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Issue Brief

China-Iran Comprehensive Strategic Partnership: Likely Challenges for India

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S*ummary*

China and Iran have announced the signing of the strategic cooperation agreement. The agreement per se and the growing closer ties between Beijing and Tehran can have challenges for India's relations with Iran and interests in the Persian Gulf region. Nonetheless, it is unlikely to seriously affect India-Iran bilateral ties that remain robust and have withstood challenges earlier and the comprehensive strategic partnership shall not be an exception.

China's engagement with the Gulf and West Asia region has significantly expanded in the past two decades. It is driven by trade, economic cooperation and investments. China is among the biggest trading partners for the regional countries including Iran, Saudi Arabia and the United Arab Emirates (UAE) and is a leading investor in infrastructure and connectivity projects such as *Madinat al-Hareer* (Silk City) in Kuwait and Port and Special Economic Zone (SEZ) at Duqm in Oman. Though many of these investment projects precede the 2013 launch of the Belt and Road Initiative (BRI), they have been incorporated into the ambit of BRI.¹

The West Asian countries have welcomed Chinese investments as a way to enhance their infrastructure and support business start-ups in information technology (IT), tourism, retail, energy and other sectors. Additionally, China is taking interest in regional politics and conflicts with the stated objective of promoting peace and stability in West Asia.² Though China maintains a neutral stance on regional affairs, Beijing's growing economic stakes have made it more invested in West Asia.

Among the regional countries with which China has developed close cooperation is Iran. China and Iran have gradually improved their bilateral relations with Iran emerging as a leading oil supplier for China since the 1990s and China emerging as the top trading partner of Iran since the 2000s.³ The bilateral relations were further strengthened through the signing of the Joint Comprehensive Plan of Action (JCPOA) in 2015 wherein China, along with Russia, played a crucial role in the finalisation of the deal. In January 2016, during the visit of Chinese President Xi Jinping to Tehran, China and Iran issued a joint statement expressing the intention to upgrade the bilateral relations to a "comprehensive strategic partnership".⁴

The bilateral ties received a boost due to Beijing's willingness to stand up to President Donald Trump's "maximum pressure" campaign against Iran after the American withdrawal from the JCPOA in May 2018. This gave a new lease of life to the proposed partnership agreement and in June 2020, the draft of the proposed deal was presented and approved in the Iranian Parliament.⁵ After much anticipation, on March 27, 2021, China and Iran announced the signing of the strategic cooperation agreement during the visit of China's State Councillor and Foreign Minister Wang Yi to Tehran.⁶

¹ Jonathan Fulton, "[China's Gulf Investments Reveal Regional Strategy](#)", *The Arab Gulf States Institute in Washington*, July 29, 2019.

² "[Assistant Foreign Minister Chen Xiaodong Attends the Middle East Security Forum](#)", *Ministry of Foreign Affairs of the People's Republic of China*, November 27, 2019.

³ Alex Yacoubian, "[Iran's Increasing Reliance on China](#)", *The Iran Primer*, September 11, 2019.

⁴ "[Full text of Joint Statement on Comprehensive Strategic Partnership between I.R. Iran, P.R. China](#)", *Office of the President of Islamic Republic of Iran*, January 23, 2016.

⁵ "[The 25-year Comprehensive Cooperation Plan between Iran and China Approved](#)", *Office of the President of Islamic Republic of Iran*, June 21, 2020.

⁶ "[China, Iran Sign Agreement to Map out Comprehensive Cooperation](#)", *Xinhua*, March 28, 2021.

In the backdrop of these developments, it is important to understand how the agreement affects China-Iran relations and its likely implications for India.

China-Iran Relations

China-Iran relations are based on economic cooperation and strategic balancing. For Beijing, Iran is a credible partner in the Gulf and West Asia region, especially for its energy security. Further, Iran is seen as a potential destination for Chinese investments in developmental projects. On the other hand, Tehran sees relations with China, along with its ties with Russia, as signs of its continued engagement with global powers defying the United States (US) and European proclivity to isolate Iran. Iran looks at China (and Russia) as a counterweight against the US vis-à-vis its nuclear programme and regional policies. Both have been supportive of Iran and its commitments to nuclear non-proliferation as part of the JCPOA.

After the US withdrew from the JCPOA and imposed unilateral economic sanctions on Iran, China continued cultivating political and strategic ties with Iran. China supported the continuation of the JCPOA without the US,⁷ and expressed a willingness to work with the European Union (EU) to keep the JCPOA alive and supported the EU efforts at launching a special purpose vehicle to carry out business in essential commodities with Iran.⁸

In June 2019, on the sidelines of the Shanghai Cooperation Organization (SCO) summit in Bishkek, President Xi Jinping assured Tehran of support in continuation of the JCPOA at the bilateral level as well as in multilateral forums. In response, Iranian President Hassan Rouhani emphasised the strategic importance of China for Iran and conveyed Tehran's willingness to participate in the BRI and strengthen economic cooperation.⁹ During Chinese Assistant Foreign Minister Chen Xiaodong's visit to Iran in March 2019, Iranian Foreign Minister Javad Zarif appreciated the Chinese support and expressed willingness to come halfway to push forward the strategic cooperation plan.¹⁰

When Zarif visited Beijing intending to present the 25-year roadmap on strategic cooperation in August 2019, Chinese Foreign Minister Wang Yi assured Tehran of China's continued support for the JCPOA. In January 2020, when the Quds Force

⁷ **"China to Continue Committing to Safeguarding and Implementing the JCPOA on the Iranian Nuclear Issue"**, *Ministry of Foreign Affairs of the People's Republic of China*, May 26, 2018.

⁸ **"Transcript of Ambassador Zhang Ming's Exclusive Interview with the Financial Times"**, *Ministry of Foreign Affairs of the People's Republic of China*, January 28, 2019.

⁹ **"Xi Jinping Meets with President Hassan Rouhani of Iran"**, *Ministry of Foreign Affairs of the People's Republic of China*, June 14, 2019.

¹⁰ **"Assistant Foreign Minister Chen Xiaodong Visits Iran"**, *Ministry of Foreign Affairs of the People's Republic of China*, March 08, 2019.

commander, Qassem Soleimani, was killed in a US drone attack in Baghdad, Wang expressed China's concern and said that Washington should not "abuse power" and instead "seek solutions through dialogue."¹¹

China-Iran relations were further strengthened after the outbreak of the COVID-19 pandemic given China's willingness to assist Iran in handling the crisis.¹²

Comprehensive Strategic Partnership

The signing of the "comprehensive strategic partnership", therefore, is not a surprise given the recent trajectory of China-Iran relations. China sees the deal as another opportunity for promoting its mega investments and connectivity projects in the Gulf and West Asia under the aegis of the BRI. This is in continuation of Beijing signing similar partnership agreements with other regional countries including Saudi Arabia, Turkey and the UAE and developing close business partnerships with Oman, Kuwait, Qatar, Egypt and Israel. Besides, through the agreement, China gains a secure source for its energy security. Reportedly, the draft has provision for China purchasing oil, gas and petrochemicals products at a minimum guaranteed discount of 12 per cent.¹³

Iran, on the other hand, hopes that the comprehensive partnership with China will help it overcome the economic difficulties worsened due to the debilitating sanctions imposed by the Trump administration and the impact of COVID-19. During a cabinet meeting to discuss the final draft of the comprehensive cooperation plan with China in June 2020, President Rouhani stated that the deal is "an opportunity [for Iran] to attract investment in various economic fields, including industry, tourism, information technology and communication."¹⁴

In terms of economic cooperation, the deal envisages expanding bilateral cooperation in economic, trade, technology, tourism, defence and security sectors. It underlines the opportunities for cooperation in petrochemical, renewable and civil-nuclear energy, transport infrastructure including highways, railways and ports to promote Iran's participation in the BRI. Further, there are provisions for cooperation in the banking and financial sectors as well as in manpower. Significantly, the draft deal

¹¹ "After Soleimani's Death, China Urges US 'Not to Abuse Force', Says It will Aggravate Regional Tensions", *News18*, January 04, 2020.

¹² "Xi says China ready to join Iran, int'l community for ultimate victory over COVID-19", *The Free Press Journal*, April 28, 2020.

¹³ Mordechai Chaziza, "China and Iran Reach a New Stage in Their Strategic Partnership", *BESA Center Perspectives Paper*, No. 1, 654, June 21, 2020.

¹⁴ "The 25-year Comprehensive Cooperation Plan between Iran and China Approved", *Office of the President of Islamic Republic of Iran*, June 21, 2020.

approved by the Iranian Parliament proposes cooperation between China and Iran in third countries through joint developmental programmes.

The strategic cooperation agreement is likely to give a boost to the bilateral energy trade between Iran and China, which had witnessed a drop as a result of the US sanctions and disruptions caused by COVID-19. Nearly 80 per cent of China's total imports from Iran are of crude oil and natural gas. Though China continued to import Iranian oil even after the expiration of the waiver in February 2019, the volume came down to 210,000 bpd by December 2019, the lowest in a decade. When the US threatened buyers of Iranian oil to stop or face secondary sanctions, China opposed the move. Chinese officials announced the continued purchase of oil from Iran emphasising that cutting Iranian oil supplies will add to the volatility in global energy markets. Though Chinese oil imports from Iran did decline, the rhetoric helped Beijing maintain friendly relations with Tehran.

This was complemented with expanding business cooperation in other areas. In November 2019, Iran and China established a joint arbitration committee to supervise the trade between the two countries. The Tehran Chamber of Commerce, Industries, Mines and Agriculture signed a trilateral memorandum of understanding for cooperation with the China Chamber of International Commerce and the Iranian Chamber of Commerce. China started importing more metal and mining products from Iran. Iran's Ministry of Industry, Mining and Trade reported that between March and October 2019, Iran exported metals including iron ore, copper cathodes, steel ingot, copper ore and zinc ingot worth US\$ 1.568 billion to China, a rise of 150 per cent compared to the same period in 2018.¹⁵

Besides trade and business, there is strategic significance to the agreement. Firstly, both Iran and China remain at odds with the US. Though President Joseph Biden, unlike his predecessor, has signalled willingness to engage in negotiations with Iran to revive the nuclear deal,¹⁶ the outcome is not yet clear. The efforts to get the US back to the JCPOA is moving at a snail's pace. The Biden administration is in no hurry to return to JCPOA and might face resistance from within the US and from allies in the region, especially Israel, in extending any concessions to Iran. Even if the deal is revived and US sanctions are lifted, it is unlikely to repair the longstanding antagonistic equation between the US and Iran. Therefore, Iran will continue to hedge its bets with China, and also Russia, as a counterweight to the US.

At the same time, the US-China trade war that began during the Trump presidency is likely to continue. Further, there is growing unease in the US, and among its European allies, over China's economic, political and diplomatic outreach in Asia,

¹⁵ **"Iran's metals exports to China surge by %150 y/y in March-October"**, *Tehran Times*, December 16, 2019.

¹⁶ **"Iran Nuclear Deal: US Joins Vienna Talks Aimed at Reviving Accord"**, *BBC News*, April 06, 2021.

Africa, Latin America and Eastern Europe. Suspicion against China's mega connectivity projects, its promotion of the 5G network through Huawei and the BRI have reached an all-time high and this is visible in the way the US has shifted focus to the Indo-Pacific as a containment policy against China. The strategic cooperation, therefore, can be seen as an alliance between the two adversaries of the US.

Secondly, the strategic cooperation agreement acquires significance in the context of the regional geopolitics in the Gulf and West Asia. The regional allies and partners of the US, namely Israel, Saudi Arabia and the UAE, see Iran as a security threat. This was one of the major factors that led to the signing of the Abraham Accords between Israel and Gulf Arab countries, namely Bahrain and the UAE. For Tehran, therefore, the security and strategic relations with China and Russia are important to navigate the regional geopolitics. For Moscow and Beijing, who follow a multi-aligned policy in the region, better relations with Iran are a way to challenge the US hegemony as was signalled through the December 2019 Russia-China-Iran joint naval exercise in the Gulf of Oman.¹⁷

Thirdly, Iran seeks greater cooperation with China to overcome its domestic socio-political challenges that have been exacerbated by the economic sanctions. Iran has faced serious internal unrest during 2019 due to growing economic hardships. The COVID-19 pandemic and the ineffective response of the government have further complicated the domestic situation. For Rouhani, the signing of the agreement could not have come at a better time especially since the political opposition had been attacking the government for domestic and foreign policy failures. The hardliners in Iran, who had earlier opposed the nuclear deal, continue to oppose its revival arguing that the deal did not bring the promised economic relief.¹⁸ The Rouhani Government, therefore, is showcasing the signing of a long-term strategic partnership with China as an important foreign policy success that will bring economic benefits.

Fourthly, the strategic cooperation agreement envisages China-Iran collaboration in the security domain, especially in fighting terrorism, organised crime, terror financing and money laundering. The two countries have enhanced their security collaboration by engaging in joint military exercises. In January 2020, Zhai Jun, China's special representative for the Middle East, visited Tehran for a security dialogue¹⁹ preceded by a meeting of the Iranian armed forces chief with the Chinese counterpart in September 2019.²⁰ Besides, there have been discussions between the two for the supply of Chinese weapons and military equipment to Iran. China has

¹⁷ **"Russia, China, Iran Start Joint Naval Drills in Indian Ocean"**, *Reuters*, December 27, 2019.

¹⁸ **"Election Looming, Iran's Rouhani Says Hardliners Sabotage Goal to Lift Sanctions"**, *Reuters*, March 17, 2021.

¹⁹ Kristin Huang, **"China and Iran: a Relationship Built on Trade, Weapons and Oil"**, *South China Morning Post*, January 09, 2020.

²⁰ Joel Wuthnow, **"Will China Strengthen Iran's Military Machine in 2020?"**, *The National Interest*, January 16, 2020.

already been expanding its naval and military presence in the western Indian Ocean, and a strategic understanding with Iran will help Beijing expand its military footprints in the region.

Likely Challenges for India

Notwithstanding how the China-Iran strategic cooperation progresses in the long-term, the growing China-Iran proximity has strategic challenges for India.

Firstly, India's relations with Iran have been impacted by the reimposition of US sanctions after Trump announced the US withdrawal from JCPOA in 2018. Indian imports of Iranian oil were significantly impacted and came to nought in February 2019 as the Trump administration refused to renew the waiver for oil imports from Iran. The threat of secondary sanctions hampered the developmental work being carried out by Indian companies through the line of credit provided by India's Export-Import (EXIM) Bank. Indian companies were cautious in doing business with Iranian counterparts as there was a lack of clarity on the scope of economic sanctions especially since many non-oil sectors including mining, iron and steel also came under sanctions.

With diplomatic efforts, the US formally underlined that the work on the Chabahar port project is not under sanctions; hence, Indian companies resumed work on the project. India which had reduced the allocation for the port project in the 2019-20 budget to INR 45 crores (US\$ 5.9 million approx.) from INR 150 crores (US\$ 20 million approx.) for 2018-19, after the confirmation, increased the allocation to INR 100 crores (US\$ 13 million approx.) in the 2020-21 budget.²¹ New Delhi faced challenges not only due to the US sanctions but also because of the COVID-19 pandemic.²²

Secondly, growing Chinese inroads in Iran will mean that China, on account of better diplomatic and political relations, can gain a competitive edge over India in getting developmental projects. Both India and China compete for the same economic opportunities in the Persian Gulf, hence both have for long balanced their ties with the Gulf countries to avoid getting entangled in the regional tensions. However, an extraordinary dependence on China can be counterproductive for Iran which it would be keen to avoid.

Despite the challenges emanating from external factors, New Delhi continues to attach significance to its ties with Iran as was showcased with the visit of Defence Minister Rajnath Singh to Tehran in September 2020, which was followed by a stop-

²¹ Rezaul H. Laskar, [“Chabahar Port Plan Gets Big Boost as Govt Hikes Outlay”](#), *Hindustan Times*, February 04, 2020.

²² Meena Singh Roy, [“India's Chabahar Dilemma”](#), *MP-IDSA Comment*, July 31, 2020.

over a few weeks later by Foreign Minister S. Jaishankar. The two countries emphasised continued bilateral cooperation on the Chabahar port project and the Afghan peace process. India has also continued to engage Iran on important regional initiatives. In February 2021, Iranian Defence Minister Brigadier General Amir Hatami was in India to attend the first Indian Ocean Region (IOR) Defence Ministers' Conclave held on the sidelines of AeroIndia 2021 in Bengaluru.²³ The Iranian defence minister stated that India and Iran will continue to cooperate in attaining stability and peace in the region.

Conclusion

India has vital interests in the Gulf and West Asia encompassing energy security, trade and business, diaspora and the fight against terror and extremism. Iran is an important regional player and India has had strong and friendly relations with Iran. The bilateral ties have withstood disruptions caused by external factors and remain cordial. The exchange of ministerial visits, regular diplomatic engagements and continued cooperation on ongoing developmental projects are a testimony to that. New Delhi attaches strategic importance to its ties with Iran, and in turn, Tehran looks at India as its vital economic and strategic partner. There are ample opportunities for future cooperation in economic, political and strategic areas. The challenges emanating from external factors, including from growing Chinese inroads in the Gulf region, can be overcome with continued political and diplomatic engagements.

²³ “Aero India 2021: Indian Ocean Region Defence Ministers' conclave tomorrow”, *Hindustan Times*, February 03, 2021.

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