

# CHINA MAKING DEEP INROADS INTO IRAN

Relevant for: International Relations | Topic: Effect of policies and politics of developed & developing countries on India's interests

Shared interests: A file photo of Chinese President Xi Jinping and his Iranian counterpart Hassan Rouhani in Tehran. APAP

Both countries are at odds with the U.S. One is a huge energy market and is abundant with surplus cash and the other is a sanctions-hit, cash-strapped energy exporter. At a time when the U.S. is targeting both through a host of economic measures, China and Iran are taking their partnership to a new level through a \$400-billion long-term agreement.

According to a *New York Times* report, the countries are in an advanced stage of finalising the agreement that would allow China to expand its presence in banking, telecommunications, ports, railways and several other sectors in the Islamic Republic in return for heavily discounted oil for 25 years. While for Iran, whose oil sales plummeted after President Donald Trump unilaterally pulled the U.S. out of the Iran nuclear deal in May 2018 and reimposed sanctions on the country, this agreement could be an economic lifeline, China could enhance its strategic influence in a region where the U.S. has built a strong presence since the Second World War.

## Strategic value

The partnership was first proposed by China's President Xi Jinping during a visit to Iran in 2016. The Iranian government cleared it last month, according to Foreign Minister Javad Zarif. This means, Mr. Xi made the proposal after the nuclear deal was reached in 2015 that led to international sanctions on Iran being lifted. Now, when Iran is grappling with a struggling economy hit by sanctions following the unravelling of the deal, its leadership has cleared the Chinese proposal.

"Iran has a very crucial place in China's Belt and Road Initiative (BRI). China always wanted to bring Iran on board. As the Americans pursued the policy of 'maximum pressure' against Iran and left Iran under extraordinary privation and deprivation, it is now open to the Chinese initiative," said Talmiz Ahmad, who was India's Ambassador to several Gulf countries.

The partnership agreement has to get the final clearance from the Iranian Parliament. According to the *NYT*, China and Iran would launch joint training exercises, joint research and weapons development and intelligence sharing. China will also offer its GPS to Iran, build infrastructure for 5G rollout and develop free trade zones.

"It is a long-term strategic partnership agreement with energy, economic, logistical and military aspects. Iran and China will be enmeshed — two countries under extraordinary and sustained American pressure found comfort with each other," said Mr. Ahmad.

The deal could offer an immediate reprieve to Iran's economy that is reeling under the U.S.'s 'maximum pressure' policy. The International Monetary Fund has forecast that Iran's economy will contract by 6% this year. "Iran has been isolated. And its infrastructure is in a shambles. Over a period of time, this will receive an upgrade. From the Chinese point of view, Iran would present a very major energy, economic, geopolitical and logistical partner and a very crucial role player in the BRI," said Ambassador Ahmad.

## Game changer

In his view, a new multipolar world order is emerging in which China is playing a crucial role. China has already cemented ties with Russia in this emerging order. Iran has joined this bloc. “In terms of the evolution of the new world order, this agreement is a game changer.”

The agreement, if goes through, could attract punitive measures from the U.S. against China. The U.S. State Department has already said it would target Chinese companies if they make investments in Iran defying American sanctions. But China, which is already in a trade and technological war with the U.S., seems determined to go ahead with its partnership. China continued to buy Iranian oil over the past year even after the U.S. sanctions waivers expired in May 2019, although in smaller volumes. In contrast, India stopped buying Iranian oil last year after U.S. waivers ended. In 2019-20, India’s crude oil imports from Iran were 1.7 million tonnes, down from 23.9 million tonnes in the previous fiscal.

## India’s role

Coincidentally, at a time when Iran and China are finalising this partnership agreement, Iran has dropped India from a project to build a rail line from the Chabahar port to Zahedan, along the border with Afghanistan, *The Hindu* reported on Tuesday. The project, signed in 2016, was hailed as a major trilateral project that would give India access to Afghanistan bypassing Pakistan. But Iranian officials cited delay in the proposed \$400 million funding as the reason for dropping India from the project. Under the new partnership agreement, China is likely to play a role in Chabahar port.

The original Chabahar agreement between India and Iran was signed in 2003 between Iranian President Mohammad Khatami and Prime Minister A.B. Vajpayee. “Within a year, we abandoned it. We started engaging with the Americans, so we stopped pursuing it. And again, we brought it up. Prime Minister Modi went to Tehran and we agreed on a trilateral track with Iran and Afghanistan that we would develop Chabahar and then we would go forward with building a railway and road networks. The strategic plan was to make India a potential role player in the Eurasian scenario,” said Mr. Ahmad.

“None of this has happened because under the second Modi government, India has pursued the American line. It’s a very serious mistake. Iran cannot afford to wait for India forever. They waited for 17 years. Now they don’t need you. I think India has lost out very badly.”

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