



The China-Iran Deal: A Trial Balloon with a Clear Message

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EXECUTIVE SUMMARY: Hobbled by harsh US sanctions and a global economic downturn, Iran has discovered a new weapon: hot air in the form of a cooperation deal with China that carries messages to its opponents. China, albeit far less economically impaired, sees virtue in this arrangement too.

A proposed 25-year humongous China-Iran cooperation deal has proven to be good business. Reams of articles, analyses, and commentary by pundits are ensuring that the two countries' messages are delivered loud and clear.

Beijing and Tehran have provided evidence to keep the story alive: Numerous agreements signed by Presidents Xi Jinping and Hassan Rouhani during the Chinese leader's visit to the Middle East in 2016 would, if implemented, expand economic relations between the two countries by a factor of 10 to \$600 billion and significantly enhance military cooperation.

Those agreements, which signaled a potential Chinese tilt toward Iran, were concluded at a time when a significant easing of US sanctions against Iran was anticipated as part of the 2015 international agreement, which curbed Iran's nuclear program.

Those hopes were dashed when President Donald Trump pulled out of the agreement in 2018 and re-imposed crippling sanctions. China has since by and large abided by the US restrictions.

Iran appeared this month to put flesh on the skeleton of a Beijing-Tehran deal by leaking a purported final draft of a sweeping 25-year partnership

[agreement](#) that envisions up to \$400 billion in Chinese investment to develop Iran's oil, gas, and transportation sectors. The problem is that there is nothing final about the draft. It is little more than a trial balloon.

That is just fine as far as Tehran and Beijing are concerned, even if both would like to cooperate on a far grander scale if geopolitical circumstances permitted it. For now, there remains a long negotiation path to the conclusion of an agreement. It is certainly not yet ready for implementation.

That does not mean that there is no upside to be had immediately, however.

By fueling talk of an imminent agreement, Iran is signaling Europe and a potential Biden administration after the US November presidential election, American and European policies might drive the Islamic Republic into Beijing's arms. It also allowed Iran to take a swipe at Saudi Arabia by suggesting that when the chips are down, it will be Tehran, not Riyadh, to which China will turn.

China capitalized on Iran's hot air by amplifying its messages toward the US and the kingdom. Officially, China limited itself to a non-committal on-the-record reaction and low-key semi-official commentary.

FM spokesman Zhao Lijian, an exponent of China's newly adopted more assertive approach to diplomacy, was exceptionally tactful in his [comment](#). "China and Iran enjoy traditional friendship, and the two sides have been in communication on the development of bilateral relations. We stand ready to work with Iran to steadily advance practical cooperation," Zhao said.

Writing in the *Shanghai Observer*, a secondary Communist party newspaper, Middle East scholar Fan Hongda [argued](#) that an agreement, though nowhere close to implementation, highlights "an important moment of development" at a time when US-Chinese tensions have allowed Beijing to pay less heed to American policies.

In saying this, Fan was echoing China's warning that the US was putting much at risk by ratcheting up tensions between the world's two largest economies and could push China to the point where it no longer regards the potential cost of countering US policy as prohibitively high.

China's response also amplified its message to the Gulf States. Scholars with close ties to the government have suggested that the economic downturn, which affects China's economic ties to the region, could persuade Beijing to

further limit its exposure if the Gulf States fail to find a way to come to grips with Iran in a way that would dial down tensions.

“For China, the Middle East is always on the very distant backburner of China’s strategic global strategies ... COVID-19, combined with the oil price crisis, will dramatically change the Middle East. [This] will change China’s investment model in the Middle East,” [said](#) Niu Xinchun, director of Middle East Studies at China Institutes of Contemporary International Relations (CICIR), widely regarded as China’s most influential think tank.

In July, in an interesting twist that could signal China’s appetite to play the Iranian card soon, Iran dropped India as a partner in the development of a rail line from its Indian-backed deep-sea port of Chabahar because of delays in Indian funding. The Trump administration had exempted Chabahar from its sanctions regime.

Iranian transport and urban development minister Muhammad Eslami recently inaugurated the track-laying for the first 628 kilometers of the line, which will ultimately link Chabahar to Afghanistan. Iranian officials said Tehran would fund the rail line itself, but both China and Iran have expressed an interest in linking Chabahar to Gwadar, the Chinese-backed Arabian Sea port, some 70 kilometers down the coast in Pakistan. The economic downturn as a result of the pandemic has revived [doubts](#) about the viability of Gwadar, a crown jewel of the approximately \$60 billion China Pakistan Economic Corridor (CPEC), China’s single largest BRI-related investment.

In an indication that the US does not see a potentially game-changing China-Iran deal as imminent, the Trump administration has stuck to its long-standing policy so far.

“The United States will continue to impose costs on Chinese companies that aid Iran, the world’s largest state sponsor of terrorism,” said [a US State Department spokesperson](#).

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