

# The JCPOA in Crisis: Implications for Sino-Iranian Relations

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**Abstract:** The U.S. withdrawal from the Joint Comprehensive Plan of Action (JCPOA), or Iranian nuclear deal, and the re-imposition of sanctions on Iran in the coming months will complicate Iranian–Chinese economic and geopolitical interactions. In terms of economics, the export of Iranian oil to China will continue in the medium term. In addition, since small and medium-sized companies account for a major part of Chinese exports to Iran, the re-imposition of sanctions will not have transformative effects on their trade with Iran. However, financial trading between the two countries and major Chinese investments in Iran will probably come under increasing pressure.

As for geopolitics, considering the increased strategic rivalry between China and the U.S., support for Iran and attempts at reducing Washington's pressure on it will probably be on Beijing's agenda. Moreover, as the disruption of international order and undermining of stability in the Middle East run counter to Chinese global interests, China will continue to exercise its options such as preserving the JCPOA, maintaining the existing balance of power in the Middle East, and relations with Iran as its strategic partner. Of course, China will not play a leading role in attempts to preserve the JCPOA and, if forced to make a tough choice, it will prefer maintaining constructive relations with the U.S. and protecting the interests of big Chinese companies to other options.

The U.S. withdrawal from the JCPOA has raised a number of questions concerning the future of Iran's strategic behavior, the future of the evolving order in the Middle East, and the managerial roles played by the great powers in the rules-based international order. An important question is related to the effects of the U.S. exit from the JCPOA on Iranian–Chinese relations. China is Iran's most important trading partner, one of Iran's major political partners, the most prominent emerging power, and one of the parties to the JCPOA. The U.S. withdrawal from the JCPOA will have a spectrum of economic and geopolitical effects on Iranian–Chinese relations.

## 1. Economic effects

China has been Iran's top trading partner in the past decade. The volume of trade between the two countries reached \$37.8 billion in 2017.<sup>1</sup> The importance of China's position in Iran's foreign trade becomes clearer if we consider the fact that the total Iranian foreign trade in 2017 was about \$100 billion.<sup>2</sup>

In other words, one-third of Iran's total foreign trade in 2017 was with China.

Crude oil constitutes a major part of Iranian exports to China. In March 2018, Iran exported 726,000 b.p.d. of oil to China.<sup>3</sup> Moreover, the key part of sanctions that will be re-imposed on Iran in the coming months will target Iran's oil exports. As the most important buyer of Iranian oil, China will have a key role in the success of Trump administration in the new round of sanctions.

***This action on the part of the EU can help the Chinese resist new U.S. sanctions. Therefore, a considerable reduction in Chinese imports of Iranian oil will not be very probable during the new round of sanctions. It is predicted that Iranian oil exports will decrease by about 250,000 barrels per day with the re-imposition of sanctions***

Unlike the previous round of sanctions, there is no international consensus on implementing the new round of U.S. sanctions and applying pressure on Iran. That is why the Iranian foreign minister travelled to China immediately after U.S. exit from the JCPOA and announced that the negotiations conducted with his Chinese counterpart on continuing commitments given within the framework of the JCPOA were constructive.<sup>4</sup> More importantly, the European Union has so far opposed the new U.S. sanctions and is trying to pass new laws aimed at protecting its trade exchanges with Iran and the investments made by European companies in Iran against U.S. sanctions. This action on the part of the EU can help the Chinese resist new U.S. sanctions. Therefore, a considerable reduction in Chinese imports of Iranian oil will not be very probable during the new round of sanctions. It is predicted that Iranian oil exports will decrease by about 250,000 barrels per day with the re-imposition of sanctions.<sup>5</sup>

In addition, the Trump administration's attempts at concurrently putting pressure on Iran and Venezuela may substantially reduce oil supply on the global market and make Asian oil buyers more inclined to continue buying Iranian oil. There is also the possibility that Chinese and Russian companies buy Iranian oil in the coming months in local currencies or crypto-currencies and sell it on the global market.<sup>6</sup> It has even been posited that the exodus of European and Japanese companies from the Iranian energy sector with the U.S. withdrawal from the JCPOA will provide new opportunities for Chinese companies and may even lead to their increased presence in Iran.<sup>7</sup>

Although it is difficult to predict the oil market, the future of the JCPOA, and the Trump administration's policies in the long term, it is clear that Iran's oil exports will not change considerably in the near future.<sup>8</sup> Rumors circulating in recent weeks that Iran asked China to guarantee it will continue to buy Iranian oil and that China rejected this request are probably not very accurate.<sup>9</sup> The swift and severe reduction of Iranian oil imports by China is unlikely because Iran is an long-term exporter of oil to China and its strategic partner. China will probably be the last country to reduce its purchases of Iranian oil in response to U.S. pressure. In the previous round of sanctions during the Obama administration, China continued to buy oil from Iran, withstanding U.S. pressure, and remained the biggest importer of Iranian oil. In the new round of sanctions, China will probably even increase its presence in the Iranian energy market by using new methods, especially through the presence of small and medium-sized companies that do not have considerable interests in the United States.

Another factor that will likely help the continuation of oil exports from Iran to China is the internationalization of the Yuan as one of the key goals of China's economic



diplomacy.<sup>10</sup> One of its strategies gaining traction in recent months is the petro-yuan.<sup>11</sup> Iran will probably be among the first countries in which the petro-Yuan will become operational through their oil exports to China. In the 1990s, Iran and Sudan were the first countries under sanctions where Chinese oil companies began international activities.

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Actions taken by the EU to help Iran continue its oil exports, especially through continuing insurance services for Iranian oil tankers, will not only have profound effects on the future of the JCPOA and on its preservation but will also have a direct impact on the continued interest of Chinese companies in importing oil from Iran. Besides oil, the bilateral trade between Iran and China is mainly the commodity trade with small and medium-sized Chinese companies that do not have major interests in the United States, and their ties with Iran will probably not suffer considerably by the sanctions. However, banking transactions will probably face more problems with the re-imposition of U.S. sanctions. In the new round of sanctions, the future of banking transactions between the two countries will likely be influenced by the EU's decision as to whether continue its banking transactions with Iran. In other words, the EU's seriousness and determination to continue banking transactions with Iran, and the new methods that it will employ, can influence China's decisions and vice versa. Under the current conditions, it is clear that the EU is trying to find ways to continue banking transactions

with Iran. Solutions presented for the continuation of these banking transactions will also have important impacts on Iran-China banking relations.

The most important issue here is the \$10 billion finance provided to Iran by the Chinese state-owned investment company CITIC GROUP. The execution of this agreement will probably be complicated by the new round of sanctions. The economic impacts of the U.S. withdrawal from the JCPOA will probably be greater on Chinese investments in Iran than on the two countries' bilateral trade. The most important Chinese investment in Iran following the JCPOA was the \$4.879 billion contract to develop phase 11 of South Pars (Gas Field) signed between the National Iranian Oil Company and a consortium composed of Total, the Chinese Company CNPC, and the Iranian Company Petropars in July 2017.<sup>12</sup> In this contract, Total, CNPC, and Petropars have a 50.1 percent, a 30 percent, and a 19 percent share, respectively. Immediately after the U.S. exit from the JCPOA, Total announced that it would leave Iran without sanctions waivers. In response to this announcement, the Iranian Oil Minister stated that CNPC would replace Total in the contract,<sup>13</sup> but the Chinese Company has not issued any reaction to these developments yet. At first glance, Total's exit from Iran will benefit CNPC. Under the contract terms, CNPC would buy Total's shares in the project if the French company pulls out of the contract.<sup>14</sup> However, since CNPC is one of the largest Chinese companies and is present in many other countries, U.S. sanctions will complicate its continued activities in Iran.

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Furthermore, China has also made considerable investments in the rail industry and in a spectrum of other industries in Iran, and progress in these projects will face new complications with the re-imposition of sanctions. In the current context, the most important projects the two countries have reached preliminary cooperation agreements on are the Tehran–Qom–Isfahan High Speed Rail line and the Tehran–Mashhad railway electrification project. The Chinese are expected to invest \$4 billion into these projects.<sup>15</sup> Of course, like the investment in South Pars, these two projects are still in their early stages.

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Beyond trade and investment, the re-imposition of U.S. sanctions could also harm Iranian participation in China's most important economic project, the Belt and Road Initiative. One of the important land routes in this Initiative, the China–Central Asia–West Asia economic corridor, enters Iran through Turkmenistan and continues to Turkey and the Mediterranean Sea to reach Southern Europe. The initial agreement, for Chinese investment to improve the train speed of the Tehran–Isfahan railroad, took place for the same purpose. With the re-imposition of sanctions, progress in this corridor will encounter important problems.

In addition, new sanctions imposed on Iran and Iran's reactions to them could expand instability in the Middle East, Afghanistan, and in parts of Central Asia. Continued stability in the lands located along the Chinese Silk Road is important for progress

in this project. Therefore, not only will China face new problems in trade interactions with its second largest trading partner in West Asia, but the risk in implementing parts of the Belt and Road megaproject will increase with the re-imposition of sanctions on Iran.

Consequently, Chinese economic actions in relation to the re-imposition of U.S. sanctions on Iran do not only concern trade relations with Iran, but also have important regional and global dimensions. This will make decision-making difficult and complicated for the Chinese. Like their European counterparts, large Chinese companies will probably not be enthusiastic about continuing their activities in Iran. However, there are thousands of small and medium-sized Chinese companies that will likely maintain their cooperation with Iran.

## **2. The geopolitical consequences**

The JCPOA goes beyond economic issues and is essentially an agreement to solve one of the most important international security crises in the Post-Cold War era. Not only did it substantially help preserve the nuclear nonproliferation regime in one of the most chaotic regions in international politics, but it also defused one of the most complicated geopolitical crises in the Middle East. Now, with the U.S. withdrawal from the JCPOA, this crisis, which had temporarily been frozen, can be intensified again and pose significant challenges to both the nuclear nonproliferation regime and the stability and security in the Middle East.

The shaking up of the JCPOA and its probable collapse will change Iranian–Chinese interactions at two levels. At the global level, the Chinese–Iranian–American strategic triangle will probably gain new features. Bilateral relations between Iran and China have always been trilateral. In the early 1970s, following ping-pong diplomacy, the United States encouraged rapprochement between



Iran and China. After the 1979 Revolution, however, the U.S. attempted to dissuade China from developing its relations further. This role manifested itself throughout the Iran-Iraq War and also during the nuclear crisis. In the 1990s, China ended its nuclear cooperation with Iran under U.S. pressure. Also, U.S. pressure during the Obama administration played an important role in China voting in favor of resolutions placing sanctions against Iran and in limiting China's economic and trade interactions with Iran.

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The implementation of the JCPOA in January 2016 saw the easing of U.S. pressure on Iranian–Chinese relations. President Xi Jinping immediately visited Iran once the agreement was signed. During this trip, the two countries signed 17 accords in various fields. There was talk of developing a 25-year road map to foster greater cooperation between Iran and China, and the two countries described their relations as a strategic partnership. With the U.S. exit from the JCPOA, the U.S. pressure on these relations will probably increase.

However, this strategic triangle is experiencing a paradigm shift under current conditions. On the one hand, after a short period of accommodation between the U.S. and Iran, the two countries have returned to attitudes of confrontation<sup>16</sup> that have been overshadowing their relations since the 1979 Revolution in Iran. However, the key point is that there are important signs that the pattern of Sino-American relations is changing towards strategic rivalry. Some experts have argued that the risk of China

and the U.S. falling into the Thucydides Trap is rising.<sup>17</sup> Some experts are even speaking of the U.S. adopting a containment strategy toward China.<sup>18</sup>

Iran will probably loom large on China's strategic radar together with increased strategic rivalry between China and the U.S., and China will place more importance on keeping Tehran as a strategic partner in West Asia and make more concerted attempts at reducing U.S. geopolitical pressure on Iran. Moreover, the JCPOA is a symbol of the rules-based international order that China has always tried to protect.<sup>19</sup> In other words, continued support for the JCPOA and Iran will be in line with China's normative interests.

At the regional level, Iran and China have important common interests as revisionist powers, even if there are differences in their priorities toward the Middle East regional order. China does not consider radical changes in the balance of power against Iran to be in its interests. Therefore, it probably has a negative view of attempts made by the Trump administration to intensify pressure on Iran, especially to those like John Bolton who are calling for regime change in Tehran. Furthermore, from a normative viewpoint, China has defined non-interference in the internal affairs of governments as one of its foreign policy priorities. Co-operation between China and Russia in vetoing resolutions introduced by the West regarding intervention in the Syrian war by the Security Council took place for this reason.<sup>20</sup>

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**Conclusion**

With the re-imposition of U.S. sanctions, Iran will intensify its efforts to maintain its economic and political relations with China and China will attempt to protect and advance its multiple interests in the face of the crisis afflicting the JCPOA. Beijing will probably continue its economic interactions with Tehran, especially its oil imports from Iran, and its support for the JCPOA. Of course, it will do this by adopting low-profile diplomatic ties and without provoking Washington's sensitivities and/or exposing large Chinese companies to U.S. punishments. China's actions in the context of U.S. withdrawal from the JCPOA will be strongly influenced by both the behavior of the EU and Iran. China's priority in relation to JCPOA without the U.S. will be to maintain a fragile balance between its multiple interests.



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