Iran’s Ties with China: Synergising Geoeconomic Strategies

Deepika Saraswat

The Iranian Studies Unit
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Deepika Saraswat is an Associate Fellow at the West Asia Center, Manohar Parrikar - Institute for Defence Studies and Analyses, New Delhi. Her research interests include Iran's geopolitics in Middle East and Eurasia, geopolitical imaginations and the interpenetration of religion and politics in postcolonial contexts. Saraswat has a PhD in Political Geography from the Centre for International Politics, Organization, and Disarmament, Jawaharlal Nehru University, New Delhi. Her doctoral thesis was published as a book titled Between Survival and Status: The Counter-hegemonic Geopolitics of Iran in 2022 by the Indian Council of World Affairs and Macmillan Education. She was a Research Fellow at the Indian Council of World Affairs from March 2018 to November 2021.

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The Arab Center for Research and Policy Studies
Al-Tarfa Street, Wadi Al Banat
Al-Dayaen, Qatar
PO Box 10277, Doha
+974 4035 4111

www.dohainstitute.org
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The Islamic Republic of Iran has approached China’s rise and the ongoing systemic shift in the global political economy from Euro-Atlantic towards Asia with optimism. While it celebrates the fraying of the post-Cold War US-led liberal international order that brought US military interventions in the Middle East and decades long isolation of Iran, it’s ‘Look to the East’ policy, first introduced under President Mahmoud Ahmadinejad (2005-2013), prioritises deepening of long-term bilateral and multilateral partnerships with major non-Western powers. More recently, the ‘Asian orientation’ in Iran’s foreign policy and economic diplomacy has received a boost following the unilateral US withdrawal from the Joint Comprehensive Plan of Action (JCPOA) or Iran nuclear agreement in May 2018 and the onset of conservative presidency of Ebrahim Raisi in August 2021.

Unsurprisingly, the developments in Iran-China relations, especially in the wake of Iran and China signing a 25-year strategic cooperation agreement in March 2021, have been securitised not only by analysts and officials in Washington but also observers elsewhere.¹ China’s continued purchase of Iranian oil in defiance of the US sanctions and growing defence cooperation with Iran is seen not only as “undercutting the effectiveness of the US sanctions” against Iran, but aimed at challenging the US leadership in the Middle East.² As Vienna talks sought to revive Iran nuclear deal remain stalled, the US Senate passed with super-majority a ‘motion-to-instruct’ sponsored by Republican senator Ted Cruz, seeking a report from the government on terrorism-related sanctions on Iran saying that such sanctions are necessary for limiting cooperation between China and Iran.³ On 25 May, the US Department of Treasury announced a new round of sanctions targeting what it labelled as an ‘international oil smuggling and money laundering network’ being run by the IRGC officials including former IRGC general and Iran’s Transport and Urban Development minister Rostam Qasemi. It also designated Hong Kong-based energy company China Hokum Energy Limited to purchase Iranian oil from the IRGC.⁴

This paper elucidates the geoeconomic and geopolitical drivers of Iran’s pursuit of long-term strategic cooperation with China. In doing so, it seeks to demonstrate that notwithstanding the narrative of growing Iranian dependence on China, Iran’s China outreach is framed as a subset of a broader Iranian geoeconomic strategy in the region. It also argues that while seeking a long-term partnership with China, as envisaged by 25-year strategic cooperation agreement, Iran is committed to pursuing diversity in partnerships to maximise the opportunities for raising Iran’s geoeconomic standing in the region. Strikingly, President Raisi at the SCO summit in September 2021 argued that key infrastructure projects of the “One Belt-One Road Initiative, the Eurasian Economic Union and the North-South Corridor are not competitors, but complement each other. Iran is the link between

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the above three infrastructure projects.” While, India-Iran relations remain impeded by unilateral US sanctions, Iran’s relations with China and Russia have maintained an upward trajectory, not least for their symbolic value in presenting a united stance against the US unilateralism. This paper, however, limits itself to a discussion of the growing Iran-China partnership in context of Iran’s regional geoeconomic strategy and briefly elaborates on the growing defence cooperation between Iran and China.

Geoeconomic Drivers of Iran-China Partnership

For decades, notwithstanding Iran’s crossroad location between Asia and Europe, its geoeconomic potential has remained unrealized because of the US policy of containing Iran’s economic and geopolitical influence. Thus, in China’s Belt and Road Initiative (BRI), which seeks to promote transcontinental connectivity and a global economic system outside Washington’s control, Iran sees a great opportunity to attract Chinese investment in transportation and energy projects. By integrating with the BRI and other inter-regional connectivity projects in Eurasia, Iran seeks to improve its geoeconomic standing as bridge between Europe and Asia, and expand connectivity and economic ties with neighbours as long-term counter-strategy against the US sanctions and isolation of Iran. Also, it shares China’s vision of ‘developmental peace’ in the region that has seen failed Western attempts at promoting democratic peace. Through mutually beneficial projects between China and regional countries, the BRI can potentially leverage economic development to address security and humanitarian challenges facing the region, all the while counter-balancing the US security and economic leadership in the region.

The BRI and Iran’s Connectivity to the Mediterranean

Under President Raisi, Iran has expedited its push for regional connectivity as part of long-term geoeconomic strategy which is independent of the fate of the US sanctions on Iran. Iran’s Minister for Transport and Urban Development Rostam Qasemi has been spearheading efforts to leverage Iran’s geopolitical influence in Iraq and Syria to create a trade and transport corridor from the Gulf to Syria and Lebanon on the Mediterranean coast. At the same time, Tehran has been drawing Beijing’s attention to this southern land route for China-Central Asia-West Asia Corridor of the BRI.

The idea of such a transport corridor became subject of serious discussions after Syrian security forces along with their Iraqi allies took control of al-Bukamal area near the Iraqi border from the ISIS in November 2017. Iraqi Security Forces had recaptured Al-Qa’im on the Iraqi side of the border from the ISIS in September 2017. After Iran and Syria agreed to connect southwestern Iranian port

of Imam Khomeini to Syria’s Latakia port via a railway line through Iraq in 2019, Iran and Iraq began discussing plans to complete the 40 km railway line connecting Shalamcheh on Iran’s southwest to Basra in Iraq. During a visit to Baghdad in December 2021, Qasemi signed an MoU for joint implementation of the Shalamcheh-Basra railway. Noting that over the last twenty years Tehran had numerous negotiations and MoUs with Iraqi side to implement the railway line, Qasemi stated that “the agreement has clear timetable, and one of its clause is that the implementation of the project will actually begin within the next month”. Once completed, it will link the railway networks of the two countries and bring Iran closer to Syria.

In the Syrian conflict, China has, over the years, opposed regime change in the country. Beijing along with Russia vetoed many UNSC draft resolutions, often invoking support for Syria’s national sovereignty and territorial integrity. The four-point plan proposed by Chinese foreign minister Wang Yi, when he visited Syria in July 2021, called for lifting the US sanctions on Syria and prioritising the reconstruction process. Wang Yi also called for “respecting the choice by the Syrian people”, effectively legitimising Bashar-Al Assad’s re-election in May 2021. As Damascus’s key allies, Russia and Iran, lack the financial wherewithal to fund Syria’s reconstruction, it seeks to utilise the opportunities presented by Beijing’s BRI plans in the region. While discussion on Syria’s joining of BRI began during Wang Yi’s July 2021 visit, the two countries inked a MoU to that effect on 12 January 2022. The head of Syria’s Planning and International Cooperation Commission, who signed the MoU from Syrian side welcomed China’s role in Syria’s economic reconstruction and enhancing of the “harmonisation between the BRI and eastward strategy proposed by Syria.” Analysts have pointed out that given the regional integration focus of the BRI, the proposed Chinese projects in Syria focus on the field of transportation, such as the rail link between the port of Tartus and the Iraqi border, and the construction of a land highway linking south of the country to the north. Beijing is also interested in establishing a Chinese Free Trade Zone in Latakia port, located less than 100km north of Tartus, where Moscow maintains a naval facility and had committed $500 million towards modernising the commercial port infrastructure. Iran for its part launched a direct shipping line between Bandar Abbas and Latakia in May 2021, and both countries are keen to secure rail connectivity between the two ports via Iraq.

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In recent years, especially since the end of the US combat mission in Iraq in 2020, China has stepped up its energy and infrastructure investment in the country. Last year, Iraq was the top destination for China’s BRI investment, receiving $10.5 billion financing focusing on energy and infrastructure projects. Iran, which has influence over both the Iraqi government and societal actors and seeks to minimise the US economic and security presence in Iraq has largely welcomed growing Chinese investments in Iraq. In 2019, then Iraqi Prime Minister Adel Abdul Mahdi during a visit to China signed an 'oil for reconstruction' agreement under which oil revenues will be put in a joint-investment fund to be utilised for key infrastructure projects to be carried out by Chinese firms. In the subsequent years, popular protests over unemployment, environmental degradation and overall governance deficit in Iraq have led to a drastic deterioration in investment and security environment, forcing major Western international oil companies to exit Iraq, often selling their stakes to Chinese companies. Chinese companies, which are often willing to accept lower profit margins than their rivals, are working as a primary or subcontractors at 15 oil fields in southern Iraq.

In 2019, amid looming threats of direct conflict between Iran and the US, new reports emerged that Iran is seeking to revive Iran-Iraq-Syria ‘friendship pipeline’ transporting natural gas from Iran to Syria’s Mediterranean port of Baniyas. Iran, Iraq and Syria had signed an agreement in 2011, just before the unrest began in Syria, under which Iran will build 6000 km pipeline that will allow it to circumvent sanctions and sidestep the Strait of Hormuz in case of military confrontation involving Iran. Given Iraq remains a key importer of Iranian gas for the electricity generation despite the US sanctions and Europe’s focus on access to diversified supplies of natural gas amid the Russia-Ukraine war, such a pipeline may gain new traction.

CPEC and Iran’s Focus on Makran Coast

Similarly, on the other side of the Gulf, Iran hopes that BRI’s flagship project of the China Pakistan Economic Corridor (CPEC) will expand into a trade and energy corridor stretching from the Gulf, across Pakistan, into western Xinjiang. Tehran seeks to capitalise on Chinese investment to transform its underdeveloped Makran coast into an industrial and energy powerhouse. It sees CPEC’s energy infrastructure, especially Beijing’s construction of $2.5 billion worth Gwadar LNG terminal and a 700 km gas pipeline from Gwadar to Nawabshah as key to realise its long-held plans of Iran-Pakistan pipeline. The 1,880 km Iran-Pakistan pipeline was to connect Iran’s South Pars field to Pakistan's

Baluchistan and Sindh provinces. After signing a gas sale purchase agreement in 2009, Iran completed its section of the pipeline in 2011. It even offered to finance Pakistani section in 2013, but after the US sanctions and pressures led to delays in, Tehran threatened legal action against Pakistan in 2019.22 Once the Chinese-built Gwadar-Nawabshah pipeline is in place, compared to 780 km section from Gabd on Iran-Pakistan border to Nawabshah in Pakistan’s Sindh province, a 72 km pipeline from Gabd to Gwadar can be completed easily.

Throughout the years of sanctions and escalations in Iran-US tensions in the Gulf, Iran has refocused on developing ports and an oil export terminal in the Gulf of Oman, which is located outside the geopolitically volatile Gulf and closer to petroleum consumers in Asia. Since signing a trilateral agreement between Iran, Afghanistan and India in May 2016, India is developing Chabahar, Iran’s only deep oceanic port in Gulf of Oman, located 140 km west of Pakistan’s Gwadar Port being developed by China. Iran has maintained that Chabahar does not seek to rival or ‘encircle’ anyone.23 It has welcomed cooperation between Chabahar and Pakistani ports and Chinese investment in developing the port.24 Tellingly, President Raisi, at the SCO summit projected Chabahar as the symbol of cooperation for all members of the Organisation.25 Soon after inaugurating a new oil export terminal in Jask, just east of the Strait of Hormuz, in July, 2021, Iran offered India access to strategic oil reserves at Jask, and a standalone gas pipeline from the island to India.26 By developing the port of Jask major hydrocarbon hub, Iran not only brought its oil closer to Asian markets, but by reducing dependence on export from Kharg terminal in the Gulf, currently about 90 per cent, Iran will be in a position to exert more pressure on the flow of oil out of the Strait of Hormuz.27

During President Xi Jinping’s visit to Iran in 2016, when Iran and China inked a Comprehensive Strategic Partnership, several agreements were signed to establish industrial towns in Jask, Hormozgan and also Sistan and Balochistan, where Chabahar is located. Reportedly, as part of the 25-year agreement, Beijing will invest in the infrastructure of the Jask port and also in free trade zones in the Gulf islands.28 At a time when its oil exports have been hit by sanctions, Tehran has redoubled its efforts to diversify economic activity and increase non-oil exports, especially to its neighbouring countries. In the absence of a comprehensive economic liberalization program because of factional disagreements and sanctions pressure, for purpose of promoting industrial and export activity, Iran’s focus remains on free-trade-industrial zones (FTZs) along its Gulf coast.

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and the adjoining islands such as Kish, and Qeshm, which is located close to Bandar Abbas and is the largest island in the Gulf. The FTZs at Kish and Qeshm islands in the Gulf and Chabahar in the Gulf of Oman were declared during presidency of Hashemi Rafsanjani (1988-1997), when Iran had an opening with its Gulf Cooperation Council (GCC) neighbours and pursued a policy of attracting international investment and fostering regional trade. Under Hassan Rouhani government, the Guardian Council approved the integration of Chabahar port with the Chabahar Free Trade-Industrial Zone to promote cargo and trade from the port. President Raisi while inaugurating 60 economic and infrastructure projects related to industrial plants, steel production factories, refineries and port development plans in six different FTZs across the country, stated that country’s free trade zones must return to their original goals. Instead of functioning as centers for “uncontrolled imports” they must be turn into hub for investment, production and export activities, Raisi noted. In this regard, attracting investment from China becomes crucial. Just weeks before when Iran’s foreign minister Hossein Abdollahian travelled to China in January 2022, Raisi’s cabinet of ministers approved the opening of a Chinese consulate in Bandar Abbas, Iran’s main trading port in the Gulf.

**Iran in the SCO: Seeking ‘Collective Response’ to the US Sanctions**

Iran as a revisionist actor has been enthusiastic about multilateral groupings which can contain the US hegemonic power in the international financial system, such as the BRICS, or broadly counterbalance the US economic and security presence, such as the Shanghai Cooperation Organisation (SCO), the Eurasian Economic Union (EAEU). The SCO, which has been a vehicle for China’s regional engagement with Central Asia and South Asia, after the approval of Iran’s membership in September 2021 summit in Tajikistan has expanded into West Asia. While traditionally the SCO has provided institutional framework for regional cooperation on security issues, Tehran has been calling for deepening of the SCO’s economic dimension with an eye to counter unilateral US sanctions. In his address at the SCO summit, Raisi called sanctions the “key obstacles to promoting regional harmony [...] Unilateral sanctions are not limited to one country but, as it has become clear in recent years, include more independent countries, especially members of the Organisation, observing that it “is important and necessary to design mechanisms for collective confrontation with unilateral sanctions in the framework of this organisation.”

Even as Iran remains blacklisted by the Financial Action Task Force (FATF), president Raisi has criticised his moderate predecessor Hassan Rouhani for insisting on Iran’s accession to the international body responsible for monitoring money laundering and terrorist financing. During his election campaign, Raisi called it ‘the enemies’ convention’ given that it does not accept Iran’s position that it was wrong

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to list certain groups such as Hezbollah as ‘terrorist’. Instead, Tehran is expanding the use of national currencies in bilateral trade settlements, as a process facilitated by the rise of alternative payment clearing and a settlement system such as Bank of Russia’s SPFS (Financial Messages Transfer System), which was introduced to the banks of Eurasian Economic Union member countries in 2019 and Cross-Border Interbank Payment System” (CIPS) launched by Beijing in 2015 for clearing and settling cross-border yuan transactions and thus aimed at internationalising yuan.

Russia’s invasion of Ukraine, and the coordinated sanctions imposed by the US and its allies targeting Russia’s banking system, including disconnecting Russian banks from the SWIFT messaging system, have further induced anxieties about the West’s ability to weaponise its dominance of the international banking and financial system. These sanctions on Russia, the world’s eleventh-largest economy, have renewed the debate on the viability of SWIFT alternatives in Asia. In May 2022, Russia and Iran agreed to switch to national currencies in trade settlement by using SPFS. Similarly, China is settling its energy trade with Russia in yuan. However, the risk of punitive measures from the US, such as the proposed “CURB CIPS Act of 2022” and the fact that CIPS so far vastly relies on the SWIFT messaging system, have made Beijing circumspect about using CIPS in transactions with Russia. Meanwhile, the implications of US veto power over China’s global financial transactions are not lost on Beijing.

Iran-China Security Cooperation

In January 2022, Chinese Foreign Minister Wang Yi, while hosting foreign ministers of the GCC countries, remarked that there is no power vacuum in the Middle East and the region does not need a ‘foreign patriarch.’ Further, Wang said China supports Gulf countries in setting up multilateral dialogue platforms and taking the initiative in regional issues into their own hands. Notably, these remarks underline Beijing’s reluctance to underwrite a post-US security order in the region and its contentment with gaining economic influence in the region. At the same time, the approach to regional security articulated by Yi dovetails with the traditional Iranian view of the US military presence, especially in the Gulf sub-region, as the biggest threat to the regional stability, as well as to its own power and influence. Tehran not only emphasises regional self-reliance in security, but by projecting itself as an

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35 Phil Rosen, “China is buying Russian energy with its own currency, marking the first commodities paid for yuan since Western sanctions hit Moscow,” Business Insider, April 7, 2022, https://bit.ly/3BwqHMH.
independent regional power, it has sought to leverage both Russian and Chinese Eurasian strategies, which are aimed at keeping the US/NATO power in check on the Eurasian continent.

Iran-China defence ties had received a boost with the implementation of the JCPOA in 2016, with Iran no longer being viewed as a proliferation or international security threat. President Xi Jinping’s visit to Iran in January 2016 was followed by a visit from China’s defence minister Chang Wanquan in November 2016, during which the two countries signed a bilateral military cooperation agreement pledging closer military cooperation in a number of areas including military training, counter-terrorism operations and holding of joint military exercises. Iran-China defence diplomacy maintained its upward trajectory as the two countries found a common cause against increasing US pressure and unilateralism. Iran and China held a joint naval exercise near the Strait of Hormuz in June 2017, when the US Navy was accusing Iran of sending fast attack boats to harass US warships passing through the Strait of Hormuz. The series of incidents disrupting shipping in the Gulf in the summer of 2019 led Beijing to take up greater security role to protect the freedom of navigation crucial to its energy security. This came as the Trump administration, while accusing Asian buyers of Middle East oil of ‘free-riding’ on the US security presence in the region, put together an international maritime coalition of its regional allies, the UAE, Saudi Arabia, Bahrain and also Australia and the United Kingdom. Subsequently, Iran, China and Russia conducted a trilateral naval exercise ‘Maritime Security Belt’ in the Gulf of Oman in December 2019. It underscored China and Russia’s stakeholdership in ensuring security in the crucial waterway and signalling diplomatic-political support of Iran.

Washington is also troubled by Iran acquiring improved anti-access/area-denial (A2/AD) capabilities from Beijing. Iran relies on asymmetric A2/AD tactics against more conventionally capable foes, namely the US and its allies in the Gulf. Since 1980s, when Iran began importing anti-ship missiles from China, its inventory of anti-ship missiles has been built around four Chinese missile families. The Chinese air-to-surface lightweight AShM YJ-9 and C-701 are known as Kosar family in Iran, the C-704, shore-to-sea missile with a maximum range of 40 Km is known as Nasr, while Noor, Ghader and Ghadir with reported ranges of 120 km, 200km and 300 km are long-range anti-ship cruise missiles reverse engineered from Chinese C-802 cruise missiles.

As rivalry with the US grows, so will Beijing’s worries about a central US role in the protection of the Gulf shipping lanes, especially the narrow Strait of Hormuz, and its ability to threaten China’s energy security. Given Beijing’s reluctance to take up military role in the region, which will draw it in a direct contestation with the US in a far-off region, defence diplomacy with Iran becomes a strategic priority. Chinese Defence Minister Wei Fenghe’s visit to Iran in April 2022 in the backdrop of

the war in Ukraine, intensifying geopolitical volatility and prospects of a revival of the Iran nuclear deal, underscored the significance Beijing attaches to Iran.  

Conclusion

Iran as a key geopolitical actor in West Asia has not only endured decades of US security and economic pressure, it has also cultivated geopolitical influence in Iraq, Syria and elsewhere in the region. Iran’s geoeconomic strategy therefore is to leverage this geopolitical influence to advance Iran’s position in the region-wide energy and infrastructure connectivity. By joining the BRI and forging a long-term partnership with Beijing, Iran seeks to become a key transportation and energy hub in the emerging Chinese-led economic system, and exploit opportunities for multilateral economic cooperation. Iran’s deepening partnership with China not only has the potential to raise its geoeconomic status from the Gulf to the Mediterranean Sea, but also creates more room for Iran to manoeuvre in its relations with other major powers such as India and even the West, who do not want to see a major regional power slipping into the Chinese fold. As Greer and Batmanghelidj argue, Iran’s economic dependence on China is result of the Western strategy of sanctions and ‘maximum pressure’ rather than Chinese strategy. The revival of the Iran nuclear deal and lifting of the sanctions will potentially lead Tehran to rebalance its relations with China and diversify its partnerships by reaching out to India and the European Union.

43 “China, Iran agree to push military ties to higher level,” CGTN, April 28, 2022, https://bit.ly/3OtTKgS.