

China-Iran Relations following the Nuclear Agreement and the Lifted Sanctions: Partnership Inc.

**Raz Zimmt, Israel Kanner, Ofek Ish Maas, and
Tal Avidan**

In January 2016, just a few days after the IAEA concluded that Iran had fulfilled its obligations under the JCPOA, which in turn led to the lifting of sanctions, Chinese President Xi Jinping arrived in Iran for an official state visit, as part of a visit to the Middle East that began in Saudi Arabia and Egypt. Xi Jinping was the most senior Chinese figure to visit Iran in the past 14 years and the first international leader to do so since the imposition of sanctions. Yet despite official statements by both countries regarding bold friendship, willingness for economic cooperation, and an effort toward strategic cooperation, questions remain regarding the actual nature of the relations between China and Iran and their prospects for future development.

With the signing of the nuclear agreement and the lifting of sanctions against Iran, China and Iran regard their relationship as one that holds much economic, political, security, and strategic potential. Officially, China has never issued a policy paper regarding Iran, but in an open letter signed by Xi published in the Iranian press on the eve of his visit to Tehran in January 2016, the Chinese President wrote that China views Iran as a country abounding with natural resources and manpower that is at a critical stage of industrialization and modernization. According to the letter, implementation of the JCPOA would result in new opportunities for growth in China-Iran relations.¹

Dr. Raz Zimmt is a research fellow at INSS. Israel Kanner is a former Israel Institute research associate at INSS. Ofek Ish Maas is a research assistant at INSS. Tal Avidan is an intern at INSS.

From a strategic perspective, China regards Iran as a possible partner in the Middle East and Asiatic arena. Were China to decide to increase its influence in the Middle East, Iran could assist in promoting Beijing's geostrategic interests.² From a geographic perspective, Iran constitutes a link to both the Middle East and Europe and is thus important to China's Belt and Road Initiative (BRI). In this sense, it is in China's interest for Iran to serve as a stabilizing force in the Middle East, as China is in need of a stable Middle East in order to realize its economic aspirations. Iran (like Israel) is also a founding member of China's Asian Infrastructure Investment Bank (AIIB). Moreover, in China's eyes, Iran constitutes a counterweight to Sunni radicalism and the terrorism that accompanies it.

For Iran, China is likewise a strategic partner that wields influence in the international system, which could help restore Iran to the international community. Beijing could also help strengthen Iran's political and military status in the region as a counterweight to the influence of the United States. Indeed, the two countries share a desire for change in the world order in their favor, at the expense of the United States. Significantly, Iran is the only regional power in the Middle East that is not a party to an alliance of some kind with the United States.

The close relations between China and Iran on the one hand, and between China and Saudi Arabia on the other hand, should trouble both Tehran and Riyadh, which are sworn enemies. It is difficult to assess whether in the China-Iran-Saudi Arabia triangle, China prefers one of these two countries over the other.

As the object of sanctions and restrictions that have grown more severe over the years, the Iranian government has been forced to seek alternative partners in order to maintain its economy and trade and provide for its population. It found such a partner in China. During the period of sanctions, China was a significant trading partner for Iran, particularly in the energy sector. Following the lifting of sanctions, Iran viewed China as a potential strategic partner to assist it in pursuing its goals in the international arena. Today, Tehran regards China as a trade partner that possesses the ability to help extricate Iran from its ongoing economic crisis, as well as a vast market for the export of energy and inorganic minerals. Thus while the thrust of Iranian efforts following the implementation of the nuclear agreement and the lifting of sanctions has been directed at European

companies, Iran has also sought to preserve and further develop its economic relations with China. China is a particularly attractive partner for Iran due

to its willingness to provide assistance without stipulating any conditions pertaining to human rights or the Iranian political system.

The Bilateral Relations

Iran established diplomatic relations with China in 1971, when China joined the UN and received a seat on the Security Council. Although at the start of the 1979 revolution Iranian leader Ayatollah Khomeini regarded China as an enemy, Iran's political isolation ultimately resulted in improved relations with China, which peaked during the Iran-Iraq War (1980-1988), when China was the only power that agreed to sell arms to the Iranian regime (although it sold weapons to Iraq as well). After the war, during the process of reconstruction, the government in Tehran, under the pragmatic leadership of President Akbar Hashemi Rafsanjani, took action to strengthen Iran's relations with China. During the 1990s and the early 2000s, Chinese aid to Iran was manifested in the supply of arms, as well as the transfer of technical knowledge pertaining to the development of weapon systems, aid for its nuclear program, and the construction of civilian and energy infrastructure.

On the level of the world powers, relations between China and Iran were heavily influenced by the relations between Beijing and Washington. From China's perspective, the United States is more important than Iran, and over the years, Beijing has been willing to pay a financial and political price to side with Washington over Tehran. For example, as part of its efforts to improve its relationship with the United States, in 1997 China reduced its support of Iran's nuclear program.³ In addition, in accordance with US sanctions, the scope of oil bought by China from Iran dropped by approximately 23 percent. Although abstaining from economic sanctions is a declared principle of Chinese policy, in this case China cooperated with the sanctions imposed on Iran by the United States. China's willingness to respect America's policy led to the cancellation of trade deals with Iran and a crisis of trust between Beijing and Tehran. In April 2014, after the Chinese delayed the transfer of funds and technology, Iran cancelled a deal worth \$2.5 billion for the development of an oil field in Azadegan.⁴ These examples illustrate the economic price China has been willing to pay in consideration of its relations with Washington. Still, despite its cooperation with the sanctions regime, China made some exceptions, such as in the purchase of oil from Iran. It also continued to conduct transactions with Iran, albeit on a more limited scale.

On the regional level, China ostensibly pursues a policy of neutrality, whereby it maintains proper and impartial relations with a variety of actors, including some who are clear enemies of others. The close relations between China and Iran on the one hand, and between China and Saudi Arabia on the other hand, should trouble both Tehran and Riyadh, which are sworn enemies. It is difficult to assess whether in the China-Iran-Saudi Arabia triangle, China prefers one of these two countries over the other. Above all, however, China's interest is in a stable Middle East that will allow the full utilization of the region's economic resources. In this spirit, in March 2017, as part of its effort to ease tensions between Iran and Saudi Arabia, China offered to mediate between them and stated that Beijing was willing to help bridge the gaps existing between the two countries.⁵

In light of the power struggles between Tehran and Riyadh that have intensified in recent years, Iran is likely not pleased by China's closer relations with Saudi Arabia, particularly in the military and defense realms. Nonetheless, the importance that Iran ascribes to its relations with China has as a rule prompted it to refrain from displaying its dissatisfaction with Beijing's relations with Riyadh.

Economics

In the economic realm, China invests in Iran's energy sector and other civilian sectors, such as transportation infrastructure and urban infrastructure. During Xi Jinping's visit to Iran, the two countries agreed to reach a level of \$600 billion in trade within the coming decade. However, in 2015, the annual trade cycle between the countries stood at \$33.8 billion, with Chinese exports to Iran accounting for \$17.8 billion and Iranian exports to China accounting for \$16 billion. It is difficult to imagine how the aggregate trade cycle between the two countries could reach \$600 billion within one decade, especially since the Iranian market has only just started its recovery from a long period of economic sanctions.

Since the JCPOA was signed, Iranian President Hassan Rouhani has worked to attract as much foreign investment to Iran as possible. Whereas until the lifting of sanctions China was Iran's major and almost exclusive economic partner and therefore enjoyed trade benefits that were not always optimal from Iran's perspective, the period following the lifting of sanctions has been characterized by global competition over the Iranian market reopened to Western and other actors, with an emphasis on companies from Europe and the Far East. Moreover, in the years of the sanctions,

Iran grew displeased with the dependence it developed on low quality consumer products from China (and the Chinese arrangement of trading consumer products for energy), and this has resulted in a drive to develop alternative markets in Europe and East Asia. In addition, in order to rebuild its economy, Iran has put greater emphasis on technological imports, as part of the deepening of its economic cooperation with the nations of the world. The fact that Iran prefers European technology has made the development of Iran's relationship with China more difficult.

Yet while many believed that following the JCPOA Western countries and global corporations would rush to invest in Iran, in practice, the situation proved to be more complicated. First, many companies have been wary of taking the risk of violating some of the remaining sanctions imposed due to Iran's involvement in terrorism and human rights violations, as well as the secondary American sanctions that were not lifted as a result of the nuclear agreement. Second, the United States has continued to limit Iran's relations with global financial markets in order to limit the use of dollars in transactions between Iran and foreign companies. Also, structural failings in the Iranian economy, including corruption, the weakness of the private sector, and the excessive involvement of semi-government bodies such as the Iranian Revolutionary Guards have delayed the return of European companies to the Iranian economy. In this way, there are currently internal and external obstacles to the expansion of foreign investment in Iran.

The Nuclear Realm

According to the RAND Corporation, China has been a significant partner in the development of Iran's nuclear program over the past three decades.⁶ Between 1984 and 1996, China provided Iran with critical assistance in the establishment of a nuclear technological center in Isfahan, the training of nuclear engineers, and the mining of uranium. Between 1998 and 2002, China supplied Iran with UF₆, which was used for centrifuge tests by the Kalaye Electric Company in Tehran. In contrast, and in addition to its reduced its support for the Iranian nuclear program beginning in 1997, China, as part of the P5+1, played a significant role in the negotiations over the nuclear agreement.

Yet despite the Chinese government's cooperation with the sanctions, there is evidence of ostensibly private Chinese businessmen having provided assistance to Iran in the field of missiles, primarily in the transfer of technology and knowledge.⁷ For example, in March 2017, the US State

Department imposed sanctions on six Chinese companies and three Chinese individuals for assisting Iran in the development of its missile program through the transfer of sensitive information. The report, however, does not provide a clear account of the scope and nature of Chinese assistance.⁸

Security

The security cooperation between China and Iran has advanced in slow, relatively modest steps. Despite reciprocal statements and an array of common interests, there has been no evidence of any new arms acquisition deals in practice – not even on paper.⁹ There has also been no evidence of any significant military and security cooperation beyond the level of diplomacy. However, an initial indication of military cooperation was reported on June 18, 2017, in the form of a joint military exercise conducted in the eastern Strait of Hormuz. Among other vessels, the exercise involved one Iranian destroyer and two Chinese destroyers.¹⁰

The year 2013, when Xi Jinping and Hassan Rouhani took office, marked a warming in the security relations between the two countries. In May 2013, Iran made a port visit at Zhangjiagang near Shanghai, and in September 2014, two destroyers of the Chinese fleet made a port visit at Bandar Abbas in Iran.¹¹ Moreover, after two decades with very few visits by senior members of the countries' military and defense systems, two such visits took place in 2014 alone. And in October 2015, approximately three months after the JCPOA was signed, Admiral Sun Jianguo, deputy chief of the Joint Staff of the Chinese army, visited Tehran.

The reciprocal visits of these senior officials reached a high point in November 2016, when Chinese Minister of Defense Chang Wanquan paid a visit to Tehran. During his visit, his Iranian counterpart Hossein Dehghan related to the development of long term defense and military relations between the countries as "an ultimate priority in the security diplomacy of the Republic of Iran." During the same visit, the Chinese Minister of Defense met with the Iranian chief of staff, and the two officials announced the establishment of a joint commission of the general staffs of both armies to establish closer defense ties and signed a cooperation agreement in the fields of training and anti-terrorism warfare.¹² These statements, however, have yet to mature into concrete cooperation.

China and Iran have a rich history of defense trade. From the outset of relations between the two countries, Iranian interest in Chinese defense industry products focused primarily on the ballistic realm. In the early

1980s, Iran purchased a small quantity of weapons and the license to manufacture them on Iranian soil, and over time the Iranian defense industries improved the Chinese technology. In this way, between the 1990s and the mid-2000s, Iran produced hundreds of Noor and Tondar anti-ship missiles, which are actually upgraded versions of Chinese C-801 and C-802 missiles.¹³ Houthi rebels in Yemen, who are supported by the Quds Force of the Iranian Revolutionary Guards, reportedly launched Nasr and Tor missiles, also local versions of Chinese missiles, at United Arab Emirates vessels operating off the coast of Yemen as part of a Saudi-led coalition.¹⁴ Moreover, some Iranian-developed weaponry has been placed at the disposal of Hezbollah and Hamas. For example, in the summer of 2006, during the Second Lebanon War, the Israeli warship *INS Hanit* was hit by what appears to have been an Iranian version of a Chinese C-802 missile fired at it from the Beirut coast. During the war, Hezbollah also fired Chinese manufactured 122 mm Type-81 cluster rockets at civilian areas in northern Israel.¹⁵ In 2011, aboard the vessel *Victoria*, IDF forces discovered six missiles, based on the Chinese C-704, that were intended for Hamas.¹⁶

Defense relations between China and Iran are not conducted in a vacuum. Indeed, China is in competition with Russia, which is currently Iran's largest arms supplier. According to SIPRI, in the decade that preceded the imposition of sanctions, Russia supplied approximately 70 percent of all the weapons that Iran imported.¹⁷ The total value of the deals that were signed by the two countries from 1990 through the end of the previous decade stood at approximately \$4.5 billion (figure 1), double the value of Iran's transactions with China during the period in question.¹⁸ Iran's defense transactions vis-à-vis Russia differ from those concluded with China, and in contrast to the Iranian improvements made to the Chinese weapons systems, Iran has only rarely developed or produced weapons based on Russian technology. This, however, is not indicative of the lack of an Iranian desire to acquire advanced weaponry, as deals between Iran and Russia worth tens of billions of dollars continue to be woven.

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A number of other conditions are also delaying Tehran's movement toward Beijing in the realm of arms acquisition. First, under the JCPOA, the export of advanced offensive weaponry to Iran is restricted for five

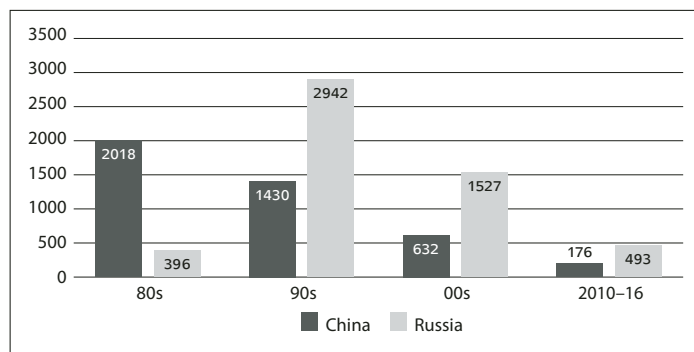


Figure 1. Chinese and Russian Defense Exports to Iran (in millions of dollars)

Source: SIPRI; this data does not include the final quarter of 2016 (which has not been published yet)

years, between the signing of the agreement and the end of 2020. Under the agreement, all sales of significant conventional weapon systems (such as tanks, cannons, missile systems, and fighter planes) or related components and services are subject to the approval of the UN Security Council, which are to consider each case on to its merits. This means that both China and Russia must present any arms sales to Iran to all members of the Security Council for their approval, including the United States.¹⁹

The second hurdle delaying the sale of Chinese weapon systems to Iran is China's export policy and the supply of the Chinese defense industries, which are still no competition against other exporters. Although China's weapons exports constitute the third largest in the world (after the United States and Russia, which occupy first and second place, respectively), most of its exports as of 2012-2016 were intended for states with close relations with China (Pakistan, Bangladesh, and Myanmar), who are able to purchase more advanced weaponry, such as submarines, fighter planes, cruise missiles, and tanks. Moreover, China still has not completed the development and production of the advanced technological weapon systems that are in high demand around the world, such as stealth fighter planes, high precision missiles, and long range air defense systems.

From a conventional military perspective, Iran relies on its outdated military abilities. Therefore, the Iranian army could theoretically show great interest in a number of modern Chinese technological developments, particularly in the naval realm. One of the major concerns in the West is

that the Iranian army will pursue a systemic Anti-Access/Area Denial (A2AD) approach in the Gulf.²⁰ Iran, which aspires to counterbalance the American presence in the Gulf and guarantee itself a secure outlet to the Indian Ocean, could employ the Chinese strategy and technology that is currently employed in the East and South China Sea.

According to the US Defense Department, Chinese anti-access strategy (known as ASCEL – Active Strategic Counterattacks on Exterior Lines) has the highest competitive military potential vis-à-vis the United States and is capable of undermining the United States’ traditional military advantages – that is, given that the Chinese army has worked hard on the development of a large number of mid-range advanced ballistic missiles, cruise missiles, combat submarines armed with advanced systems, long range air defense systems, electronic warfare, fighter planes, and more.²¹ In light of Iran’s interest in Chinese missile development and warships, there is the possible danger of the adoption of a strategy of using them, initially against forces of the United States and the Gulf states, and subsequently against Israel.

Farzin Nadimi of the Washington Institute has estimated that Iran could ask China to purchase advanced maritime vessels, such as the 052 destroyer or the C-28A frigate (which is armed with advanced anti-ship missiles and advanced surface-to-air missile), the 054A, or others. Nadimi also maintains that the two countries could resume cooperation in the realm of anti-ship missiles, if China is willing to provide Iran with a number of items from the advanced generations of these missiles, including, for example, the CM-302 and the CX-1, which have ranges of up to 300 km.²²

However, whereas advancement in the realm of weapons development and acquisition has been slow and limited, on the level of defense strategy Iran has been interested in pursuing diplomatic and humanitarian Chinese involvement in the Middle East, which would complement Russian involvement and counterbalance that of the West and the United States. At a number of opportunities in the course of 2016, President Rouhani urged China to play a more significant role in Syria and Yemen. During their first meeting in Tehran in January 2016, Rouhani stated that he had discussed with his Chinese counterpart the issue of cooperation in fighting terrorism and the provision of mutual aid to countries that are targeted by terrorism, including Syria and Yemen. During a side meeting

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with the Chinese Vice President at an international conference later that year, President Rouhani again called on China to become involved in the region's crises, particularly in the provision of humanitarian aid to Syria and Yemen. China's positions in the Syrian and the Yemeni context serve to strengthen Iran's regional position and preserve Iranian interests.

Recommendations for Israel

China's support for Iran and Iranian positions – which has thus far been manifested in assistance with nuclear development and repercussions of the sanctions regime, as well as defense exports and the mutual aspiration to weaken the United States in the global system – poses a threat to Israeli national security, both regarding relations between the world powers and on the regional level. Although China is engaged in relations with Iran, Saudi Arabia, and Israel in parallel, in practice it has helped strengthen Iran in the military realm and other troubling areas, such as the evasion of sanctions, the advancement of its nuclear program, and the promotion of arrangements in Syria along Israel's border.

In the management of its ties with Israel on the one hand and Iran on the other hand, as in its triangle of relations with Iran and Saudi Arabia, China has succeeded in maintaining relations with both countries, which are in conflict with one another. Israel, for its part, possesses no significant leverage over China to change this situation. Israel-China relations have focused primarily on the economic realm, and Israel has not been able to translate their development into changes in Chinese policy regarding disconcerting diplomatic positions. Nonetheless, in the context at hand, Israel must resolutely express to the Iranians their concerns regarding Iran's destabilizing regional policies and its efforts to acquire nuclear weapons. At the same time, it must also seek out indirect levers of influence.

One source of leverage through which Israel could attempt to influence Chinese policy is the United States. Israel would do well to consider the possibility of leveraging its relations with the United States as a means of pressuring China to reduce its relations with Iran. This would undoubtedly be a complicated and sensitive course of action, as it would involve US-Chinese interests around the world, spanning the breadth of both powers' activities and interests (economic, climate-related, defense-related, and others). However, it is an issue that must be raised and assessed in Israel's strategic dialogue with the United States.

Notes

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