

14 Navigating the gray zone: China and Iran

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China's relationship with Iran provides a case study in Beijing's growing efforts to build an alternative set of financing mechanisms that allow it to deliver developmental investments and maintain other forms of economic partnership in the face of international sanctions. While this might formerly have been limited in relevance to only a small number of "pariah" states in the developing world, it is now a model with potentially wider consequence, especially insofar as China is able to demonstrate that these sanctions do not shut down access to large-scale finance.

Sweden and other development donors will need to take into account the rendering invisible of crucial development financing data, and the greater viability of exit for states from western-centric development aid structures.

Introduction

During a phase where China's overall development lending levels had been declining, the Middle East has been a striking exception. 2024 saw a surge in new projects, with the region becoming the largest recipient region for Chinese Belt and Road Initiative (BRI) lending that year, the USD 39 billion in investments and construction contracts representing a leap of over 100% from 2023 (Nedopil, 2025).

This occurred despite a complex overall picture for Chinese interests in the region, as Beijing has been navigating the catastrophe in Gaza, the Iran-Israel conflict and subsequent US strikes, the fall of Assad, and the Houthi threats to its shipping—each of which presented the Chinese government with a difficult set of political choices.

At the nub of many of these issues is the Iran-China relationship. In 2021, the two sides agreed a USD 400 billion 25-year strategic partnership agreement that promised to be the biggest developmental set of investments Beijing had ever undertaken. In the official figures, very little of this has translated into effect. The 2024 Chinese financing spike in the region was topped out by Saudi Arabia, with Iraq and the UAE the other major recipients, and similar patterns characterized the preceding years, while Iranian investments continued to lag. But this underplays the salience of the Sino-Iranian relationship, and it has become increasingly clear that it also fails to capture the real numbers. Tehran has been the critical interlocutor for much of China's development agenda in the region, from the investment surge in Iraq—facilitated through political forces close to Iran—to plans for China's involvement in Syria's reconstruction (under the previous government). Most importantly, China has provided an economic lifeline to Iran, with Beijing acting as the primary importer of Iranian oil, albeit without full traceability in the data of how this was put into operation.

This is for good reason. In each of these different areas, Beijing has had to navigate a financial and political gray zone: the sanctions on

Iran and Iran-connected non-state actors in the region have acted as a significant constraint on Chinese firms and on normal funding channels. In extremis, these have even threatened the viability of some of China's most important firms, with ZTE and Huawei embroiled in criminal cases and exclusions of access to critical technologies from the United States. Chinese banks and oil majors have had to tread exceptionally carefully. Yet the importance of these relationships for China means that it sought to find a way to retain a major economic role in Iran regardless.

This chapter examines how one of China's most complex development relationships has evolved, situating it not only in Beijing's wider global agenda but its efforts to establish mechanisms that are resilient against US and Western pressure. Since the Russian invasion of Ukraine, this goal has only become more important to China, and Iran is one of the most important case studies. As such, it has implications for the future of many of China's other aid and development relationships that face similar challenges and points the path to a future where Beijing is able to circumvent these constraints altogether. The relevance of the case study is hence less as an illustrative example of China's approach to the region and more as an exemplification of Chinese efforts at building a viable alternative architecture for these "hard cases." This is of importance not only for the countries subjected to sanctions but to a wide range of other countries in the developing world that are assessing whether or not they can bet on Chinese financial support—and the mechanisms to provide it—even in circumstances where there is a breakdown in normal relations with other partners, which will have important implications for how they approach Western, European and Swedish donors, and how they think about their other economic and strategic choices.

China-Iran relations

While many elements of the China-Iran relationship can be seen through the prism of China's broader approach to the Middle East and its energy needs, it is impossible to separate the two sides' ties

from what the leading scholar of the relationship, John Garver, characterizes as the mutual “national humiliation narrative”: that both nations were great civilizations humiliated by western powers; that western powers still want to keep them weak and are unhappy about their cooperation; and that “a world free from Western hegemonism will include a strong and rich cooperative relationship between China and Iran” (Garver, 2006).

The reality has often been more prosaic. “Strategic” cooperation between the two sides in the 1980s and 1990s saw substantial Chinese support for Iran’s missile programs, and a wide range of arms sales during its war with Iraq. But the scale of the two sides’ ties during China’s economic take-off in the 2000s and 2010s has been constrained a) by the need to balance other important relationships in the region—especially Saudi Arabia, the UAE, and Israel; b) by the restrictions put in place by (primarily) the United States; and c) by the mutual suspicions that saw China itself supporting UN sanctions on Iran’s nuclear program, and Iran seeking to diversify away from its economic dependence on China when the Joint Comprehensive Plan of Action (JCPOA) was agreed in July 2015. Tehran has been acutely conscious that Chinese firms have been able to exploit Iran’s vulnerabilities, taking advantage of its limited options for investment and financing to secure advantageous terms.

Hence, although there was a considerable increase in Sino-Iranian trade from the early 2000s to 2014 (expanding from USD 5.6 billion in trade in 2003 to USD 51.8 billion in 2014), which largely replaced Iran’s European trading partners, those volumes declined after the conclusion of the JCPOA. When the USD 400 billion strategic partnership was being negotiated between the two sides, in the years following Xi Jinping’s 2016 visit to Iran, inbound Chinese investment topped out at barely USD 3 billion in total stock (2020) (Lons & Nouwens, 2021). The bulk of the investments after US sanctions were reimposed were in the construction sector, rather than the crucial energy sector that occupies the central role for the Iranian economy. Indeed, the Chinese State-Owned Enterprises (SOEs) that had

made the largest commitments, such as China National Petroleum Corporation's planned USD 600 million investment in the South Pars gas field, canceled their projects. At the same time, China-Iran trade and economic ties were increasingly dwarfed by Beijing's relations with the other booming economies of the region: trade levels that in 2015 had been comparable to that with the UAE and not far behind levels with Saudi Arabia dipped by 2020 below the levels of even Oman, with Sino-Saudi trade volumes by then running at nearly five times the Iranian level.

Ostensibly then, this was a relationship that had stagnated economically and politically, wrapped up in civilizational and anti-hegemonic rhetoric that did not correspond to ground realities. This even applied in areas where an alignment of political and security interests would have seemed to be a determining factor for the commercial relationship. For instance, Chinese companies provided Iran with facial recognition systems and advanced tools for video surveillance, crowd monitoring, and mobile tracking, some of which were utilized in the crackdown on the large-scale women's protests that swept the country in 2022 (Singleton, 2022). In the telecoms sector, Iran nonetheless sought a wider balance of suppliers—such as Ericsson and Nokia—after the nuclear deal, rather than being dependent solely on Huawei and ZTE. When reports emerged of the vastly ambitious “strategic partnership” plans, there was understandable skepticism from many analysts: not only did the figure itself look fantastical, it seemed wholly out of synch with the nature of the relationship that was evolving.

Yet in the period since the agreement was signed, the relationship has seen a higher degree of political convergence and a level of economic cooperation that—while not necessarily matching the scale of the deal—is at a qualitatively different level to the preceding decade. The Saudi-Iranian restoration of relations in March 2023, which Beijing helped to broker, has had some contributory effect. China has been careful to maintain balance in its regional relationships, and when Saudi-Iranian antagonism was at its peak, Beijing trod a partic-

ularly careful line in trying to assuage Riyadh's concerns about any moves it was making with Tehran, given the burgeoning scale of its Saudi equities. This political balancing act has been less strained since the deal was agreed, and even more so since Iran's strategic position in the region has weakened.

But two other developments are arguably of greater importance. First is that China has seen heightened strategic value in tightening and improving its ties with states that share its "anti-hegemonic" approach to global order, providing the political and economic enabling conditions for them more overtly than in preceding decades, when Beijing took greater care in how its actions might affect ties with the United States and Europe. Where China in the 2010s was still wary about steps such as Iran's membership of the Shanghai Cooperation Organization or the BRICS¹, and was willing to provide support at the UN for denuclearization efforts (both with Iran and North Korea), the 2020s have seen Beijing pursuing a very different approach.

Second, and related, is that China has worked harder to come up with mechanisms to circumvent western sanctions, which were arguably the main limiting factor for the two sides' cooperation in the 2010s. Some of these opaque barter-style processes only fully came to light in 2025. While their importance has grown considerably following the sanctions imposed on Russia after its invasion of Ukraine, the energy-based model that China developed with Iran appears to have been established even before the "de-dollarization" push accelerated.

Great changes unseen in a century

By the 2020s, China was entering into a new phase of its approach to global partnerships. This has drawn heightened attention since 2022, when the nexus of relationships between China, Russia, North

¹ BRICS is an intergovernmental organization comprising Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates in 2026.

Korea and Iran elicited labels such as the CRINKs or the “axis of upheaval.” Joint naval exercises between China, Russia and Iran, and the flow of weapons and dual-use technologies to Russia from Iran, North Korea, and China have bolstered the visibility of this bloc-like behaviour. Perhaps the symbolic apogee of this was the September 2025 Shanghai Cooperation Organization summit in Tianjin and subsequent military parade in Beijing. While Kim Jong Un and Vladimir Putin drew the greater attention, Iranian President Masoud Peseshkian was in attendance at both.

But the factors in play on the Chinese side were already in motion well ahead of the Russian invasion. Beijing’s assessment has been that it is heading into an intensified period of confrontation with the United States, and the West more broadly. This analysis took shape during the first Trump administration, while during the Biden administration China increasingly understood it as hardening into a broader US consensus. Xi Jinping has since stated that China faces a US-led campaign of “encirclement and suppression” by the West (Bradsher, 2023). The “struggle” language used by Xi in describing the situation is at times reminiscent of terminology used in earlier phases of the Cold War, when Beijing saw itself engaged in a battle with hegemonic powers and hostile ideologies. Like those earlier phases of the Cold War, this struggle has required an approach to alliances and partnerships that looks different from a period in which it expects to be able to sustain a more benign set of relations with the other major powers.

In the 1950s and early 1960s this meant explicit alliances—which Mao described as “leaning to one side”—most importantly with the Soviet Union, though also including the one treaty alliance that continues to the present day, with North Korea. But through much of the early and middle phase of the Cold War, China also developed a model described by some Chinese analysts as a “quasi-alliance,” which saw close military and security ties that did not require any treaty commitments. This included Pakistan, more time-limited agreements with Vietnam, Cambodia and Laos, and was even used

as a description of Sino-US collaboration against the Soviet Union in the 1970s and 1980s.

It is this “quasi alliance” model that has been revised and updated by China to fit its present circumstances, albeit bolstered by vastly greater economic weight and a position that is no longer solely defensive: Beijing sees the prospect of breaking US – and Western – hegemony if it can get through this current period of adversity. The period is characterized as one with exceptional challenges for China that will require it to “struggle well” but Xi’s analysis that sees “the East rising, the West declining” still holds.

At the Central Foreign Affairs Work Conference in 2014, Xi laid out the case for China to “develop a distinctive diplomatic approach befitting its role as a great power,” and to “make more friends while abiding by the principle of non-alignment and build a global network of partnerships.” As Xi’s statement indicates, the emerging consensus was not to abandon non-alignment in favour of a nascent global alliance network, but rather to find a middle ground. This is well characterized in Liu Ruonan and Liu Feng’s article, “Contending Ideas on China’s Non-Alliance Strategy,” which sets out three schools of thought: the orthodox line that alliances limit flexibility, and that they may exacerbate Chinese security dilemmas; the revisionists who argue that no great power has risen or expanded without allies, that non-alignment is at best a temporary choice—only suitable for weak states—and that alliance strategies are well-rooted in Chinese diplomatic history; and the “moderate” view that China should eschew conventional alliance thinking altogether, and establish models, particularly for security relationships, that fall short of formal treaty commitments (Ruonan & Feng, 2017).

For China, Iran has several assets in this context. It retains its status as an important energy supplier, and one that is willing to continue to export to China despite US sanctions. Its reach in the Middle East—including through the “axis of resistance”—has seen it act as one of the main political players in Lebanon (through Hezbollah), Gaza (through Hamas), Syria (through Assad), Yemen (through the

Houthis), and Iraq (through an assortment of Shia political and militia groups). As such, it has the wherewithal to shut down shipping in the Persian Gulf, launch strikes against other states in the region directly or through proxies, or take other military actions that can draw the United States away from its focus on East Asia. Iran's security relationship with Russia is also—from China's perspective—an asset in this context. Where China has imposed certain constraints to the level of direct military support it provides to Russia, instead focusing primarily on dual-use support and backing for Russia's military-industrial capacities, Iran has been able to fill targeted gaps—such as its supply of “suicide drones” (the Shahed-136 loitering munitions)—that help Moscow sustain a war effort that China has stated it does not want to see fail.

A strong, capable, resilient Iran, well-networked with other states who share a view of the benefits of “a world free from western hegemonism,” is hence advantageous to Beijing, even if the two sides do not have full alignment of views on or active coordination of tactics. China can provide the economic and diplomatic conditions to bolster Iran's position without becoming embroiled in, for instance, the murkier side of Iran Revolutionary Guard Corps activities. Under this enabler model, Beijing is also off the hook if Iran and its proxies find themselves in adverse conditions:

China is not obliged to provide any direct support and can distance itself when politically expedient. Hence, although developments in the last two years—which have seen Israel obliterate Hezbollah, weaken Hamas, decimate Iran's air defences and launch strikes on its nuclear facilities—have been disadvantageous for China, and Beijing has been concerned about the domestic political dynamics in Iran in 2026 and potential US military interventions, they do not change the basic calculations about its approach.

Beyond the high-level strategic calculus, however, the most important domain in which these partnerships play out is in the economic domain. The states in question can receive financing, investment, and a purchaser that is willing to find ways to navigate

constraints on their exports. In return, China can receive economically beneficial terms—privileged investment access with advantageous payback rates, and discounted purchase prices on commodities such as oil.

The take-off

This recalibration of Iran-China ties for the shifting strategic landscape that Beijing faces has required establishing a different developmental basis for the relationship. This was initially explored by Xi Jinping during his 2016 visit to Iran, which came at the peak of China's Belt and Road Initiative financing surge. It was also, however, precisely the moment when Iran was looking to take advantage of the JCPOA to diversify away from its dependence on Chinese firms. As a result, it would be several more years before the terms were finalized, after the US withdrawal from the nuclear deal during the Trump administration and the imposition of sanctions had once again tightened the options available to Tehran. Details of the Iran-China strategic partnership were first reported in 2019, which already laid out the basic parameters—several hundred billion dollars (USD 280 billion initially) to develop Iran's energy infrastructure and a further USD 120 billion to develop Iran's transportation infrastructure, in return for discounted oil supplies (Watkins, 2019). This “comprehensive cooperation plan” was signed in March 2021 by the two countries' foreign ministers, with the implementation announced in January 2022. While the final version was not made public, the draft on which it was based included investments in “banking, telecommunications, ports, railways, health care and information technology” over a 25-year period, as well as closer military cooperation, research and weapons development, and intelligence sharing.

One of the main problems facing these plans, however, was the restrictions put in place by US sanctions. China's oil majors and China's banks have been careful to stay in compliance with any measures that might see them fall afoul of the powerful ripple effects that follow any designations from the US Treasury. This caution for

Chinese firms was reinforced by the potent tools developed by the US Commerce Department. This reached an exceptionally high level of political salience under the first Trump administration, when ZTE plead guilty to violating US sanctions by shipping US products to Iran; and was then found to have violated the terms of its settlement, which led to a set of restrictions on technology exports to the company. Xi Jinping had to personally request that Donald Trump lift the sanctions on ZTE or risk it collapsing (Bolton, 2020). The case also implicated Huawei for bank and wire fraud for violating Iran sanctions and led to an even more politically combustible case following the arrest in Canada of Meng Wanzhou, the Huawei CFO, for extradition to the United States. When the Trump administration reimposed sanctions in 2018 on Iranian banking, financial and energy sectors, and chose not to renew temporary waivers to energy imports in 2019, the risk appetite among Chinese firms was drastically diminished. It required a more creative approach.

The teapots

Despite the sanctions, Iran's oil sales to China have exploded, and the relative weight of China for Iran's exports has shifted drastically. In 2017, only a quarter of Iran's oil went to China. By 2023, it had passed 80% of total Iranian oil exports and reached 90% in 2024, over USD 40 billion in value, and hit five-year highs in the first half of 2025 (Downs, 2026). Yet this has not appeared in official Chinese customs data since 2022 and is not handled through the oil majors who were responsible for the purchases in the pre-2018 sanctions period. The purchasers are instead the independent, low-margin "teapot" refiners, mostly based in Shandong province, who are responsible for between a fifth and a quarter of China's overall refinery capacity. The oil is delivered through shell companies and a "shadow fleet" which transfers it from sanctioned to non-sanctioned vessels through a series of ship-to-ship transfers. Yet while the methods through which China can import Iranian oil have become clearer in recent years, the financing model that has started to see China working on large-scale infrastructure projects in Iran, including the power

and railway projects envisaged under the 25-year partnership agreement, was less so until recently.

For many years, the reference point in financing China-Iran trade was the Bank of Kunlun, which acted as the main conduit for transactions. Kunlun was established in 2006 in one of China's oil-producing hubs in Xinjiang. China National Petroleum Corporation (CNPC) became its major shareholder, and the bank was used to process oil and other payments with Iran—protecting other larger banks that are more deeply integrated with the Chinese and global financial system. It continued to play this role despite 2012 US Treasury sanctions but came under considerably greater pressure after the threat of further secondary sanctions in 2018 (that would have targeted CNPC itself) and pared most of its operations back to non-sanctionable and humanitarian trade. While there was some interest on China's part in the INSTEX mechanism established by the EU, it soon became clear that China would have to come up with its own alternative if it wanted trade to continue.

Recent reports suggest that the model they established has significant elements in common with the 2018 export credit insurance cooperation framework agreed between Sinosure, China's state-owned export insurance creditor, and the Iraqi Ministry of Finance, an agreement that formed part of an "oil for projects" deal activated in 2019. Under that 20-year agreement, Iraq supplied 100,000 barrels of oil per day to China in exchange for infrastructure development in Iraq, with Sinosure's underpinning. While the Sino-Iranian contracts have not been published (the Sino-Iraqi contract is among AidData's collection of BRI contracts), press reports cite officials who describe the barter system in similar terms (Norman & Areddy, 2025). Iran's oil is shipped to China, Chinese SOEs build infrastructure in Iran; an Iranian company registers the oil sale to a Chinese buyer, which deposits money with an intermediary named Chuxin (an entity which does not exist in any public registries), which then provides the funds to Chinese contractors doing work in Iran, which is insured by Sinosure. USD 8.4 billion in funds are understood to have used this

mechanism in 2024, though many of the details and entities are still being disentangled by officials and experts. This falls well short of the volume envisaged under the partnership agreement but considerably exceeds assessments based on official numbers.

It would not be a surprise to see the “Iraq model” replicated by China and Iran, given the close relationship between the Iraqi and Iranian governments. But it is not yet clear whether this arrangement was put into effect at a similar time, was tied to the 25-year strategic partnership deal, or is of more recent vintage—coming at a time when Chinese officials have also been trying to come up with work-arounds for financial sanctions directed at Russia, and developing similarly “invisible” schemes that have reduced the traceability of the financial flows. 2025 saw the US Treasury Department pursuing the teapot refineries with sanctions, which seemingly threatens one link in the chain, but the Chinese system has shown increasing levels of nimbleness and flexibility now that key interactions with sanctioned states have moved away from the more financially exposed SOEs towards smaller, more fluid entities.

Policy implications

A decade ago, the conclusion of the JCPOA gave more than just the hope that Iran’s path to nuclearization might be contained. It also appeared to reflect a strategic decision on the part of Iran’s leadership that an opening to the West gave them more opportunities and room for manoeuvre than a hard locking in to ties with China, Russia, and other like-minded states. When paired with Myanmar’s 2011 political opening and the US-Cuba normalization from 2015–2017, it seemed that the number of outright pariah states was becoming a diminishing club—which in turn made building political, economic and development relations with these states beyond humanitarian aid far more straightforward.

A decade later, those trends are headed in another direction. Iran’s own influence in the Middle East is at a low ebb after Israel’s rollback

of the “Axis of Resistance,” but its political and economic dependence on China has drastically deepened, and there are even debates in Iran about whether it should replace the Russian military kit that proved ineffective against Israel and the United States with Chinese platforms (which held up relatively well in the 2025 Indo-Pakistani conflict). The pattern from North Korea to Russia, Laos to Myanmar, is similar: while it is not the first preference of the political leadership of these states to be stuck in this greater level of dependence on China, they have other higher-order preferences that mean they have decided it is better to live with it. And “living with it” does not look the same as it did a decade earlier, given the more sophisticated methods that now exist to ensure that China can maintain its economic ties with them, that economic relations between this entire nexus of states is better facilitated, and that any UN sanctions have now largely been either eliminated or undercut.

The range of cases to which this applies is now relatively expansive. A wide range of developing economies have been subjected to some level of US sanctions over the last two decades. In addition to the often-cited trio (Russia, North Korea, Iran), this has included Cuba, Venezuela, Belarus, Afghanistan, Myanmar, Nicaragua, Libya, Sudan, South Sudan, Yemen and Zimbabwe, to list only a few additional cases. In this context, Iran is not a *sui generis* case.

The “de-dollarization” terminology that is often used as a shorthand to describe this can create the misleading impression that Beijing’s goal in this process is a major reduction in the use of the dollar in the international financial system, with the RMB replacing it. In practice, however, the lack of an open capital account, and the highly politicized decisions in Beijing about whether it is even possible to retrieve assets from China, make real “de-dollarization” improbable in the near-to-medium term. In addition, many corporate and financial actors in China remain extremely careful not to be subjected to US financial sanctions—conservative or even over-compliant in their approaches; a situation that is often cited to suggest that the

Chinese government is not serious about helping these states navigate their predicament.

The Iran case, however, illustrates the more important trend—China working to create resilient financing mechanisms that allow it to continue trading and investing with its partners and reduce the number of touch points with the western financial system that might be used to choke off the transactions. While much attention has been focused on developments such as Russia’s “yuanization” (which sees it using the RMB not only for bilateral trade but also with third countries), CBDC, CIPS and other financial moves, it is a more traditional “hawala” style arrangement that appears to be even more efficacious at insulating these financial flows, a model that is likely to prove particularly efficacious where there are significant and predictable energy and commodity exports that can form one side of the ledger. The effect is the development of a growing parallel economic architecture, which China is developing at a far faster pace than figures on dollar usage or speculation about BRICS currencies would seem to imply—or that seemed likely when the USD 400 billion strategic partnership looked like speculative fiction rather than just a substantial exaggeration.

The case alone does not yet demonstrate that China has succeeded. Financing volumes are still modest, and Iran is certainly not seen in the developing world as a proof of concept that they should model. There are also distinct features to the Iranian case: as has been seen with Venezuela, Iraq, Russia and several other examples, it is easier to establish these arrangements when they are tied to natural resource exports. But this is part of a process of experimentation and the assembly of building blocks that merits close attention for Sweden and other donors in Europe and the West. There are several policy implications to this development.

First—it means that key data is rendered invisible. As with other hidden liabilities associated with Chinese development lending, it is an increasing challenge to establish accurate assessments of these coun-

tries' debt profiles and financing needs given the opacity and scale of the Chinese financing involved.

Addressing this will require a different analytical effort—combining development and finance ministries' work with economic intelligence gathering, and close liaison with Sweden's partners and allies who have complementary capabilities, to build up an accurate picture of the new—or potential—financing and development landscape. While some of this was already undertaken by IFIs as a result of the huge surge in Chinese debt finance in the 2010s, the Iran case illustrates that the true scale of the liabilities and financing flows may be even higher.

Second—even though still at a tentative stage, it gives greater plausibility to the argument that China can provide countries with a resilient form of financial backing even in the face of full-scale sanctions. For countries that are evaluating whether they can “afford” to take certain political, economic and strategic decisions that might affect their relationships with western donors, it further tilts the calculation in favour of a view that they may be able to absorb the costs.

For Sweden and its partners, if the intention is to limit the economic attractiveness of deciding to opt out of the traditional international system, this will likely necessitate addressing various ways through which the choices facing these countries can be sharpened. That would mean on the one hand targeting, slowing down, and complicating the viability of the “alternative” mechanisms, and on the other hand, establishing more attractive packages of rewards (aid, trade, technology access, and investment) for the states that choose the alternative path.

There have already been attempts by the United States to address this in a punitive fashion, with the Trump administration sanctioning Chinese energy firms, storage terminals and port operators for refining, purchasing, or facilitating purchases of Iranian oil. There had been more US hesitation about going after these firms during the Biden administration, given the continued efforts to keep the Iran

negotiations alive and—more importantly—the US attempt to ensure that Russia and Iran sanctions did not have too damaging an effect on global energy supplies (and prices). The situation for China looks even more challenging in the context of the US squeeze on Venezuela, still in flux at the time of writing, which had represented one of the largest oil-for-loans deals still on Beijing's books. The EU set its own measures in motion in October 2025 with the 19th sanctions package on Russia, which included Chinese refineries and oil traders for the first time on the sanctions list.

Yet while the focus of these US and EU measures has again been on the hard cases—including Russia, Iran, Venezuela, and Cuba—the actors watching these developments and making their calculations include many other developing states in Latin America, Africa, the Middle East and Asia. Many of them are trying to assess their options in circumstances that have seen cut-offs of US aid, trade restrictions, and now growing US moves to exert financial and military pressure. For Sweden and the EU, the critical question is whether it is possible to construct offers to this wider pool of countries that will be wary about going “all-in” on China but facing increasingly hard-edged moves from the US. It is a strategic context where the right kind of European offers—pragmatic trade deals, sectoral cooperation, mobility agreements, and greater nimbleness with aid—can play a crucial role in stabilizing the functional parts of the multilateral system, providing these countries with options, and ensuring that they do not see a China-centric economic and development framework as the only viable long-term choice. The Iran-China relationship itself may either prefigure the emerging landscape across the Global South—or act as a cautionary tale.

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