



Research & Studies

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China in Iraq

Iraq's persistent political instability and difficult economic reconstruction have often obscured its strategic importance in the evolving international system. Yet Iraq remains one of the pivotal states of the Greater Middle East. Its geographical location, vast hydrocarbon resources, and complex socio-cultural fabric place it at the intersection of several regional fault lines: Sunni-Shi'a relations, Arab-Iranian competition, Turkish-Arab interactions, the future of the Kurdish question, and the position of Eastern Christian communities. Like many Middle Eastern countries, Iraq faces profound medium-term challenges, including climate change, water scarcity, demographic growth, youth unemployment, and the urgent need to diversify an economy overwhelmingly dependent on oil revenues.

Since 2003, Iraq has received financial, technical, and military assistance from the United States, the European Union, and Gulf countries. Turkey and Iran have invested in the Iraqi economy while practicing political and military interventionism. Less widely publicized, however, is China's continuing economic and geopolitical role in the country.

Understanding China's activities in Iraq requires situating them within its broader regional and global strategic framework. Iraq is not merely a recipient of foreign investment; it is increasingly emerging as a key arena where competing visions of the international order converge.

Is China Merely Securing Its Energy Supplies or Creating a New Order?

When former Iraqi Prime Minister Abdel Mahdi announced during an official visit to Beijing in September 2019 that Iraq would join the Belt and Road Initiative (BRI) ^[1], observers saw this moment as the end of the exclusive strategic alliance with the United States. However, while Beijing may not match Washington's influence in Baghdad, given its absence on the military front and its limited involvement in Iraqi politics, its weight in investments and trade far exceeds that of the United States. Since 2005, China has invested US\$ 24 billion in Iraq and has become its largest commercial partner, with US\$ 50 billion in annual two-way trade (2024).^[2]

It is widely known that the BRI project aims to implement trans-continental land, sea, and electronic (space/cyber) connections that will fuel the Chinese economy and, in return, create economic and political co-development zones. Far less is known about the project's broader strategic implications. For example, is it designed to reduce dependence on the U.S. dollar by promoting the renminbi as a trade and reserve currency within emerging economic networks, thereby diminishing the effectiveness of American sanctions? Likewise, does it aim to cultivate spheres of influence in which economic and logistical integration could eventually support a more robust strategic posture?

China is currently the world's largest importer of crude oil and LNG, and its level of oil dependence stands at 70 percent (with 55 percent sourced from the Middle East). However, the importance of the “Greater Middle East” ^[3] for China is not driven solely by its vast hydrocarbon needs. The region remains strategic for China for all the reasons outlined above (Global South integration, countering US unilateralism, dollar hegemony, etc.).

Similarly, the importance of China to the Middle East transcends hydrocarbon sales. China offers the region project financing through low-rate loans and avenues for economic diversification, notably by creating special production and re-export zones. Furthermore, there is currently no concrete evidence of alleged “debt-trap diplomacy” ^[4] primarily because China does not demand political alignment in return (except for the non-recognition clause regarding Taiwan^[5]). This is also because these loan-financed projects are led by Chinese state-owned enterprises and quickly become productive, generating a large share of the resources needed to guarantee debt service. Moreover, Chinese loans aim to expand the supply chains and trade corridors that developing countries can use to access global markets. Indeed, the stated rationale behind these Chinese logistical-economic projects is to upgrade the economies of partner states, thereby generating commercial and business potential for China's own economy.

Additionally, China aims to influence the evolving economic, legal, political, and technical standards that are likely to structure globalization as markets and trade become increasingly integrated across Eurasia and the Asia–Africa continuum. These new economic exchange zones and norms could offer China and its partners a commercial and financial niche outside the hegemonic role of the dollar. Notably, China is not the only country that views the dollar's dominance as anachronistic and a constraint on the development of peripheral regions. Developing countries, especially emerging economies (BRICS+)^[6], argue that the international trade system is in a permanent state of imbalance, where the US produces dollars and the rest of the world produces goods that only dollars can buy.

These emerging countries are compelled to export more in order to accumulate reserve dollars, maintain their currency's value, and, in many cases, service their national debt. Because the end of dollar hegemony ^[7] and the emergence of an alternative global reserve currency system are not yet on the immediate horizon, Beijing implements circumvention strategies. These include issuing Yuan-denominated loans that are paid back directly to the Chinese national companies managing the projects, or utilizing currency-and-goods bartering.

Chinese Project in Iraq

Iraq stands at a crossroads between the Gulf and the Levant/Eastern Mediterranean, serving as a pivotal state between Iran, the Arab world, and Türkiye. It is an obligatory transit route between Central Asian/Iranian routes and Europe. While Beijing has invested heavily in

Iraq, particularly in the oil sector, the prospect of further capital injection is constrained by competing investments planned for Pakistan and Iran. Furthermore, a recipient country must have the capacity to absorb these investments. As a post-conflict nation lacking comprehensive security, infrastructure, and qualified human resources, Iraq is not yet fully capable of doing so. The country remains complex because it is exposed to numerous external influences, some of which, namely Washington, are overtly hostile to Chinese interests. It is also plagued by internal geopolitical conflicts (such as oil and border control disputes with the Kurdistan Regional Government, KRG), alongside military incursions from neighbors like Iran and Türkiye, as well as remnants of ISIS.

While a lack of security, political instability, and corruption have rarely deterred China, unpredictability remains a genuine obstacle. A familiar argument shared by Chinese and international observers highlights this: “With Iran, negotiations are lengthy, but once concluded, they are guaranteed; with Iraq, negotiations are swift, but offer no guarantees for the future.” Moreover, Iraq’s integration into the BRI logistical system is further complicated by the bleak outlooks facing its neighbors, whether due to conflict, economic crises, or international sanctions, in Iran, Syria, and Lebanon. Consequently, the BRI and the broader strategic Chinese partnership have become deeply politicized within Iraq.

The bilateral strategic partnership between Iraq and China, signed in Beijing in 2015 by Prime Minister Haider al-Abadi and re-launched by Prime Minister Adel Abdul Mahdi in September 2019, has been endorsed by successive Iraqi governments and continues to shape bilateral relations today. Nevertheless, the agreement remains shrouded in a considerable degree of mystery, as its provisions are not widely known and have never been the subject of substantial parliamentary debate or comprehensive public evaluation in Iraq.

It is understood that this 20-year agreement entails the creation of a special reconstruction fund by the Iraqi government, guaranteed by the China Export & Credit Insurance Corporation through the Central Bank of Iraq. Under this mechanism, the revenues from 100,000 barrels per day of Iraqi oil sold to China are reserved in exchange for a US\$ 10 billion Chinese concessional loan facility. This volume could potentially scale up to 300,000 barrels per day to secure US\$ 30 billion in financing.

These revenues are deposited with China’s CITIC Bank and subsequently transferred to the Iraqi account at the US Federal Reserve in New York, before ultimately being moved into an Iraqi investment account. Beyond financing urgent reconstruction projects, the core objective is to facilitate the development of the transnational infrastructure (ports, rail, roads, and pipelines) necessary to integrate into the BRI. It also aims to establish a sovereign fund to mitigate the risks associated with Iraq’s heavy reliance on its account at the US Federal Reserve.^[8]

Nevertheless, this strategic direction was not devoid of political considerations. It reflected a clear desire on the part of Adel Abdul Mahdi's government, with Iranian backing, to reorient Iraq's strategic relations away from the United States and toward China. While this vision may have appeared attractive and generous on the surface, it failed to adequately address a fundamental question: how Iraq, and, more importantly, its financial assets abroad, would be protected. Indeed, since 2003, these assets have relied on legal protections secured at Iraq's request through successive U.S. presidential executive orders, shielding them from external claims and judicial seizures.

China is now Iraq's largest trading partner (at US\$ 30 billion annually) and its largest investor; however, of the US\$ 24 billion invested by China between 2005 and 2020, nearly 90 percent went into the energy sector.^[9] China currently purchases half of all Iraqi oil exports. Furthermore, Iraq was a top recipient of China's BRI investments in 2025, securing US\$ 4.5 billion in financing. In terms of cumulative BRI energy investments, Iraq ranks as the third-largest target globally, behind only Russia and Pakistan. While investments that could promote diversification into sectors like petrochemicals, agriculture, tourism, power, and construction are being considered, the energy sector remains dominant.^[10]

China's presence in Iraq extends beyond oil investments and commercial exchanges. Like other major powers, Beijing has increasingly sought to cultivate soft power, blending elements of its traditional Third-Worldist discourse with its longstanding principle of non-interference in domestic affairs. In recent years, Beijing has also attempted to strengthen its cultural and educational footprint through Chinese-language programs, academic exchanges, public diplomacy initiatives, and highly publicized humanitarian assistance, particularly during the Covid-19 pandemic. Chinese firms have also demonstrated flexibility in dealing with local authorities and communities, including through compensation arrangements and targeted social initiatives.

Yet these efforts should not be overstated. Despite the scale of China's economic presence, its contribution to developing Iraqi human capital remains relatively modest. Technology transfer, professional training, and the emergence of a new generation of Iraqi engineers, managers, and technical experts have not kept pace with investment flows. Moreover, Chinese companies tend to rely heavily on imported equipment, materials, expertise, and supply chains originating from China itself. Their interaction with local communities often remains limited and functional rather than deeply embedded. Consequently, while Chinese investments have undoubtedly helped maintain and expand parts of Iraq's productive infrastructure, their broader impact on local economic development, knowledge transfer, and domestic capacity building remains well below the expectations typically associated with large-scale strategic partnerships.

Geopolitical Obstacles to a Normalized Beijing-Baghdad Cooperation

Bilateral cooperation between Iraq and China is routinely hampered by Washington's fears of facing anti-access strategies in the region from China, Iran, or Russia. The more the Baghdad-Beijing relationship appears tethered to broader trilateral strategies involving Tehran and Moscow, the more resistance it will encounter from Washington. Because the Iranian regime views promoting the Iran-China option as a mechanism to pressure Washington over sanctions relief, it has weaponized a media campaign advocating for Iraq to lean heavily toward Beijing to secure the hundreds of billions in investment needed to finance joint infrastructure projects extending from Iran to the Mediterranean Sea.

Pro-Iran factions in Iraq frequently claim that a US\$ 500 billion reconstruction agreement is at stake. However, the US takes a dim view of potential collusion between Beijing and Tehran aimed at consolidating their influence across the wider Gulf and Levant. Washington remains highly unwilling to accept Iraq signing a strategic cooperation agreement on the scale of the 25-year, US\$ 600 billion Comprehensive Strategic Partnership signed between Tehran and Beijing for economic, energy, defense, and cultural cooperation.

At its core, Iran's sustainable economic development requires long-term assurances that US sanctions will not be continuously reimposed. This can be partially achieved if China, Russia, and other emerging powers manage to become influential international agenda-setters, establishing the norm that economic sanctions are equivalent to acts of war. This emerging Global South strategic posture, which became highly visible following the war in Ukraine, is driven less by ideological Third-Worldism or a new Cold War dynamic, and more by a pragmatic desire to secure economic and technological development without being constrained by the consequences of dollar hegemony.

Conclusion

Most Middle Eastern countries align with China in rejecting unilaterally imposed sanctions and regime-change policies, and the region's most economically advanced states actively look forward to a more balanced global financial system. The short-sighted argument frequently advanced by Western circles, that Middle Eastern countries are merely using their relations with China and Russia as bargaining chips in their interactions with the US and Europe, misses the broader structural shift.

Iraq finds itself at the center of an emerging Eurasian geostrategic framework that can accelerate economic development through trade and energy corridor investments. The core geography of the BRI, encompassing Central Asia, the Caucasus, Russia, and the Middle East, holds 75 percent of the world's proven crude oil reserves, and Iraq alone accounts for roughly 9 percent of that global total, despite significant portions of its territory remaining

unexplored. Furthermore, given that the Iraqi, Syrian, and Iranian economies all require extensive long-term reconstruction, the region is highly likely to experience competitive foreign and intra-regional investment races in the coming decades. Consequently, the region remains a critical focal point for both short- and long-term horizons.

Ultimately, the stakes of the Iraq-China relationship extend far beyond energy security or reconstruction aid. They must be viewed within the broader context of a global geostrategic rupture: the “Asian pivot” shifting the center of globalization toward Asia, the mounting challenges to dollar hegemony, and a multipolar transition that allows the BRICS+ block to act as international agenda-setters. Even as a fragile nation navigating a complex post-conflict transition, Iraq has a clear pathway to successfully manage its integration into both the regional and global economy.

^[1] *The BRI was launched in 2013. In March 2022, 146 countries had signed the BRI Memorandum of Understanding with China: 43 countries are in Sub-Saharan Africa; 34 in Europe & Central Asia (including 18 countries of the European Union); 25 in East Asia & Pacific; 20 in Latin America & Caribbean; 18 the Middle East & North Africa; 6 in South East Asia.*

^[2] *Figures by Chinese embassy in Iraq, quoted in <https://www.iraqinews.com/s=Iraq%E2%80%99s+trade+exchange+with+China+reaches+%2450+billion+in+2024+>*

^[3] *From Central Asia (including Afghanistan and Pakistan) to North Africa and the Horn of Africa*

^[4] *“Debt trap diplomacy” refers to the argument that China may use BRI to fund major infrastructure projects in developing nations with unsustainable loans, then using the debt to gain leverage over those governments’ policies.*

^[5] *The establishment of diplomatic relations with China is governed by five very general principles: 1) respect for sovereignty and territorial integrity; 2) non-aggression; 3) non-interference in internal affairs; 4) equality and mutual benefit; 5) peaceful coexistence. The non-recognition of Taiwan as an independent state is a prerequisite for bilateral relations. The issues of Hong Kong, Tibet, and the Uighurs are important but do not lead to the breakdown of relations.*

^[6] *Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, India, Indonesia, Iran, United Arab Emirates, as full members + many partnerships*

^[7] “Monetary hegemony” is the term used by economists to designate the State whose currency has a regulatory function on the international monetary system, thus having: control over the means of global economic exchange; control of the international unit of account and the unit of world monetary reserves (68 percent of the latter are in dollars today); control over access to international credit; an absence of constraint on its balance of payments; and the possibility of carrying a high debt ratio. Today the national debt of the US is over US\$ 30.000 billion.

^[8] The Trump administration, in January 2020, warned Iraq that it could lose access to its Central bank account at the Federal Reserve Bank if Baghdad tried to expel American troops from the country. In 2015, Washington halted Iraq’s access to its funds for several weeks to constrain the Iraqi Central bank to stop funneling dollars to Iranian banks.

^[9] Key energy projects launched since 2018 include:

- A refinery at the Al-Faw port in partnership with Chinese firms PowerChina and Norinco.
- ZhenHua Oil’s development of the East Baghdad field.
- Geo-Jade Petroleum’s contracts for the Naft Khana block in Diyala and the Huwaiza block in Maysan.
- United Energy Group’s development of the Al-Sindibad block in Basra.
- Hilong Oil Service & Engineering’s agreement with Basra Oil Company to boost production at the Majnoon field.
- Sinopec’s January 2022 contract to develop the Mansuriya gas field in Diyala province.
- Additionally, during Iraq’s 2024 licensing rounds, Chinese companies secured contracts covering 10 further exploration blocks and fields.

^[10] China Belt and Road Initiative (5BRI) Investments Report 2025, Griffith Asia Institute, January 2026

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Thank you

