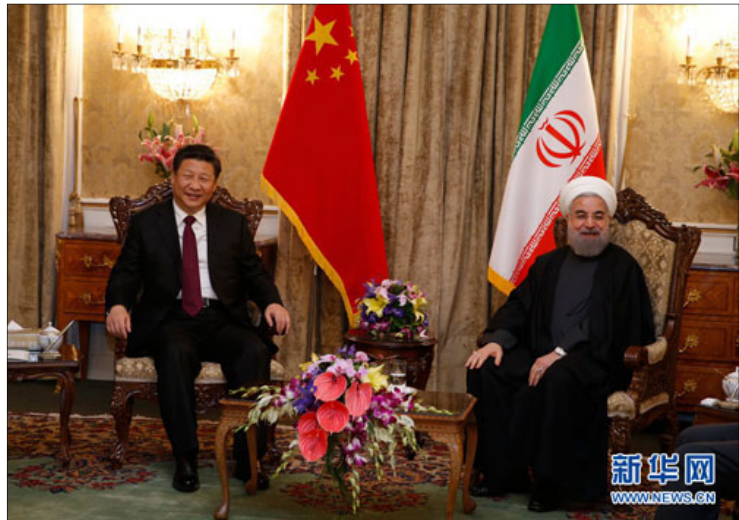


Iran's "Belt and Road" Role

by Taylor Butch

In a landmark visit to Tehran in January 2016, Chinese president Xi Jinping and Iranian president Hassan Rouhani signed a “comprehensive strategic partnership” that expanded bilateral ties and trade to US\$600 billion over ten years and formally recognized the Belt and Road Initiative (BRI), launched in September 2013. The initiative expands Beijing’s strategic, economic, and political cooperation via land and sea routes.¹ And while 138 countries have thus far inked nearly two hundred



Chinese president Xi Jinping (left) talks with Iran's president Hassan Rouhani, Tehran, January 23, 2016. The Chinese have begun construction of “a digital silk road,” and Tehran has welcomed its role in the project, proposing “smart cities” and a “digital economy.”

BRI deals, creating more than 300,000 new jobs and attracting over \$110 billion in Chinese investments, Iran is arguably the most influential Belt and Road nation as it directly shapes the expansion of China’s Digital Silk Road, Silk Road of Innovation, and Green Silk Road initiatives.² How will the intensifying Chinese connection affect Tehran’s economic and political standing and its bargaining

¹“Full text of Joint Statement on Comprehensive Strategic Partnership between I.R. Iran, P.R. China,” President of the Islamic Republic of Iran [website](#), Jan. 23, 2016; Ministry of Foreign Affairs, People’s Republic of China, Beijing, [Sept. 8, 2013](#); ASEAN-China Center, Beijing, [Oct. 2, 2013](#).

² Ministry of Foreign Affairs, Embassy of the People’s Republic of China, Iceland, [May 17, 2019](#); Ministry of Foreign Affairs, Beijing, [May 24, 2020](#).

power vis-à-vis the incoming U.S. administration, especially with regard to the 2015 nuclear deal, the Joint Comprehensive Plan of Action (JCPOA)?

Two Chinese companies currently control an estimated 40 percent of the 5G global marketplace.

China's Digital Silk Road

In May 2017, President Xi introduced “a digital silk road of the 21st century” that seeks to

pursue innovation-driven development and intensify cooperation in frontier areas such as digital economy, artificial intelligence, nanotechnology, and quantum computing, and advance the development of big data, cloud computing, and smart cities so as to turn them into a digital silk road of the 21st century.³

By then, private Chinese firms and state-owned enterprises (SOE) had transformed a number of Chinese and foreign localities into “smart cities,” hosting internet-driven eco-systems that facilitate sharing of information to deliver powerful, improved efficiency-based results in public and private settings.⁴ The idea appealed to the Iranian government, which proposed in its sixth five-year development plan (2017-21) the integration of “smart city” concepts and a “digital economy” by installing public Wi-Fi and employing smart buildings, mobile pay-

ment, e-commerce, e-health services, and e-government to streamline efficiency.⁵

The Digital Silk Road will also allow Beijing to shape the current and future use of the new 5G technology. Two of the world's largest telecommunications companies—Zhongxing Telecommunications Equipment Corporation and Huawei—currently control an estimated 40 percent of the 5G global marketplace, with the latter being the largest 5G supplier on all continents apart from North America.⁶ Both companies have developed global telecom and infrastructure partnerships in other countries, including Iran, where 90 percent of the population is connected to the internet.⁷ Such reliance on 5G technology from a single source or nation could impact a nation's economic and national security.⁸

Innovation Silk Road

Interchangeably linked with the Digital Silk Road is the Innovation Silk Road, a concept that permits Beijing to enhance technology transfers and innovation sharing across multiple sectors.⁹ For their part, Iranian officials have announced their intention to transform multiple sectors in

³ Xi Jinping, Belt and Road Forum, Ministry of Foreign Affairs, Beijing, [May 14, 2017](#).

⁴ News release, Alibaba Group, Hangzhou, [Aug. 4, 2017](#); news release, Infocomm Development Authority of Singapore and International Enterprise Singapore, [Oct. 22, 2013](#); Xinhua News Agency (Beijing), [Jan. 29, 2018](#).

⁵ President of the Islamic Republic of Iran website, May 28, 2020; *Financial Tribune* (Tehran), Sept. 27, 2016, Nov. 6, 2016.

⁶ William P. Barr, U.S. attorney general, China Initiative Conference, Dept. of Justice, Washington, D.C., [Feb. 6, 2020](#).

⁷ Islamic Republic News Agency (IRNA, Tehran), [Nov. 20, 2019](#).

⁸ Barr, China Initiative Conference, [Feb. 6, 2020](#).

⁹ “List of Deliverables,” Second Belt and Road Forum for International Cooperation, Beijing, [Apr. 27, 2019](#).

Iran by implementing “China’s way,” with representatives from the two countries hosting events, participating in scientific and academic exchanges, and stressing the importance of technology transfer in energy and medical communities.¹⁰ With the Iran National Science Foundation (INSF) partnering with the Chinese Academy of Sciences (CAS) on multiple occasions for scientific exchanges and workshops, Beijing has, furthermore, sponsored the Green Silk Road Envoys Program designed to train 1,500 environmental experts from Belt and Road countries over a 3-year period starting in 2019.¹¹

Tehran’s economy is transitioning to renewable energy power to reduce fossil fuel and water consumption and air pollution.

The “Green” Silk Road

While Tehran possesses the world’s fourth-most oil reserves and second-most natural gas reserves, its economy is transitioning to renewable energy power to reduce fossil fuel and water consumption and air pollution, making Tehran the largest Middle Eastern producer of renewable resources in 2019 at 12,675 megawatts (MW).¹² Under the

Rouhani administration (2013-21), the government arguably secured its renewable energy legacy—committing to a substantial solar power research and development budget increase and awarding hundreds of domestic renewable energy contracts, which have allowed the nation to nearly double its installed renewable energy capacity in a decade.¹³

This impressive progress notwithstanding, and despite Iran’s huge renewable energy potential,¹⁴ such a major shift cannot be realized without outside help. To entice foreign investment in renewable energies, the government passed the Foreign Investment Promotion and Protection Act (FIPPA), which awards the same privileges to foreign investors as it does to domestic investors.¹⁵

Taking advantage of this law and aided by the 2005 Iran-China bilateral investment treaty, Chinese state-owned and private firms have been heavily involved in Iran’s renewable energy market for more than a decade.¹⁶ Top Chinese representatives from state-owned (e.g., SIEG, CGGC,

¹⁰ IRNA, [Mar. 19, 2019](#), [Nov. 20, 2019](#); “SRSF 2021 Joint Project Call Announced,” Iran National Science Foundation, Tehran, [May 26, 2020](#); *Financial Tribune*, May 11, 2016, July 17, 2016, Dec. 20, 2017; Mehr News Agency (Tehran), [Dec. 28, 2014](#); Paris Agreement, United Nations, [Dec. 12, 2015](#), art. 10, no. 1.

¹¹ Iran National Science Foundation, Tehran, [May 26, 2020](#); “Belt and Road Cooperation: Shaping a Brighter Shared Future,” joint communique, Second Belt and Road Forum for International Cooperation, [Apr. 27, 2019](#).

¹² “[Renewable Energy Statistics 2019](#),” International Renewable Energy Agency (IRENA), Abu Dhabi, p. 19; U.S. Energy Information Administration, Washington, D.C., [Jan. 7, 2019](#); *Financial Tribune*, Feb. 21, 2020.

¹³ *Financial Tribune*, Nov. 16, 2014; Renewable Energy and Energy Efficiency Organization (SATBA), Ministry of Energy, Tehran, [2018](#).

¹⁴ See, for example, SATBA, [Aug. 18, 2019](#), [Dec. 3, 2019](#), [Dec. 14, 2019](#), [Mar. 2, 2020](#), [June 24, 2020](#); Mehr News Agency, [July 8, 2018](#), [Oct. 14, 2018](#), [Oct. 14, 2019](#).

¹⁵ “Foreign Investment Promotion and Protection Act (FIPPA),” SATBA, 2002.

¹⁶ “Working Together to Deliver a Brighter Future for Belt and Road Cooperation,” Second Belt and Road Forum for International Cooperation, [Apr. 26, 2019](#); Organization for Investment Economic and Technical Assistance of Iran, Tehran, [2020](#).

PowerChina) and private firms (e.g., Zhejiang ECO-WASTE Technology Co, Ltd.) have met with Iranian counterparts on multiple projects primarily centered on solar power, hydroelectric power, and biofuel, with the vast majority successfully completed. However, some appear to have only entered negotiations while other projects were abandoned due to unknown reasons.¹⁷ Aside from constructing renewable energy power plants in Iran, Chinese firms have also built multiple manufacturing plants for solar panels and the foundations for next-generation technology sharing, for example, in floating solar power stations.¹⁸

Win-Win Financing along Belt and Road

“Finance is the lifeblood of modern economy. Only when the blood circulates smoothly can one grow,” stated Xi Jinping at the opening ceremony of the Belt and Road Forum in 2017.¹⁹ Establishing strong financial ties and lines of credit with BRI countries has allowed Beijing to advance its global initiative with speed, efficiency, and most importantly, with positive results. Financing joint-ventures with Chinese firms via Chinese banks offers low interest loans and the ability for Iranian companies to complete most financial transactions in a multitude of foreign currencies rather than U.S. dollars, which are primarily used for oil

Financing joint-ventures with Chinese firms via Chinese banks allows Tehran to bypass some U.S. sanctions.

transactions. This transactional route allows Tehran to bypass at least some U.S.-imposed sanctions, with banking officials from both countries making official visits and meeting with banking

regulators in recent years to boost financial ties.²⁰

These moves have yielded positive results as Tehran has invested billions of capital in infrastructure and renewable energy projects and has, on at least one occasion, worked to double lines of credit from Chinese firms’ to \$50 billion.²¹ For its part, the state-owned Development Bank of China has lent at least \$18 billion for construction and production projects in Iran²² while the state-owned investment firm China International Trust and Investment Corporation Group has put forth tens-of-billions of dollars for water management, energy, environment, transportation, and mining in Iran.²³

Chinese financial institutions, such as Export-Import Bank of China (EXIM), act as the final means, thus far, to finance BRI projects.²⁴ As of 2017, EXIM had granted \$9 billion in loans to twenty-six Iranian projects in energy, petrochemical, and other sectors,

¹⁷ Reuters, [May 31, 2012](#); Renewable Energy Organization of Iran, SATBA, [Mar. 5, 2016](#).

¹⁸ Mehr News Agency, [Aug. 17, 2020](#), [July 8, 2018](#); *South China Morning Post* (Hong Kong), [June 2, 2017](#); *Financial Tribune*, Oct. 23, 2017.

¹⁹ Xi Jinping, Belt and Road Forum, [May 15, 2017](#).

²⁰ *Financial Tribune*, Sept. 14, 2017, Nov. 1, 2017, Dec. 1, 2017, Dec. 16, 2017; *China Daily* (Beijing), [Jan. 25, 2019](#); Press TV (Tehran), [Mar. 21, 2018](#); Chinese Embassy in Iran, Tehran, [May 25, 2016](#).

²¹ *Financial Tribune*, Nov. 15, 2014; Mehr News Agency, [June 19, 2018](#).

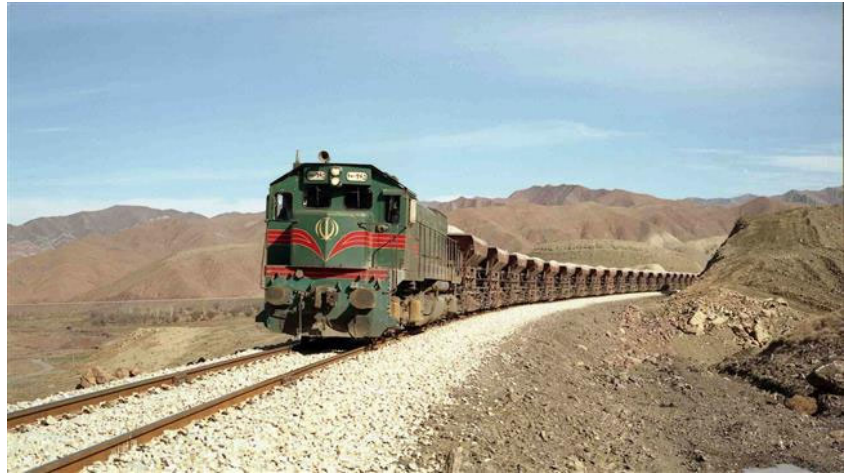
²² *Financial Tribune*, Nov. 1, 2017.

²³ *Ibid.*, Sept. 27, 2016, Nov. 1, 2017.

²⁴ “Silk Road Briefing,” Dezan Shira and Associates, Beijing, Sept. 21, 2017, updated [July 10, 2019](#).

and more recently financed two ventures for \$1.5 billion apiece, one unnamed project, and the electrification of the Tehran-Mashhad railway project.²⁵ China Export and Credit Insurance Corporation (Sinasure), a state-owned insurance firm that ensures against an assortment of political and commercial risks along the BRI, is another active participant in Iran.²⁶

Opening lines of credit also assists Iran in achieving major infrastructure development goals. Starting with electrification of all railways by 2025, Tehran plans to update and extend its railway network by the end of this decade to a total of 25,000 kilometers—more than double its 2018 length—at a cost of \$25 billion.²⁷ Chinese state-owned enterprises are financing this and other infrastructure projects (e.g., a \$13 billion contract signed in 2011 to supply eight railroad lines at more than 5,000 km in total length), paying in Chinese currency.²⁸ Besides transporting domestic goods and passengers, the ambitious railway expansion connects to neighboring countries along the Belt and Road and eventually to other established railway networks—at one end,



Chinese state-owned enterprises are financing many Iranian infrastructure projects, including the extension and electrification of all Iranian railways by 2025.

Europe and, at the other, Central Asia and China.

Aside from railways, Chinese state-owned entities and private companies are reshaping Iran from the inside out via key infrastructure projects: high-capacity hospitals totaling nearly 4,000 beds, metro services, automobile facilities, mining, and highways and roads.²⁹

Navigating Sanctions

Of the sanctioned Belt and Road nations, Iran has the highest potential for overall investment return for China, which is why Beijing has publicly endorsed Tehran's right "to benefit from the peaceful use of nuclear energy" and has remained committed to the

²⁵ Press TV, [July 25, 2017](#).

²⁶ "[Corporate Profile](#)," Sinasure, Beijing; *Financial Tribune*, Sept. 27, 2016, Mar. 13, 2017.

²⁷ Press TV, [May 29, 2018](#); *Financial Tribune*, Dec. 16, 2017.

²⁸ Press TV, [Feb. 9, 2011](#), [Mar. 21, 2018](#); *China Daily*, [Jan. 25, 2019](#).

²⁹ *Financial Tribune*, Sept. 27, 2016, Nov. 4, 2017, Dec. 19, 2017, July 4, 2018; Press TV, [May 29, 2018](#); *China Daily*, [June 12, 2004](#); *People's Daily* (Beijing), [Sept. 30, 2014](#); Reuters, [Oct. 15, 2012](#); "About Chery," Chery International, Wuhu, Anhui, China, [2019](#); IRNA, [Feb. 6, 2018](#).

JCPOA despite the U.S. withdrawal from the deal.³⁰ Even after the Trump administration had restored sanctions against Iran, Beijing and Tehran continued to cooperate on a series of nuclear-related projects, many of which were discussed during President Xi's 2016 visit to the Middle East, including the construction of two 1000 megawatt nuclear power plant contracts, a number of 100 megawatt nuclear plants, and an Arak heavy water reactor, in addition to scientific research in the nuclear field.³¹ At the same time, in an attempt to avert U.S. retaliation, Beijing seems to have slow-walked some nuclear projects (e.g., a joint-redesign of the Arak heavy water reactor by China National Nuclear Corporation and a British company) and to imply the possible halt to some oil-related transactions.³²

This, however, was the exception to the rule. By way of ameliorating the impact of the sanctions, Beijing has funded the establishment of research and development parks in Iran and the two countries have signed multiple memoranda of understanding to boost science and energy, nanotechnology, and medicine and health cooperation, all of which benefit from quantum comput-

Despite sanctions against Iran, Beijing and Tehran continued to cooperate on a series of nuclear-related projects.

ing, big data, and 5G technology.³³

“It's hard to say that sanctions have no impact on our country, but it is notable that during hard times, we would know who the true friends are,”

stated Iran's vice-president for scientific and technological affairs Sorena Sattari.³⁴

Beijing was also encouraged in its continued economic interactions with Tehran by the attempts of the JCPOA's European signatories (France, Germany, and Britain) to bypass sanctions by establishing the Instrument for Supporting Trade Exchanges (INSTEX) to enable “legitimate European trade with Iran.” Chinese officials have hinted at joining INSTEX, which has subsequently expanded by at least six nations—an idea that its members have not dismissed.³⁵

Paradoxically, Beijing's sanctions flouting exacerbated Tehran's preexisting dilemma regarding the nationality of workers on BRI projects. While Iranian officials encourage foreign and domestic companies to use local workers and materials, Beijing favors employing Chinese workers when operating in foreign countries. In addition, Chinese parts and equipment are often cheaper, forcing many Iranian companies to make hard choices that impact quality, cost, and project management about whether to construct domestic-made parts or import

³⁰ *Tehran Times*, [Jan. 23, 2016](#); Mehr News Agency, [Oct. 13, 2018](#); Zhao Lijian, Ministry of Foreign Affairs, Beijing, [May 29, 2020](#).

³¹ Tasnim News Agency (Tehran), [Jan. 19, 2016](#); *Tehran Times*, [Jan. 23, 2016](#); Press TV, [Jan. 24, 2016](#).

³² Foxbusiness.com, [Jan. 13, 2020](#); *Tehran Times*, [Feb. 12, 2020](#); *Financial Tribune*, Apr. 21, 2017; Radio Farda (Prague), [Jan. 31, 2019](#); *World Nuclear News* (London), [Apr. 24, 2017](#).

³³ Mehr News Agency, [Dec. 28, 2014](#), [Oct. 24, 2016](#), [Dec. 10, 2016](#); *Financial Tribune*, Dec. 20, 2017.

³⁴ IRNA, [Nov. 20, 2019](#).

³⁵ Joint statement on INSTEX, E3 Foreign Ministers, [Jan. 31, 2019](#); Ministry of Foreign Affairs, Beijing, [Dec. 3, 2019](#).

Chinese parts.³⁶

These employment and procurement problems were already evident before the restoration of sanctions as Iranian firms were pressured to ensure that a majority of the workforce be local when collaborating with Chinese firms.³⁷ These problems intensified greatly as the Trump administration's "maximum pressure" campaign dealt a severe blow to the Iranian economy, sending unemployment skyrocketing above 17 percent (above 40 percent among college graduates)³⁸ and forcing the Iranian government to walk the tightrope between keeping native Iranian jobs and preventing Chinese companies from succumbing to U.S. pressure and slowing, or even suspending, their operations in Iran. The situation worsened as the COVID-19 pandemic afflicted Iranian society and economy, with over 50,000 officially reported deaths by the end of 2020 and some 850,000 people losing their jobs.³⁹



Burying COVID-19 victims, Hamadan, Iran, March 2020. Iranian problems with employment and procurement have intensified as the COVID-19 pandemic afflicted Iranian society and economy.

Conclusion

With \$26.5 billion worth of investments since 2005,⁴⁰ China has been Iran's largest trade partner for over a decade, and the relationship is likely to strengthen as Tehran is eager to become the Belt and Road Initiative's flagship Middle Eastern partner. Yet, Tehran's growing regional aggressiveness over the past few years has clearly been unpalatable to Beijing—both because of China's position as the world's foremost oil and natural gas importer and its burgeoning economic relations with other states at loggerheads with Iran (e.g., \$8.6 billion investments in Israel since 2015).⁴¹ But Beijing has not used its economic leverage to rein in Tehran. Quite the reverse in fact. As its relations with the Trump administration deteriorated, Beijing not only sustained its

³⁶ *Tehran Times*, [July 20, 2016](#); SATBA, [June 14, 2020](#); *China Daily*, [Sept. 6, 2018](#); *Financial Tribune*, Nov. 16, 2014, June 24, 2017, Nov. 4, 2017; Press TV, [May 12, 2015](#), [Sept. 23, 2015](#), [Mar. 21, 2018](#); Mehr News Agency, [May 12, 2015](#).

³⁷ IRNA, [Feb. 6, 2018](#), [Nov. 20, 2019](#); Mehr News Agency, [Feb. 6, 2018](#).

³⁸ "Unemployment rate percentage," International Monetary Fund, Washington, D.C., [Nov. 2019](#); Radio Farda, [Jan. 9, 2019](#).

³⁹ [COVID-19 Coronavirus Pandemic](#), Worldometer, [Dadax Limited](#), Shanghai; *Tehran Times*, [Sept. 7, 2020](#), [Oct. 31, 2020](#), [Nov. 14, 2020](#).

⁴⁰ "[China Global Investment Tracker](#)," American Enterprise Institute, Washington, D.C.

⁴¹ *Ibid.*

economic relations with Tehran in the face of Washington's renewed sanctions (with some notional pro forma concessions), but in June 2020, finalized a far-reaching 25-year economic and security partnership that would give China a vastly expanded presence in numerous segments of the Iranian economy—from energy to telecommunications to transportation and ports—in return for regular, and reportedly heavily discounted, oil supply for the entire period.⁴²

This symbiotic relationship echoes the mutually beneficial interdependence between the superpowers and their Middle Eastern allies during the Cold War. Those relationships favored each partner in accordance with the vicissitudes in regional and global affairs but were, on the whole, kinder to the smaller states that skillfully exploited the superpowers' opposing interests to improve their own position.⁴³ Even if a marked improvement in U.S.-Chinese relations under

the Biden administration were to take place, this may not dissuade Tehran from its drive for regional hegemony and nuclear weapons given the centrality of these goals for the Islamic regime and the ongoing U.S.-Chinese global competition that will continue to constrain Washington's leverage vis-à-vis Tehran.

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⁴² *The New York Times*, [July 11, 2020](#).

⁴³ Efraim Karsh, "Cold War, post-Cold War: Does it make a difference for the Middle East?" *Review of International Studies*, 23 (1997): 271-91.