

CHINA, IRAN, AND THE LIMITS OF STRATEGIC PARTNERSHIP AMID WAR

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The Iran war has exposed the fragility of the Middle East security environment and its direct implications for Asian powers, particularly China. While Beijing has long benefited from a U.S.-led security order, the current escalation highlights the challenges China faces, especially as it continues to refrain from offering any security commitments to Iran. China's ties with Iran remain significant but limited, while its deeper and more diversified partnerships with Gulf states reflect clearer long-term priorities. The war has raised questions about the nature of relations between China and Iran while amplifying concerns over the vulnerability of Chinese investments and energy security. Although China continues to rely on restraint and backchannel diplomacy, growing instability, particularly risks to Gulf infrastructure, threatens China's interests in the region. In this context, Iran's ties with China remain complicated, especially as Iran continues to prefer a hostile approach.

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The U.S.–Israel war against Iran highlights the impact of instability in the Middle East on energy markets, global trade, and international security. Asian economies remain heavily dependent on energy flows from the Gulf, and China is no exception. For decades, Beijing has benefited from a regional order in which the U.S. has borne the primary burden and responsibility of maintaining maritime security and ensuring stability across critical chokepoints. However, the recent escalations have introduced new levels of volatility in an already fragile security environment. The Strait of Hormuz, through which over one-fifth of the world's oil supply transits,

has emerged as a central point of strategic coercion. Disruptions and threats of closure have consequently increased insurance rates and overall shipping costs.¹ For a manufacturing-driven economy like China, these developments constitute a direct strategic concern.

Beijing's reaction to the war has been measured and consistent with its previous approaches. China condemned the U.S. and Israeli strikes as violations of sovereignty and international law while calling for restraint and de-escalation.² At the same time, China has deliberately avoided any form of direct military

involvement in the ongoing war. Instead, Chinese policy remains focused on safeguarding energy supplies and protecting its economic and strategic interests in the region. Such a response is part of China's approach that is premised on using its resources to expand its influence without accepting the liabilities of any form of security alliance. China's coordinated diplomatic maneuvering with Türkiye, Egypt, and Pakistan reflects its intent and willingness to engage in deliberate engagement to influence outcomes through backchannel diplomacy without assuming a visible leadership position. Reports suggest that China pressured Iran to accept a ceasefire deal.³ Such efforts are likely to enhance Beijing's diplomatic influence in the region, despite skepticism surrounding the long-term success of other efforts like Saudi–Iran rapprochement. The outcomes of such deals have always been contingent on multiple structural and regional factors.

Iran's Place in China's Regional Strategy

China has long viewed Iran as a useful partner in the Middle East; however, Iran has never been the center of Beijing's regional strategy. Instead, China has increasingly pursued a diversified strategy, maintaining engagement with Iran while expanding relations with Saudi Arabia, the United Arab Emirates, and other Gulf states that offer significant scope for cooperation in their ambitious large-scale socioeconomic reform programs.

The China-Iran 25 Year Cooperation Agreement is often cited as proof of a deep partnership.⁴ However, in reality, the agreement has remained loosely defined and limited in execution, especially in light of developments in recent years. Investment commitments have progressed slowly, and China has consistently avoided institutionalizing the relationship in ways that would create any binding obligations. This approach is calculative when analyzed in conjunction with China's engagement with Gulf states in recent years. From Beijing's perspective, these countries offer safer and more scalable platforms for long-term economic cooperation, which is why the range of investments and trade with Gulf states is much higher. China's trade with Iran was around \$10 billion last year,

significantly lower than its trade with Saudi Arabia and the UAE, which each exceeded \$100 billion.⁵ Moreover, China's economic engagement with the Gulf states is far more diversified across sectors, whereas its ties with Iran remain relatively narrow and constrained.

China recognizes Iran's ability to challenge U.S. interests in the region via its allies and proxy networks, which is an important aspect of China's considerations in the region. Moreover, Iran has, over time, shown its capacity to endure pressure amid Western sanctions. This has created a favorable environment where both Iran and China have converging interests to engage closely. However, unlike its deep defense partnership with Pakistan, China has deliberately avoided significant weapons deals or any meaningful military institutionalization with Iran, reflecting a calibrated strategy of engagement without security commitments.

The war has further reinforced Iran's relative marginality. The damage to military and civilian infrastructure, along with long-term sanctions, has raised serious questions about the sustainability of existing agreements and the security of Chinese investments. This also comes amid concerns among Chinese leaders regarding investments in high-risk environments, and Iran now features as one of the most complex investment climates in China's external portfolio.

China's Leverage and Iran's Constraints

China remains the single largest buyer of Iranian oil. China purchased over 80 percent of Iran's oil exports last year, accounting for nearly 13 percent of China's seaborne crude imports.⁶ Much of this oil is purchased at heavily discounted rates and transported through complex logistical and financial arrangements designed to circumvent sanctions.

Repeated wars and conflicts pose operational risks for these arrangements, but China's evolving financial strategy reflects Beijing's attempts to build resilience to manage such pressures. The expansion of its Cross-Border Interbank Payment System (CIPS) beyond yuan-

only transactions points to a gradual effort to build a more flexible payments architecture.⁷ China has taken measures in recent years to reduce its reliance on SWIFT and CIPS. With all its limitations, this has enabled a subset of transactions, particularly energy trade with Iran, to bypass U.S.-linked banking channels.⁸ Yet, CIPS remains significantly smaller than Western financial infrastructure, including SWIFT, and cannot displace dollar dominance at scale. China is unlikely to shift to a completely autonomous parallel financial system; however, recent developments indicate that China's strategy is primarily to challenge the U.S. enforcement of sanctions and preserve its mechanisms to trade with sanction-hit countries. The structural constraints China would face in creating an alternate financial system remain significant because of the dominance of the dollar as a reserve currency, as well as global trust in U.S. financial institutions.

China's diversified energy import portfolio allows it to selectively sustain Iranian flows without overdependence; however, China has created avenues to sustain its trade with Iran, which remains a key pillar of the bilateral ties between the two countries. For Iran, as of now, yuan-based transactions do not offset sanction-related damages entirely but offer some pathway through them,

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lowering compliance costs and reducing exposure to dollar-clearing systems.

Because of the structural limitations and constraints faced by Iran, the relationship between Iran and China is highly asymmetric. Iran has no other partner capable of buying its oil output at the scale that China does, and this asymmetry gives Beijing substantial economic leverage over Iran without extending any sort of guarantees. The war has highlighted the vulnerabilities inherent in this arrangement. Disruptions in the Gulf, the weaponization of the Strait of Hormuz, and the risk of further sanctions or kinetic escalation directly threaten China's energy security. While Beijing has invested in strategic reserves and pursued supply diversification, Middle Eastern energy remains structurally significant. As per reports, China could withstand a disruption in the Strait of Hormuz for a period longer than most Asian countries, primarily due to its substantial strategic petroleum reserves (SPR) and commercial stockpiles.⁹ Estimates suggest that China's combined reserves cover up to four months of net imports, though the duration for which this can sustain broader economic activity would depend on consumption adjustments and supply reallocation.¹⁰ China's small private refineries, known as the “teapot refiners,” play an important role in enhancing the resilience to some extent, as it offers a flexible channel for importing discounted crude from Iran and Russia amid sanctions.¹¹ These flows often rely on opaque logistics and are increasingly settled in yuan via CIPS, reducing reliance on dollar-clearing systems and limiting sanctions exposure. However, thin margins make them highly vulnerable to rising prices and shrinking discounts. While they provide short-term supply resilience using existing inventories, their capacity to sustain imports during prolonged disruptions remains limited.

Moreover, a prolonged disruption would expose structural vulnerabilities. Middle Eastern suppliers, particularly Saudi Arabia, Iraq, and Iran, remain central to China's energy mix. Rather than accelerating a decisive shift away, such a crisis is more likely to produce a dual response. On one hand, it would intensify diversification

efforts; on the other, China has indicated its willingness, in times of crisis, to deepen its engagement to secure critical sea lanes. In this sense, China invariably will adopt measures to engage closely with its partners and allies, like Iran, to manage, rather than escape, its energy dependence.

Additionally, China's influence over Iran has enabled it to secure assurances for the safe passage of Chinese vessels through the Strait of Hormuz.¹² Even amid the 2024 escalations in the Red Sea, Iran's proxy, the Houthis, have allowed transit for "friendly" countries such as China, often under controlled or selective conditions.¹³ This is strategically significant for Beijing, as it underscores how its political and economic ties with Tehran can, to some extent, be translated into security guarantees for its energy supply chains, even in periods of acute geopolitical instability.

The Future of BRI in Iran

Iran's geostrategic location has long made it attractive within the Belt and Road Initiative (BRI) framework. It connects Central Asia, the Caucasus, South Asia, and the Middle East, offering potential transit corridors for trade and energy. In practice, however, China's BRI exposure in Iran has remained modest. Projects have progressed slowly, financing has been cautious, and implementation has been uneven. Sanctions and risks associated with the Iranian economy have consistently constrained expansion.¹⁴

The current situation has further exposed the limits of the BRI framework in countries prone to conflicts and war. Although the initiative is frequently framed as a tool for strategic integration, its effectiveness ultimately rests on stability. The war has therefore reinforced a recalibration already underway, and BRI projects in Iran are likely to remain limited and selective in the coming years.

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Further, Iran's operational effectiveness during the war has reinforced long-standing assessments of the limitations of its conventional capabilities. Despite rhetoric and asymmetric capabilities, Tehran struggled to defend high-value targets from U.S. and Israeli attacks. This has dented Iran's deterrent posture and exposed its vulnerabilities, which will invariably affect China's perception of Iran as a regional power.

The Limits and Nature of Chinese Support

The war also reaffirmed the fact that the U.S. remains the only power with both the intention and the capability to project decisive military force in the Middle East. China is neither willing nor has shown any interest in changing this dynamic. Moreover, any such attempt would

represent a stark shift from its traditional approach and official policy as outlined in the Arab Policy Paper.¹⁶ China's policy is fundamentally pragmatic. Beijing is less concerned with who governs than with whether its economic and strategic interests are secured. Even after the killing of Iran's former Supreme Leader, Ayatollah Khamenei, Beijing's response was limited to a formal condemnation. For China, regime survival in Iran is not a priority, but for Iran, it remains the foremost priority. However, China's role in pushing for the ceasefire marks a shift in its position, as it appears that Beijing has leveraged its influence over Iran to facilitate de-escalation and negotiations.¹⁷

While Pakistan assumed the leading role for mediation, China has cautiously remained in the background. The fragility of the ceasefire was soon clear as Israel escalated its attacks in Lebanon and Iran resumed its attacks on Gulf countries.¹⁸ Taking into account the statements and responses from Chinese, American, and Iranian officials, it appears that China's last-minute diplomatic intervention played a consequential role in shaping Tehran's decision to accept the ceasefire, although the durability of it remains uncertain.

Iran has actively sought Chinese support at the United Nations. Appeals to Foreign Minister Wang Yi and efforts to mobilize Chinese and Russian backing in the Security Council highlight Iran's expectations from its partners. Beijing is likely to continue offering rhetorical support and diplomatic backing while calling for restraint. China's coordination with Pakistan during the crisis further illustrates its preference for collective diplomatic signaling.¹⁹ The joint proposal calling for a ceasefire, dialogue, and secure navigation reflects shared positions and interests for de-escalation.²⁰ For Pakistan, the concerns and consequences are immediate, as the regional instability in the Middle East has exacerbated domestic economic disruptions.²¹ The repeated cycles of escalation, like the 2024 flare-ups, have pushed Pakistan to a difficult position.²² It shares a sensitive border with Iran marked by recurring security spillovers and long-standing tensions that can escalate at any time, posing persistent security challenges, because of which it is necessary for Islamabad to maintain pragmatic functional ties with Iran. At the same time, the financial support of the Gulf states remains critical for Pakistan's economy. Utilizing its investments and influence China will remain indirectly engaged in the region to work towards outcomes favorable to Beijing's considerations without direct exposure. In this context, intensifying Iran–Gulf tensions complicate both Beijing's and Islamabad's approach, although in different ways with different consequences.

China's approach towards Iran will invariably shape the perception of China's other partners and allies toward Beijing. For states that engage with China as a strategic partner, this war has reinforced the understanding that Beijing's support is conditioned by risk avoidance and that China will not militarily engage. It raises questions about the reliability of China as a partner, especially when core security interests are at stake.

The damage done to Iran–Saudi rapprochement, which China had helped facilitate, also highlights the limits of Beijing's mediation capacity. While China can convene talks and broker symbolic agreements, it lacks the leverage required to sustain them. Additionally, Iran's

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attacks on the Gulf states have reinstated mistrust and skepticism. It was not in China's interest for Iran to diversify its attacks and continue targeting Gulf states, as this directly undermines regional stability and threatens China's economic and energy interests.

While the war could pressure Beijing's calibrated neutrality, Gulf states are unlikely to demand stronger security commitments from China, considering the U.S. role in the region. China's approach remains rooted in limited strategic exposure and is restricted to utilizing its diplomatic tools, which the Gulf countries acknowledge. However, Iran poses a growing concern; if Tehran continues to escalate attacks on Gulf countries, it could directly threaten Chinese investments and energy security. In this sense, Iran risks becoming a liability for China, potentially complicating Beijing's ability to continue its long-standing approach and strategy.

China's Strategic Ambiguity

China has so far pursued a strategy of calibrated ambiguity, maximizing influence while limiting exposure. This approach has allowed China to protect its strategic interests and regional access while avoiding the costs of military involvement. At the same time, it underscores the persistence of a security order in which the U.S. continues to be the unchallenged military power. However, China's increasingly visible role in backchannel diplomacy, coordinated ceasefire efforts, and its use of economic leverage to influence Iran positions it as a significant actor operating in the background. This allows Beijing to shape outcomes without being overtly exposed or directly getting entangled.

For Iran, the relationship with China remains valuable but with several caveats. Beijing offers economic engagement and diplomatic cover, which, in the face of recurring attacks by the U.S. and Israel, are of limited tangible value. The partnership is defined by utility rather than long-term commitments and guarantees.

The war raises questions about China's role in the

emerging regional and global order. Has China's influence in the Middle East increased post the temporary ceasefire? Moreover, can a major power sustain global influence while consistently avoiding responsibility for security outcomes? As shifting regional dynamics reshape the security order and generate new threat patterns, growing instability and rising expectations will increasingly reveal the limitations of China's strategy.

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