economic delegation. The delegation included the ministers of economy, oil, industry, trade and mines, agriculture, roads and housing and the Central Bank chief. Iran sought to achieve several economic objectives through the visit. Primarily, Iran aimed to bring into force the 25-year Strategic Cooperation Agreement signed in 2021. No clear schedule was put forward for the implementation of this agreement. The agreement provides comprehensive guidelines for carrying out Chinese investments totaling \$400 billion over a quarter of a century in energy, infrastructure, transportation, defense and other key industries in exchange for importing Iranian energy resources with exclusive benefits for China.

The Chinese policy pursued in recent months to enhance ties, particularly economic ones, with Arab countries, raised concerns among Iranian officials that this would lead Sino-Iranian relations to decline at the political and economic levels to the benefit of Arab capitals. These concerns were against the backdrop of the comprehensive Strategic Cooperation Agreement between Iran and China not coming into force. It was expected that the implementation of this agreement's provisions would top Raisi's priority list in discussions with Chinese officials.

In the medium and long run, the visit aimed to accelerate and encourage the commencement of Chinese investments and for China to fulfill the promises it made two years ago to revitalize the growth of the slowing Iranian economy. This aim is against the backdrop of the departure of foreign investments from Iran over the past years. This capital flight has caused a severe shortage in production inputs and a rise in local and import prices including the prices of consumer items, automobiles, spare parts

and oil/gas production. The result of investment shortages was felt when gas supplies to Iranian petrochemical plants — one of the major Iranian industries — were cut off two months ago to cover household consumption.

In the short run, the Iranian market badly needs Chinese commodities and Iran needs China for selling its besieged oil. China is Iran's largest foreign supplier of goods as well as its top purchaser of oil and petrochemicals, having spent more than \$40 billion in the last two years. Trade between the two countries has reached \$25 billion in the past 10 months alone. However, this significant trading relationship comes at a high cost for Iran. Because of the sanctions, it cannot collect its export revenues in dollars, and it is compelled to exchange cash or barter with imports, and its money may accrue abroad.

Maybe this is one of the reasons why the Central Bank chief was among Raisi's accompanying delegation during his visit to China. He was perhaps there to lay the foundations for the execution of banking exchange between the two countries in a currency other than the US dollar such as the Chinese yuan. At the same time, this corresponds with Chinese ambitions to expand global exchange using the yuan. It also helps Iran circumvent US sanctions on the other side. China took a similar step with Russia in trade and investment deals months ago. On the other hand, with China's backing, Iran aspires to join eastern and Asian economic blocs competing with the US-European blocs such as the BRICS bloc. China had previously backed Iran's membership in the SCO.

Political Objectives

- **Restoring relations that were strained after the China-GCC Summit:** Raisi's visit to China occurred after relations between the two sides suffered tensions last December. Iran was angry at the content of the China-GCC Summit's conclud-

ing statement hosted by Riyadh. Iran is attempting to restore momentum in the deep-rooted ties between the two countries and ensure continued close bilateral cooperation. This effort is particularly significant given the economic pressures facing Iran and the stalled nuclear talks and the need to mitigate the internal pressures that the Iranian government is facing.

- **Ensuring continued Chinese support for Iran's nuclear issue:** The concluding statement of the China-GCC Summit, hosted by Riyadh in December 2022, called on Iran to engage in comprehensive dialogue involving the region's countries to address the nuclear issue. It also called on Iran to cooperate with the International Atomic Energy Agency (IAEA) to move forward with the nuclear talks which have stalled since August 2022. These Chinese calls raised the concerns of the Iranians about the possibility of Beijing's support for the nuclear talks declining. This prompted Iran to attempt to restore ties to the levels reached before the recent tensions, thus ensuring continued Chinese support for its nuclear program.

- **Formalizing Iran's membership in the SCO and securing Chinese support for joining BRICS:** Chinese support for Iran in joining regional organizations was one of the top issues on the visit's agenda. Sixteen years after Iran joined the SCO as an observer, the organization's member states, in the summit hosted in the Tajik capital Dushanbe, agreed in 2021 to grant Iran full membership. Iran hopes that China, together with Russia, will play important roles in activating its membership in this organization. Iran seeks to achieve its desired objectives of boosting trade and economic collaboration, transit for commodities, and military and security cooperation. By doing this, Iran seeks to get out of its crippling economic crisis which prompted the Iranians to stage anti-government protests, enhance its international legitimacy, end the international isolation and coun-

terbalance its ties with the West which have been significantly damaged by the stumbling nuclear talks and the government's human rights violations.

On the other hand, in 2022, Iran applied to join the BRICS bloc of emerging economies, which includes Brazil, Russia, India, China and South Africa. Iran appears to be intensifying diplomatic discussions with member states, particularly China given its influential role in the organization, ahead of the 15th BRICS Summit, which will be held in Durban, South Africa, from August 22 to August 24. The summit is expected to discuss allowing Iran and other countries to join it.

Current Gains and Future Challenges

Through this visit, Iran hopes to secure temporary reprieve from the sanctions that are crippling its economy and causing domestic unrest. It aims to make some economic and commercial gains while also reaping some significant economic and political benefits in the short and long term, including:

- **Easing tensions that followed the Chinese president's visit to Saudi Arabia and the Gulf states:** The Chinese president's visit to the Gulf states infuriated Iran because of the latent Chinese positions that Tehran interpreted as Beijing's support for the Gulf states' positions. The visit will not affect Beijing's strategic partnership with the Gulf states, however, it may restore normalcy in relations between China and Iran.
- **Securing Chinese support for Iran in the nuclear talks:** Iran will receive Chinese backing, whether in the face of the pressures from the IAEA, an organization Beijing views as biased toward the Western position on the nuclear issue. China feels that the United States is to blame for the collapse of discussions and the demise of the nuclear accord from the start. It is worth noting here that international developments have

overshadowed China's support to Iran as siding with Tehran is linked to strategic international rivalry with Washington.

- **Cooperation to curb the impact of US sanctions at the global level:** There is a common interest between the two sides: mitigating the impact of US sanctions and restricting Washington's ability to punish countries via its sanctions tool. In this context, China could take further measures to enhance financial transactions in local currencies. Cooperation could also extend to offer support for Russia to achieve the same end.

- **Maintaining the joint interest of keeping the flow of Iranian oil to China despite sanctions and pressures:** China is still Iran's most important and biggest trading partner in the field of oil and petrochemicals despite the sanctions. In light of the global polarization resulting from the Russia-Ukraine war, and Russo-Iranian competition for achieving the biggest share of oil sales to China, Tehran seeks to keep China as an economic artery for the Raisi government, given that the United States put pressure on China earlier in the year to comply with the sanctions imposed on Iranian oil sales. It is also imposing more sanctions on Chinese firms involved in the sale of Iranian oil. Iran fears that China could yield to US pressures and reinstate maximum restrictions on its oil exports, deepening the country's internal crisis.

- **Enhancing the policy of turning eastwards and securing support for Raisi at home:** The visit aimed to secure more support for Iran's trajectory to integrate into regional and international blocs such as the SCO and BRICS. China is determined to integrate Iran into these blocs as a major regional power in the face of the United States and the West. There is no question that this could help secure more internal support for Raisi at a time when his legitimacy is facing a hard test.

While both countries anticipated that the visit would result in

geo-economic dividends, there are some critical challenges, including:

- **Continued difficulties facing the activation of the Strategic Cooperation Agreement:** The visit was intended to explore steps to activate the agreement, but there are factors that have prevented cooperation in this context. US sanctions and the volatile internal situation in Iran as well as China's attempt to balance relations with both sides: Iran and the Gulf states, have curbed China's desire to activate the agreement with Iran. Following the conclusion of the visit, Iran's Fars news agency said that the visit resulted in a decision to follow up on and accelerate the execution of the agreement as well as to deepen political and economic relations between the two countries. It also stated that the two sides signed 20 memorandums of cooperation and understanding. Communications, information technology, safety and the environment, as well as agriculture, energy, intellectual property and international trade were among the fields covered in these agreements.

The statement was strikingly concise; it does not really reflect the significance of the presidential visit considering that there was a high-ranking presidential delegation attending from Iran. The official final statement made no mention of the two countries' signing of special commercial or banking agreements. Nor did it mention the signing of investment agreements with industries that need urgent attention such as the gas, automobile and spare parts sectors. Moreover, the statement did not announce new Chinese investments in Iran according to specific schedules to accelerate the implementation of the agreement or boost bilateral economic ties.

The visit's outcome reminds us of the media uproar generated by the 2021 agreement struck with China. The agreement, which would be significant if implemented, has yet to be put in

place, despite Iran's high hopes that it will help Tehran escape the Western economic siege and rebuild the economy. Yet, two years after the agreement was signed, the reality shows that implementation has yet to begin. Furthermore, there was no contractual framework in place to facilitate Chinese investments in Iran. Meanwhile, China has focused on doing what is best for its own interests first and foremost, making use of its economic advantage over Iran's weak position to increase Iranian oil purchases with price cuts in exchange for exporting its products to Iran.

Since the agreement was signed, China has done nothing to invest in Iran. It even withdrew some investments (the development of the Nam-Avaran oilfield). Russia was the country with the largest proportion of foreign investments in Iran during Raisi's first year in office, with \$2.7 billion invested in oil projects. According to the Chairman of Iran's Investment Organization Ali Fakhri, it was followed by the UAE. Meanwhile, China was ranked sixth with \$162 million dollars. These investments were devoted to projects that would be re-exported to China, resulting in a very low investment rate compared to Afghanistan, which had larger investments in Iran amounting to \$223 million and ranked third.

As a result, there is nothing that reflects China's commitment in carrying out the massive economic promises made two years ago. Meanwhile, China has benefited from the Western blockade on Iran by stockpiling oil, which has enriched the Iranian government's coffers. Yet, it did not reinvigorate the economy with the necessary investments in crucial industries mentioned in the \$400 billion agreement. Despite a major visit to China, Iran has yet to reap the benefits of this agreement. Accordingly, the visit is nothing more than an attempt to relieve significant popular pressure on the Iranian government as a result of the

deteriorating economic and living conditions.

- **Internal doubts about China:** There are still concerns and fears about the heavy reliance on China. There are also fears on the Iranian street that the Iranian government may make huge concessions to China with the aim of easing the pressures and isolation experienced by Tehran as a result of Western sanctions. Yet, there is diminishing trust in China given that Beijing on several occasions backed the imposition of sanctions on Iran as a result of its nuclear program. This is in addition to the Chinese practices of cancelling agreements and avoiding others for fear of US sanctions and its preference for Iran's rivals in important fields such as oil and gas. This makes the Iranian government's overtures toward China the subject of increasing criticism at home.

- **China's response to US pressures:** China is not willing to show defiance to the United States on several issues, including Iran and Russia. On the contrary, China may use this issue as a bargaining chip to get concessions regarding other more important issues. China, despite its standing and strength, cannot sacrifice its interests in the US-led global order's structure. It fears that its relations with Iran could cause damage to its common interests with the Gulf. In addition, Iran's behavior sometimes poses a threat to stability and China's interests in the region.

- **Iran's inability to pursue a balanced foreign policy between China and Russia:** Though both China and Russia are of utmost priority for Iran's foreign policy — as part of the “turning eastwards” strategy — Tehran has been unable to create the balance required for political, economic and commercial ties with Moscow and Beijing, its two partners in this strategy. The developments in Ukraine and the significant rapprochement between Tehran and Moscow played a major role in boosting Iran-Russia relations compared to Iran's relations with China.

• **The Chinese priority when striking a balance in its relations between Iran and the Gulf states:** China does not intend to abandon the strategy it pursues with regard to its relations with the Gulf states and Iran. The Chinese economy intermingles with the economies of regional countries, most prominently the Gulf economies. The Chinese president's visit to Saudi Arabia last December reflected this orientation. Economic realities also show that there is a decline in Chinese investments in Iran. China has also sought to bolster cooperation and expand trade and economic ties with the Gulf states, with less economic involvement with Iran. In 2021, it signed investment agreements worth \$514.3 million. During the Chinese president's recent visit to Saudi Arabia, the two countries signed agreements worth over \$30 billion. Beijing also signed gas import agreements with Qatar, which indicates that potential Chinese investments in Iran may face several hurdles and challenges.

Raisi's visit to China was a surprise, unannounced and unscheduled — as well as coming after strained relations between the two countries against the backdrop of the China-GCC Summit's concluding statement. Hence, the visit was more symbolic in nature rather than holding any real substance. Despite the Chinese promises to Iran and the memorandums of understanding signed between the two sides, it seems that problems and hindrances that prevented relations from developing over the past few months remain unresolved. This renders the visit merely an attempt by the Iranian government to ease the massive internal and external pressures it is facing due to deteriorating economic and living conditions as well as human rights violations. Yet the government seeks to repair ties with China following the tensions caused by the China-GCC Summit's concluding statement. Finally, Iran sought through this visit to obtain reassurances from China that it will continue supporting it on dif-

ferent issues. However, the Chinese strategy recognizes Iran's vital position within its ambitious project to connect China to the world.

