Opinion **The FT View**

America’s economic war on Iran has a China problem

The US cannot fully isolate Tehran unless other trade partners co-operate

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Oil tankers off the coast of Bandar Abbas. Beijing, which buys up to 90 per cent of Iran’s oil, warned the US it would retaliate if Chinese companies were included in secondary sanctions relating to Iran © Majid Asgaripour/WANA/Reuters

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At the weekend, US Treasury secretary Scott Bessent evoked the Normandy landings to describe the financial offensive Washington intended to unleash on Iran as “economic D-Day”. In the event, it seemed more like a series of warning shots fired from far offshore. The campaign to turn Iran into an “economic outcast” is, moreover, not one the US can fully accomplish on its own, but requires co-operation from Tehran’s main trading partners. The biggest of those, China, has already signalled little intention to play ball. And as Bessent acknowledged, moving too quickly with US secondary sanctions on countries that do not comply could “blow up the global financial system”.

When America and Israel launched their war against Iran six months ago, they mistakenly calculated that the regime, battered by a 12-day Israeli-US assault the previous June and deeply unpopular at home after a brutal crackdown on protests, was close to collapse. Now that the bombing has failed to force Tehran’s “unconditional surrender”, or achieve the more recent goal of persuading Iran to reopen the Strait of Hormuz, US President Donald Trump is again turning to economic pressure in the hope of finishing the job.

The problem for Washington is that Iran has been under multiple layers of sanctions for years — and since last September under UN measures reimposed over Tehran’s breaches of the 2015 nuclear agreement that Trump exited in his first term. There is little left within the republic to target directly. As a result, the new US effort aims to cut Iran off from trade links — in aviation, shipping, digital assets, gold and technology, as well as oil — with its main commercial partners, which include China, the United Arab Emirates and Turkey.

The UAE, a US ally and the largest seller of goods to Iran, already said last week it was suspending trade and commercial ties after accusing Tehran of firing two ballistic missiles towards its territory. But Beijing, which buys up to 90 per cent of Iran’s oil, on Tuesday warned the US it would retaliate if Chinese companies were included in secondary sanctions relating to Iran. Any significant increase in US sanctions on China could torpedo delicate trade negotiations only a month before Trump and China’s Xi Jinping are due to meet in Washington.

Even if the US did manage to impose significant new economic pain on Iran, there is no guarantee this would force Tehran’s capitulation. After two wars in the past year damaged its industrial capacity and left inflation running at between 80 and 90 per cent, Iran’s economy is in a far deeper crisis than when Trump launched his first “maximum pressure” campaign in 2018. But the Islamic regime, made more hardline by the conflict, believes it is in a battle for its survival — only increasing its defiance. There are no signs yet that long-suffering Iranian citizens are about to take to the streets. Any popular uprising would probably be met by another crackdown — despite Bessent’s call for Iranian soldiers to question where the country’s leadership is taking it.

Indeed, were US pressure to start having an impact, the Iranian regime might choose to escalate, as it has threatened, and begin striking energy infrastructure across the Gulf to raise the costs to the global economy. If US efforts fail, by contrast, the risk is that Trump chooses to escalate again as he strives to break out of the current impasse ahead of November’s midterm elections.

The most positive aspect of Washington’s new effort to isolate Iran economically is that it suggests that the US president has little appetite to escalate militarily for now. Given its low chance of ending the deadlock, however, “Operation Economic Outcast” amounts to another risky gamble on a road that, for both sides, ultimately has to lead back to the negotiating table.

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