



PERSPECTIVES

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Roadmap for a Chinese-Iranian Strategic Partnership

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EXECUTIVE SUMMARY: Relations between Iran and China go as far back as the ancient Silk Road – but despite the recent establishment of a formal comprehensive strategic partnership between the two, Beijing’s economic, political, and strategic interests remain too complex and self-contradictory to permit a close alignment with Tehran. In the post-JCPOA era, China is likely to remain Iran’s top economic partner in the coming years, but it is a mistake to overestimate the Sino-Iranian partnership. The US’s anti-Iran policy and the sanctions that accompany it could prevent the emergence of a more solid partnership.

The People’s Republic of China and the Islamic Republic of Iran recently [established](#) a comprehensive strategic partnership encompassing trade, energy, and production capacity cooperation. This partnership has historical ties that trace all the way back to the ancient Silk Road, and it reflects mutually complementary economic and political interests.

In January 2016, shortly after the Joint Comprehensive Plan of Action (JCPOA) was implemented, Chinese president Xi Jinping made a successful visit to Iran during which the heads of state agreed to establish a comprehensive strategic partnership. Xi stressed that both countries are natural partners as far as the implementation of the Belt and Road Initiative is concerned. Seventeen cooperation documents centered around the new Silk Road were signed in the areas of science, technology, communications, transportation, energy, and other fields. The two sides agreed to develop a 25-year roadmap for the strategic partnership and to increase trade to \$600 billion over the next 10 years. (The programs [discussed](#) in these documents are yet to be fully operational.)

In May 2018, President Trump [announced](#) the US’s withdrawal from the JCPOA, setting in motion the re-imposition of secondary sanctions on Iran. Sanctions resumed

in full in November of that year. Washington's decision to withdraw from the pact and to re-impose sanctions created barriers in the new Sino-Iranian trade dynamic.

Officially, China said it would maintain normal economic and trade exchanges with Tehran despite Trump's decision. As Xi declared, "No matter how the international and regional situation changes, China's resolve to develop a comprehensive strategic partnership with Iran will remain unchanged." However, [according to data](#) from the General Customs Administration of the People's Republic of China, trade between the two countries fell dramatically in the two months following the re-imposition of US secondary sanctions.

In February 2019, Xi welcomed a delegation that included Iran's FM, oil minister, and parliament speaker, and conveyed to them his desire to boost ties with Tehran. He spoke of the enduring friendship between the two countries and said China's determination to develop its comprehensive strategic partnership with Iran will remain unchanged despite global and regional shifts. Xi [called](#) on both sides to deepen trust, communication, and coordination; increase cooperation on security and anti-terrorism; and improve cultural exchanges.

In August 2019, Iranian FM Muhammad Zarif presented a road map to his Chinese counterpart on how to update the strategic partnership. The roadmap encompassed a 25-year deal that foresees \$400 billion of Chinese investment in Iran. Though this road map represents a potentially material shift in the global balance of the oil and gas sector, many of its key specifics are not being released to the public.

[According to the *Petroleum Economist*](#), the deal's central pillar is a \$280 billion Chinese investment in Iran's oil, gas, and petrochemicals sectors. This amount could be front-loaded into the first five-year period of the deal, with the understanding that more money would be available in every subsequent five-year period subject to the parties' agreement. There would be another \$120 billion Chinese investment in upgrading Iran's transport and manufacturing infrastructure, which similarly could be front-loaded into the first five-year period and added to each subsequent period.

The updated agreement also includes benefits for Chinese companies operating in Iran. Chinese firms would be given first refusal to bid on any new, stalled, or uncompleted oil and gas field developments. They would also have first refusal on opportunities to become involved with any petrochemicals projects in the country, including the provision of technology, systems, process ingredients, and personnel.

Significantly, the updated agreement includes the provision of up to 5,000 Chinese security personnel on the ground in Iran to protect Chinese assets. There would be additional personnel and material available to protect the eventual transit of oil, gas, and petrochemicals supply from Iran to China, where necessary, including through

the Persian Gulf. China would also be able to buy any oil, gas, and petrochemicals products at a minimum guaranteed discount of 12% to the six-month rolling mean price of comparable benchmark products, plus another 6-8% of that metric for risk-adjusted compensation.

Under the terms of the new agreement, China would be granted the right to delay payment for Iranian production for up to two years. China would also be able to pay in soft currencies or in renminbi, meaning no US dollars will be involved in commodity transaction payments from China to Iran. China's close involvement in the build-out of Iran's manufacturing infrastructure would be within the context of its One Belt, One Road initiative.

The \$400 billion deal comes in parallel with Iran's rejection of an offer of a \$15 billion loan from Europe in return for the country's commitment to the nuclear deal – a signal that Iran is not dependent on the West as long as there is a Chinese option.

The \$400 billion deal could mark a significant change in Chinese foreign policy and the principle of non-intervention. The updated agreement violates the American unilateral sanctions against the Islamic Republic. At a time when Washington is trying to squeeze Iran's exports out of the oil market, the deal would amount to an act of defiance of the US.

It is important to note that the deal has only been approved by Iran and has been denied by Beijing. Chinese FM spokesperson Geng Shuang [said](#), "I'm not aware of what you said and don't know where you got such information. What I can tell you is that China and Iran enjoy friendly relations and our two countries conduct friendly and mutually beneficial cooperation in various fields within the framework of international law."

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