

The Dragon and the Lion Come to Terms: Should the Eagle Object?

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If recent reports are to be believed, the People's Republic of China and the Islamic Republic of Iran are on the precipice of reaching a historic bilateral agreement that could serve to change the regional dynamics in the Persian Gulf.¹ The deal, which is reportedly worth upwards of \$400 billion spanning a twenty-five year period, includes significant Chinese investment into Iranian infrastructure.² Additionally, China would gain even broader access to Iranian energy resources, which it desperately needs to continue to power its economy. What will be troubling to most outside observers is that this deal reportedly includes significant cooperation in defense, specifically intelligence and cyberspace operations.³

JCPOA

This move by the government in Tehran, led by President Hassan Rouhani who is quickly closing in on his time in office, should come as no surprise to Western audiences. Since the implosion of the Joint Comprehensive Plan of Action, more commonly known as the Iran Nuclear Deal, the Iranian economy has seen significant losses. The JCPOA was an agreement between Iran and the P5+1 countries (the United States, the United Kingdom, China, France, Russia, plus Germany), which sought to quell Iranian nuclear ambitions, while also allowing for the gradual reintroduction of Iran into the international community. The JCPOA became a "hot button issue" in the 2016 U.S. Presidential campaign between Donald Trump and Hillary Clinton, with Trump pledging to pull the U.S. out of the agreement. On May 8th, 2018, citing apparent Iranian violations of the agreement, President Trump removed the U.S. from the deal, and reinstated the sanctions regime.

It cannot be overstated how much of a significant effect that decision had on the Iranian economy. Foreign investment in the Islamic Republic basically came to a halt, and the U.S. now penalizes any foreign entity who does business with the country. According to the International Monetary Fund, "Iran's gross domestic product (GDP) contracted an estimated 4.8% in 2018".⁴

¹ Cohen, A. (2020, July 17). China and Iran Approach Massive \$400 Billion Deal. Retrieved July 17, 2020, from <https://www.forbes.com/sites/arielcohen/2020/07/17/china-and-iran-approach-massive-400-billion-deal/>

² An Iran-China 25-Year Agreement: Wishful Thinking Or A 'Lion-Dragon Pact'? (2020, June 29). Retrieved July 17, 2020, from <https://en.radiofarda.com/a/iran-china-25-year-agreement-reality-or-fiction/30696729.html>

³ Lawler, D. (2020, July 13). China-Iran deal envisions massive investments from Beijing. Retrieved July 17, 2020, from <https://www.axios.com/china-iran-investment-deal-oil-infrastructure-c919646d-2ece-4ee5-bfd7-c8a16a7f53b0.html>

⁴ Six charts that show how hard US sanctions have hit Iran. (2019, December 09). Retrieved July 18, 2020, from <https://www.bbc.com/news/world-middle-east-48119109>

Additionally, Iran has struggled with both high levels of inflation and unemployment.⁵ While it is true that Iran has recognized the importance of a relationship with the East for some time now, its increased tension in recent years with the West has pushed Iran significantly into the Chinese orbit.

Why it is Important

Both China and Iran will benefit immensely from this deal. Iran makes up about 13% of OPEC's oil reserves⁶, and sits on one of the world's largest natural gas reserves.⁷ The implementation of this deal would give China access to a much needed supply of energy resources that it desperately requires to continue its economic rise. Additionally, this will serve to make the Islamic Republic a key "cog in the wheel" of China's ever-expanding Belt and Road Initiative, while also extending its influence throughout the region.

On its face, the benefits for Iran are quite apparent. The isolated Islamic Republic would have access to expansive markets for their goods, advanced military technology, and a powerful patron state within the global order. Iran has not had an ally this powerful since the United States broke off diplomatic relations with the country during the Iranian Hostage Crisis in 1979. However, there are downsides to this agreement, and many in Tehran fear that Beijing could exercise too much influence over the fledgling Persian state.⁸

For the Trump administration, this deal could not come at a worse time. Faced with the fallout from a disastrous COVID-19 policy, which as of this writing has taken the lives of 140,000 Americans⁹ in just a few months, racial unrest, falling poll numbers, and an ever looming election against former Vice President Joe Biden, a challenge to its policy in the Middle East will not be welcomed with open arms. Current U.S. policy towards Iran has been characterized by a "maximum pressure" campaign that has sought to punish, and isolate, Iran for its aggressive actions in the region. A China-backed Iran could diminish the effects of this policy and serve to embolden the regime.

However, as a counterpoint to this narrative, the relationship between the "Dragon and the Lion" could have the opposite effect. China is seeking to grow its international influence, particularly

⁵ Islamic Republic of Iran - Overview. (n.d.). Retrieved July 18, 2020, from <https://www.worldbank.org/en/country/iran/overview>

⁶ OPEC Share of World Crude Oil Reserves. (n.d.). Retrieved July 18, 2020, from https://www.opec.org/opec_web/en/data_graphs/330.htm

⁷ Carter, S. G. (n.d.). Iran, Natural Gas and Asia's Energy Needs: A Spoiler for Sanctions? Retrieved July 18, 2020, from <https://mepc.org/journal/iran-natural-gas-and-asias-energy-needs-spoiler-sanctions>

⁸ Cohen, A. (2020, July 17). China and Iran Approach Massive \$400 Billion Deal. Retrieved July 17, 2020, from <https://www.forbes.com/sites/arielcohen/2020/07/17/china-and-iran-approach-massive-400-billion-deal/>

⁹ Cases and Deaths in the U.S. (2020, June 17). Retrieved July 18, 2020, from <https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/us-cases-deaths.html>

economically. The last thing policymakers in Beijing will want is an ally of theirs causing havoc in the Middle East. The Chinese value stability and access more than anything, and an Iran supporting violent, non-state actors, or causing unrest in the region, would not be in the interests of the PRC. As the Trump administration seeks to continue to pull back American troop presence in the region, it might be better served allowing this relationship to evolve. An aggressive, or nuclear armed Iran, is something that both the U.S. and China do not want.

Perhaps more interesting than the U.S. response will be the response from Iran's neighbors, all of which have been increasing ties in recent years with China. Saudi Arabia, which has been locked in a virtual cold war, and occasionally hot war, with Iran for several decades now, increasingly finds itself growing closer to Beijing with a series of economic agreements.^{10,11} Turkey, whose leader, President Recep Tayyip Erdogan, has been the most critical of the Chinese leadership in the past, mostly in response to its treatment of the Uyghurs, has noticeably muted its concerns since the country received a substantial bailout from the Chinese Central Bank.¹² Pakistan has been a crucial part of the BRI for some time now, and has prioritized its relationship with Beijing in recent years. Add China's economic investments in the region, coupled with its most recent support for the "Amman Message", and you have a region that is increasingly looking to Beijing for support, not Washington.¹³

Final Thoughts

While most of the players involved have remained quiet about the details, Iranian domestic support remains mixed. Former Iranian President Mahmoud Ahmadinejad, who has continued to strike a populist tone at the chagrin of his former conservative allies in the Khamenei regime, has vehemently come out against the deal. Ahmadinejad is demanding that the government be more transparent, and consult with lawmakers before entering into any pact with Beijing.¹⁴ Other

¹⁰ Gao, C. (2017, August 28). Closer Ties: China And Saudi Arabia Sign \$70 Billion in New Deals. Retrieved July 24, 2020, from <https://thediplomat.com/2017/08/closer-ties-china-and-saudi-arabia-sign-70-billion-in-new-deals/>

¹¹ Blanchard, B. (2019, February 22). Saudi Arabia strikes \$10 billion China deal, talks de-radicalisation with Xi. Retrieved July 24, 2020, from <https://www.reuters.com/article/us-asia-saudi-china/saudi-arabia-strikes-10-billion-china-deal-talks-de-radicalisation-with-xi-idUSKCN1QB15H>

¹² Karakaya, K., & Kandemir, A. (2019, August 09). Turkey Got \$1 Billion From China Swap in June Boost to Reserves. Retrieved July 24, 2020, from <https://www.bloomberg.com/news/articles/2019-08-09/turkey-got-1-billion-from-china-swap-in-june-boost-to-reserves>

¹³ Berman, I. (2020, July 16). China Outmaneuvers the Muslim World. Retrieved July 24, 2020, from <https://thediplomat.com/2020/07/china-outmaneuvers-the-muslim-world/>

¹⁴ Khorrami, N. (2020, July 15). The Pitfalls of the China-Iran Agreement. Retrieved July 18, 2020, from <https://thediplomat.com/2020/07/the-pitfalls-of-the-china-iran-agreement/>

critics of the deal include Ali Motahari, a conservative lawmaker from Tehran, as well as the son of the former Shah of Iran, Reza Pahlavi.¹⁵

One would be hard pressed not to see this deal as a direct consequence of President Trump's decision to leave the JCPOA in 2018. While the "maximum pressure" campaign has certainly inflicted significant economic damage on the Islamic Republic, it has done nothing to quell Iranian aggression in the region. Furthermore, it has created much unrest within the Iranian populace, essentially forcing the regime of Supreme Leader Ali Khamenei, which values holding onto power more than anything else, further into the Chinese circle. Seemingly squandering its chance at "heroic flexibility"¹⁶, U.S. policymakers do not have many avenues left to explore. Faced with an ever-dwindling array of options, Washington, albeit begrudgingly, might be better served not objecting to a region more closely aligned with China, as it could serve to maintain stability. With ongoing trade tensions, debates over the handling of the COVID-19 pandemic, and the recent closing of the Chinese consulate in Houston, however, it is unlikely that Washington will be open to working with Beijing to create a more stable Middle East.

¹⁵ Esfandiari, G. (2020, July 16). Explainer: Why Are Iranians Angry About A Long-Term Deal With China? Retrieved July 18, 2020, from <https://www.rferl.org/a/explainer-iranian-china-deal-anger-among-iranians/30724344.html>

¹⁶ Carmi, O. (2019, October 4). Iran's Supreme Leader Putting 'Heroic Flexibility' Aside. Retrieved July 18, 2020, from <https://www.washingtoninstitute.org/policy-analysis/view/irans-supreme-leader-putting-heroic-flexibility-aside>

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