China Isn't Scared of Trump's Squeeze on Iran

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Articles & Testimony

U.S. officials have demurred when asked about targeting Tehran's most crucial Chinese lifelines, and Beijing has plenty of trade and export leverage to continue deterring Washington.

There's a fatal flaw to the Trump administration's recently announced "economic D-Day" against Iran. U.S. Treasury Secretary Scott Bessent **declared (https://www.ft.com/content/cb865200-1a06-40be-86a3-10ee2bb05804)** that the new U.S. sanctions and pressure campaign was designed to "sever every economic lifeline that sustains the tyrannical regime" in Iran. But Iran's single greatest lifeline, China, went unnamed.

China has long been the largest buyer of Iranian oil, with some **estimates (https://www.bloomberg.com/news/articles/2026-08-25/how-china-is-caught-in-trump-bessent-s-push-for-economic-d-day-for-iran)** claiming that about 90 percent of Iran's oil is shipped there through a network of "shadow fleets." China also offers **access (https://www.wsj.com/world/what-to-know-about-how-iran-uses-chinas-currency-to-weaken-u-s-power-38fcf046?mod=Searchresults&pos=6&page=1)** to the Cross-Border Interbank Payment System (CIPS) that facilitates bank transfers outside of the U.S. dollar system, and through which volumes have gone up from 680 billion renminbi (RMB) per day to 790 billion RMB since the Iran war was launched. Thus, if the United States actually wanted to seriously harm Iran economically, it would have to go after China.

And yet, Beijing is hardly quivering in its boots. When the secretary was asked repeatedly at a press conference if

“Operation Economic Outcast” would target Beijing, he **demurred (https://www.politico.com/news/2026/08/24/bessent-iran-economy-01047365)** , without mentioning China directly: “No one is above the reach of U.S. sanctions.” And when pressed on why the Treasury Department is issuing a threat rather than just imposing the sanctions, Bessent simply said, “Why would I want to blow up the global financial system?”

Judging by the lackluster Chinese response, Beijing doesn’t seem too concerned by the new U.S. steps. China’s foreign ministry spokesperson condemned **(https://www.bbc.com/news/articles/clyl8965j5go)** the announcement as “illegal” but went little further. One Chinese analyst writing on the China Internet Information Center, a State Council news outlet, described **(http://www.china.com.cn/opinion2020/2026-08/25/content_118661852.shtml)** Bessent’s announcement as an “act of helplessness” that has more to do with addressing American frustration at home than with pressuring Iran. One private Chinese media **(https://www.guancha.cn/internation/2026_08_25_828499.shtml)** outlet also pointed out how vague and slow-moving the new U.S. sanctions are.

Nevertheless, China has already said **(https://www.ft.com/content/aa7ba671-8175-4b53-b6a5-28803a851493?syn-25a6b1a6=1)** publicly that it would retaliate if the U.S. goes after its companies, and Chinese leader Xi Jinping knows it has the power to do so. So do at least some people in the Trump administration.

Beijing has recently armed itself with a legal framework for retaliation. In May, China invoked its new policy of “blocking rules **(https://asiatimes.com/2026/05/china-invokes-rules-to-blunt-us-sanctions-on-teapot-refiners/)** ” for the first time in response to U.S. sanctions against several of its biggest independent oil refineries. These rules effectively constitute a legal prohibition on any companies inside or outside China complying with the U.S. sanctions on Iran. So far, China has chosen not to enforce this rule, but it continues to signal **(https://www.bloomberg.com/news/articles/2026-06-17/china-s-finance-chiefs-take-center-stage-with-economy-slumping)** to the United States that it is ready to do so if needed.

Most importantly, China knows it has an ace in the hole. Beyond its ability to take simple retaliatory measures, Beijing can also escalate its competition with Washington. Among its most powerful tools is a ban on the export of rare earths, which China knows that it can impose again. Freezing exports of rare earths to the U.S. last year brought some sectors of U.S. manufacturing to a standstill, particularly in the defense sector, and forced a rapid climbdown by Trump on Chinese tariffs.

The U.S. has made grand statements about developing alternative supply chains here but has struggled **(https://www.ft.com/content/201a86a6-3597-4efb-b575-39172c729fe1?syn-25a6b1a6=1)** to reduce its overall reliance on China. It is competing with decades of Chinese investments **(https://www.nytimes.com/2026/02/06/opinion/china-us-rare-earths.html)** in those refining capabilities, but it also quite willingly offshored many of these refining processes because they are so polluting.

Furthermore, China is clearly willing to call Washington’s bluff. The U.S. has already sanctioned **(https://www.reuters.com/business/energy/hengli-chinas-silk-to-petrochemicals-empire-faces-chill-us-sanctions-2026-05-22/)** one of China’s largest independent refineries, as well as 40 shipping firms, and this latest package targets **(https://chinaglobalsouth.com/2026/08/25/us-iran-sanctions-china-operation-economic-outcast/)** 60 smaller intermediaries. But the U.S. hasn’t yet gone after the more significant Chinese banks that support these refineries or tried to dismantle the intricate system **(https://www.wsj.com/world/middle-east/how-china-helped-iran-cushion-the-blow-of-sanctions-and-fund-its-war-machine-6fa2847d)** whereby China funnels funds to Iran. In Beijing’s view, nothing in the recent U.S. announcement signals a serious desire to escalate the sanctions regime.

That suits China perfectly. Xi needs economic stability to continue reforming China's economy—which has been struggling since the impact of COVID and the collapse of the property bubble—away from a reliance on exports and toward greater domestic demand. That requires a stable relationship with the U.S. Accordingly, Beijing is also seeking to keep the planned September summit in the U.S. between Trump and Xi on track.

China would only interpret meaningful U.S. sanctions as a pretext for opening new lines of attack in their trade war. No matter how Washington frames it, Beijing sees Iran as a distraction from its fraught bilateral relations with the U.S.—and, ultimately, neither China nor the U.S. appears willing to reignite the trade war or escalate tensions.

This dynamic may ultimately benefit Iran. If the U.S. is unwilling or unable to bring to bear serious, concerted economic pressure on Iran's chief economic lifeline, it will have to hope that its continued blockade of Iranian ports and military pressure is enough—despite decades of Iranian resilience to this kind of pressure. The U.S. seems to recognize that squeezing Iran depends on squeezing China. But so long as the Trump administration would rather avoid another trade war and another rare earths embargo, that squeeze will remain at best a half-hearted one.

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