

China-Iran Relations

Strategic, Economic and Diplomatic
Aspects in Comparative Perspective

Kevjn Lim



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Memorandum

May, 2021

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המכון למחקרי ביטחון לאומי
THE INSTITUTE FOR NATIONAL SECURITY STUDIES
תל אביב יפו
TEL AVIV UNIVERSITY

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Institute for National Security Studies

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יחסי סין-איראן:

היבטים אסטרטגיים, כלכליים ודיפלומטיים במבט השוואתי

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Cover photo: Chinese Foreign Minister Wang Yi (left) and his Iranian counterpart Mohammad Javad Zarif bump elbows after signing the “25-year strategic cooperation pact” between their two countries during the coronavirus pandemic. Tehran, March 27, 2021. (Majid Asgaripour/WANA via Reuters)

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Introduction

The People's Republic of China and the Islamic Republic of Iran – and specifically the relationship between the two – pose a number of policy challenges for the State of Israel. China ranks among Israel's leading trade partners and investors, but that relationship has created trilateral tensions involving Israel's major power ally, the US, for whom China has become the principal strategic challenge. At the same time, Iran remains Israel's leading nemesis and most critical national security threat, which means, at first blush at least, that what it gains from its interactions with China risks becoming Israel's loss in the final ledger. These considerations and the questions they raise drive the research aims of the present memorandum.

Insofar as state ideology is concerned, atheist Communist China and Islamic revolutionary Iran could not be more different from each other. Yet, having shared the trauma of national humiliation in the 19th and 20th centuries, both revolutionary worldviews also rejected and openly defied imperialism, colonialism, and cultural penetration. Furthermore, they have over the past four decades come to share common and, in some cases, increasingly converging interests, including in respect of energy trade, transit infrastructure networks, and opposition to the international order as it currently stands, dominated by the US. Their interests, however, also diverge in other important ways, including their respective outlooks on stability in the Middle East, the role of the US as the region's key security guarantor, and indeed the balance of US military presence between East Asia and the Persian Gulf.

A Brief Historical Overview

Before proceeding further, a snapshot capturing the general arc of bilateral relations in the modern era is useful. The People's Republic of China (1949-present) and the Imperial State of Iran during the Pahlavi period

(1925-1979) first established official diplomatic relations in August 1971, facilitated by the US' own rapprochement with China as both the latter powers faced off against a common adversary in the Soviet Union. Following Iran's 1979 revolution, despite initial setbacks, including as a result of one-time paramount leader Hua Guofeng's visit to Iran in August 1978 and Beijing's expression of support to the Shah, bilateral ties resumed.

Throughout the 1980s and against the backdrop of the Iran-Iraq War, China's relations with Tehran focused heavily on arms sales, typically via North Korea, making China Iran's main military supplier. Although Beijing in the same period sold weapons to Saddam Hussein's Iraq, Iran's political leadership refrained from criticizing China. After the eight-year war, diplomatic interactions intensified, with then-president Seyyed Ali Khamenei – Iran's supreme leader today – visiting China in May 1989 in the first such official visit by an Iranian head of state. During the 1990s, when the pragmatic centrist Ali-Akbar Hashemi Rafsanjani's presidency coincided with Jiang Zemin's, diplomacy also increasingly pivoted on economic relations including Iran's post-war infrastructure reconstruction and, more importantly, Iranian energy exports. By this time, China's energy security needs had begun rising, and Iran appeared able to fill some of them.

In 2000, reformist President Mohammad Khatami visited China, and in April 2002, just after US President George W. Bush's "Axis of Evil" speech (Bush, 2002) partly directed against Iran, China's President Jiang Zemin travelled to the Islamic Republic in the first such visit by a Chinese paramount leader. In July 2005, just before Khatami ended his term, Iran acquired observer status within the Shanghai Cooperation Organization (SCO), a regional political, economic, and security body co-led by China and Russia. In late 2005, Iran also joined the Beijing-headquartered Asia-Pacific Space Cooperation Organization (APSCO), in an extension of its bilateral space cooperation with China which had begun in 1991.

During the hardline conservative presidency of Mahmud Ahmadinejad, as UN sanctions intensified, China progressively became Iran's largest trade partner, energy sector investor, and oil client, as detailed in chapter 2, on bilateral commerce. When he won the presidential elections in 2013, the pragmatic centrist Hassan Rouhani sought to rebalance Ahmadinejad's lopsided "look East" diplomatic orientation, turning to the West and receiving its representatives for more trade and investments even before the nuclear

agreement with the P5+1, officially known as the Joint Comprehensive Plan of Action (JCPOA) came into effect in January 2016.

By this time, China, a veto-holding UN Security Council permanent member, had become one of Iran's two major power diplomatic patrons along with Russia. As a measure of China's growing importance, Tehran studiously refrained from criticizing Beijing's domestic crackdowns, including on the Tiananmen Square protests in 1989 and subsequently on the Sunni-Turkic Uyghur Muslims in Xinjiang province.

During the 2003-2005 round of the nuclear negotiations with the UK, France, and Germany, Rouhani, then lead nuclear negotiator and secretary of the Supreme National Security Council, noted that the Chinese were "perhaps slightly easier to work with" since "the Russians have certain sensitivities about us that the Chinese do not have to the same extent" (Rouhani, 2005, p. 25). He also believed that "if we go to the Security Council because political negotiations have failed [as opposed to being referred for violating UN resolutions, K.L.]... a strong country like China can argue at the Security Council that Iran was negotiating and must return to the path of negotiations" (Rouhani, 2005, pp. 26-27).

However, China has also shortchanged Iran at critical junctures when its own, far more important relations with the US demanded it. In the 1997 US-China summit, to reduce tensions over the preceding Taiwan Strait crisis, President Jiang Zemin agreed to suspend nuclear cooperation with Iran. And during the 2006-2015 period of international sanctions on Iran, while Beijing became Tehran's top trade and energy partner and the largest source of Iran's imports, Chinese state-owned companies delayed on investment projects particularly in the energy sector, prompting several contract rescissions for reasons including sanctions pressure, the US' increasingly important shale energy sector, and technical-contractual issues vis-à-vis Iran.

After the Trump administration, having just withdrawn from the JCPOA, reimposed unilateral sanctions on Tehran in 2018, China did not end its oil imports from Iran but it did reduce them significantly. In the same period, bilateral trade waned and the China National Petroleum Corporation (CNPC) pulled out, for the second time, from a \$5 billion consortium agreement to help develop Phase 11 of the South Pars Gas Field. Beyond bilateral contexts, China has also repeatedly wavered in its diplomatic support for Iran

in multilateral settings, as explained in chapter 3, dedicated to diplomatic relations.

However, around the time that Joe Biden assumed the US presidency in January 2021, Iranian oil exports to China reportedly rose again, likely in anticipation of the new US administration offering sanctions relief. Then on March 27, China and Iran signed a 25-year strategic cooperation agreement, talk concerning which had first been brooked in 2016, and of which a Persian-language draft (the only available text of the agreement at the time of this writing) was leaked in the summer of 2020, with references to cooperation in a sweeping spectrum of areas.

Statement of Aims

The present memorandum picks up on these developments, focusing on three specific aspects of China-Iran relations – strategic, economic, and diplomatic. To this end, chapter 1 surveys each partner’s core interests and policy focus, before breaking down the strategic considerations underlying bilateral relations, along with the convergences and constraints that characterize them. Chapter 2 examines the volume and substance of bilateral commerce as well as investment over the past four decades, before adopting a comparative perspective involving China’s trade and investment relations with Iran’s other regional neighbors including Saudi Arabia, the UAE, and Israel. Chapter 3 focuses on three particular areas of diplomatic relations, namely, Iran’s place within China’s hierarchy of partnerships, Beijing’s Security Council voting pattern vis-à-vis Iran’s nuclear program, and SCO-Iran relations. A separate INSS publication by Hiddai Segev (2021), also produced in the context of this joint research effort, usefully discusses China and Iran’s defense relations. The final section of the memorandum then draws together conclusions and implications from the preceding chapters, and offers some policy recommendations for Israel’s decisionmakers going forward.

The conclusion at its broadest brushstroke is that although China’s strategic, economic, and diplomatic relations with Iran and any kind of assistance to the latter pose actual and potential threats to Israel, they not only ought to be viewed in comparative perspective, but also conceal opportunities for Israeli foreign policy. This is particularly so in light of the regional realignment given expression in the Abraham Accords.

Following from this, the gist of the recommendations is that rather than attempt to bilaterally press China to cut ties with Iran, Israel would likely fare better by acting in concert with its emerging regional allies, appealing to China's manifest non-partisanship and commercially oriented desire for regional stability, and persuading it to moderate Iran's behavior. China's involvement in the Middle East remains lopsidedly focused on economic and commercial relations. However, with its regional economic interests rising, if not now then at some point down the road, China will likely have difficulty refraining from more robust diplomatic, even military involvement. In other words, China will be able to stay on the sidelines for only so long. Before that critical inflection point, sustained engagement with China concerning Iran can help shape not only China's broader interactions with the region, but also the intensity, if not the nature, of the threat posed to Israel and its allies by Iran.

Chapter 1

Strategic Considerations, Convergences, and Constraints

China and Iran's conduct bears a number of similarities, evolving as both states have from separate revolutionary beginnings, the one in 1949, the other in 1979. There is, as a result, a certain convergence of interests. Yet, the divergences are hardly negligible, and it is these which impose constraints on the future trajectory of bilateral relations, with US policy constituting what is arguably the single most important external factor and source of interference. This chapter examines the broad strategic factors underlying bilateral relations. It begins with a survey of each partner's core interests and areas of policy focus as they flow from, and in turn interact with, domestic conditions. The chapter then looks at the areas where bilateral interests converge and diverge. While the latter at times also necessarily assume the form of economic, diplomatic, and military interactions, these are ultimately a function of broader, strategic considerations.

China's Interests and Policy Focus

Paramount leader since 2012, President Xi Jinping has revived the revolutionary-ideological fervor and personality cult of Mao Zedong's era, intensified the "great rejuvenation of the Chinese nation" and raised China's international leadership profile. This is a stark turnaround from former president Deng Xiaoping's counsel to "hide your strength, bide your time," which his immediate successors Jiang Zemin and to a lesser extent Hu Jintao largely maintained. The survival and dominance of the Chinese Communist Party (CCP), and within that, the seven-member Politburo Standing Committee which Xi heads remains the supreme political interest. To perpetuate its rule at home, the CCP seeks domestic stability built on territorial unity,

sustained economic growth and development, and, increasingly, a self-image projecting national power, pride and prestige, all under tightening political control among the Han majority and especially ethnic minorities.

Abroad, Beijing is expanding its presence, activity, and influence to sustain domestic growth and to match its rise as a great power. China still largely plays by international rules and has not yet overtly challenged US dominance. Instead, it is soft-shaping multilateral institutions like the UN, and bilateral partners, to better reflect its preferences. However, its sheer demographic and economic weight, having surpassed Japan as the world's second-largest economy by the end of 2010, has also steadily altered the global balance of relative capabilities. Under Xi, the will to power has become more pronounced than before with China gradually promoting a multipolar order, which implies that it is seeking a waning of US dominance.

Bilateral disputes with the US, China's primary competitor and, increasingly, rival, run the gamut of issues including trade and technology. But they largely speak to the US' own concerns of China as its principal strategic challenger. While China has benefited from the US' security umbrella to develop its global trade and secure energy supplies, it seeks to reduce the US' presence and blunt the threat it poses in the Asia-Pacific, and to degrade the US' regional alliances. The more the US is distracted elsewhere, including in the Middle East, the greater China's leeway for maneuver, particularly in its areas of priority.

China's strategic priorities begin at home and encompass its immediate neighborhood. These include unrest and, potentially, separatism among ethnic minorities like the Sunni-Turkic Uyghurs in Xinjiang; Hong Kong's protests; Taiwan's status; disputes with Japan and other regional US allies along the East China Sea, South China Sea and the First Island Chain; North Korea's stability; strategic competition with India; security in Afghanistan, Tajikistan and other border neighbors affecting Xinjiang's stability; and at one remove from there, economic penetration in Central Asia. But its ambitions have gone global, expanding from the Indo-Pacific to the Arctic, the Middle East and the Mediterranean, Africa, Europe, and Latin America. China's thirst for energy and supply diversification also makes the Persian Gulf a key focus.

China's rise as an economic and trading superpower likewise requires expanding and protecting trade routes. Freedom of navigation is particularly

sensitive around choke points like the Suez Canal, Bab al-Mandeb, the Strait of Hormuz and the Strait of Malacca, where the US maintains a naval presence and is capable of disrupting Chinese shipping. Key sections of China's overland and sea lines of communication run through the Middle East and especially Iran, which holds important reserves of exportable hydrocarbons. While China has benefited from security provided by the US, as its international commercial presence and investments grow, and especially if ties with the US worsen, Beijing would likely face more pressure to militarily secure its overseas economic interests.

Confronting relatively low external threats, but also to mitigate potential sources of internal instability including the nation's economic slowdown and underdevelopment in Xinjiang, Xi initially embarked on a full-throated expansion of China's influence and soft power, preeminently embodied in the sprawling Belt and Road Initiative (BRI). Important BRI elements comprise energy and infrastructure investments in the Middle East, including Iran. China likewise established alternative international financial institutions such as the Asian Infrastructure Investment Bank; assumed leadership on global issues including climate change; pushed scientific-technological boundaries like landing on the moon's dark side; and intensified Beijing's foreign influence operations, including through the United Front Work Department's ties with the Chinese diaspora and foreign political parties, and by increasing the number of Confucius Institutes overseas.

During Donald Trump's presidency, facing growing pressure from the US and international pushback over its increasingly assertive foreign policy and perceived role in the COVID-19 pandemic, China shifted towards a harder line, and more hard power. At home, China has ramped up surveillance and control including in Xinjiang and Hong Kong. Elsewhere, its warplanes regularly probe Taiwan's airspace, while armed tensions erupted along the Chinese-Indian border, causing casualties for the first time in decades. Meanwhile, China's defense capabilities including aircraft carriers and hypersonic weapons continue to strengthen, boosting not only its force projection capacity but also its ability to both deter and respond to aggression by other major military competitors. Despite all this, in the Middle East, China still largely refrains from significantly intensifying its diplomatic commitments and especially military activity other than participating in naval

port calls, joint drills, peacekeeping or emergency evacuation missions, and counter-piracy operations.

Iran's Interests and Policy Focus

Since the 1979 Revolution, *Velayat-e Faqih* or custodianship of the jurispudent – the supreme leader – has remained the defining principle of Iran's political system. Not quite as hierarchical or personalized as its Chinese counterpart at present, the Iranian political establishment comprises multiple power centers which the supreme leader largely balances rather than rules by fiat. Not unlike China, however, Iran's priorities begin at home with domestic stability and, given that roughly half the population comprises minorities, both national and territorial unity. Because socioeconomic injustice also partly fueled the revolution, economic welfare and development feature prominently in domestic politics, along with an emphasis on voter turnout during elections to preserve the veneer of regime legitimacy. To demonstrate the revolution's unfading momentum to both external and domestic audiences, Iran's leadership frequently touts achievements reflecting national innovation and capability.

In foreign policy, Iran has maintained an enduring antagonism against the US and especially Israel, and to a lesser degree the West in general. In the 1980s and during the Iran-Iraq war, Tehran was stridently revisionist in attempts to export Ayatollah Ruhollah Khomeini's revolution and to forge a pan-Islamic internationalist order transcending the nation-state. This revisionism resurged during Mahmoud Ahmadinejad's presidency (2005-2013), when Iran sought to establish an anti-US coalition rooted in the global south and the political east, again fueled by revolutionary resistance. On the other hand, strategic accommodationism vis-à-vis the US and the West largely characterized the presidencies of the reformist Mohammad Khatami, and the moderate conservatives Ali-Akbar Hashemi Rafsanjani, and now Hassan Rouhani.

While Iran no longer seeks to transform the international order, at least not with the ardor of the 1980s, regardless of faction it sees itself as a leading regional power refusing to capitulate to US dominance and pressure. In this context, Iran, like China, seeks a more evenly multipolar world and often portrays itself as a key pillar, along with China and Russia, within a geopolitical bloc balancing against the US. It has also sought to create

alliances or at least greater diplomatic support in international and regional forums including the UN, the Non-Aligned Movement and the Shanghai Cooperation Organization, and to wedge the US away from some of its partners, especially in the EU.

Iran's economic policy has for decades revolved around exporting oil and gas and, increasingly, petrochemicals along with steel. Before 2020, energy was also the reason for its consistent trade surpluses. Its main trade focus has traditionally been the EU, especially Germany, and industrialized Asian economic powers including Japan, South Korea, India, and China. It has also aspired to greater economic influence in post-Soviet Central Asia, but with less success.

However, owing to decades of sanctions, Iran has had to pursue self-reliance by producing value-added semi-finished and finished goods in the industrial and especially defense sectors. US pressure has also blocked economic initiatives involving Iran, especially in its upstream energy sector and transnational oil and gas pipeline projects. Under US sanctions, Iran now depends more heavily on its immediate neighbors such as Iraq and the UAE, besides China. With Beijing, it has even aspired to raise bilateral trade to US\$600 billion by 2026 – only slightly less than Iran's 2020 GDP, in current prices, of \$610 billion, according to the International Monetary Fund (Motevalli, 2016; IMF Datamapper, n.d.).

Overseas, Iran's strategic priorities remain largely regional, spanning the Persian Gulf, through the Greater Levant, to the Caspian region and Afghanistan. Tehran's primary, if self-induced, adversaries are the US along with its regional military presence, and both Israel and Saudi Arabia, around which a broader coalition involving other Sunni partners like the UAE and Bahrain has been forming in recent years. Regional competitors include Turkey and to a lesser extent Pakistan, while Russia, currently a strategic partner, also competes with Iran as a gas exporter and, increasingly, for influence and profit in Syria. If China borders 14 neighbors, Iran borders 15 on both land and sea, heightening its sense of vulnerability and instability potential. While Iran's diplomatic, intelligence, and operational presence has extended farther afield including to Europe, Africa, and Latin America, Tehran's priorities lie much closer to home, in line with its status as a regional rather than global power.

Iran's foreign policy has thus far overwhelmingly revolved around offsetting the US' "maximum pressure" campaign, which has in turn forced Rouhani's relatively moderate-centrist government towards "maximum resistance," a position normally favored by his hardline conservative rivals. Iran's strategic response to the US has as such shifted from engagement and appeasement, the latter namely through the nuclear agreement and its imposed constraints, to one begrudgingly more aligned with hardliners encompassing greater balancing and subversion, and from May 2019, greater use of military force by the Islamic Revolutionary Guard Corps (IRGC) to push back against US pressure.

Diplomatically, Iran seeks to preserve the ongoing support of the nuclear agreement's remaining signatories, in part with the hope of mitigating sanctions reimposed under the Trump administration, even while holding out the promise of a return to the status quo ante if the US under the Biden administration were to return in whole to the agreement. At the start of 2021, to improve its leverage, Iran finally resumed uranium enrichment to 20 percent fissile purity, and on 23 February it ended its implementation of the Additional Protocol, thereby curtailing the ability of International Atomic Energy Agency inspectors to conduct snap inspections. However, Iran has also implemented these nuclear-related scale-back measures very gradually and in a calculated fashion to allow for offramps. Importantly, it has also so far largely refrained from disproportionate retaliation against the US and Israel, such as through mass-casualty attacks, including over the Natanz sabotage incident of July 2020 and the assassination of top nuclear scientist Mohsen Fakhri-zadeh in November, both attributed to Israel.

Though they diverge on means and ways, Iran's factions converge on higher ends. Lacking the heft of a major power like China and beleaguered by unrelenting external pressures and internal crises, Iran's priorities presently fixate on regime survival and especially economic resurrection, with the latter heavily depending on boosted industrial production and self-sufficiency in order to increase exports and foreign currency revenues, and to compensate for oil sanctions.

Converging Interests

China and Iran are, to differing extents, revisionist powers, at least in the way they view some of their areas of immediate interest as well as US

dominance over parts of the international system. Neither necessarily seeks hegemony, but they do assert their status claims – as a global and regional power, respectively – and demand recognition of their interests and preferences. Both fiercely defend their political and value systems, born of revolution, against a foreign universalism privileging liberal democracy and the individual, and have at times sought to export these systems. Both likewise vigorously oppose any foreign interference in, and refrain from themselves commenting on the other's domestic issues, especially if these, like Hong Kong, have repercussions on national unity or stability.

For Tehran, China along with Russia are Security Council veto-holders whose votes anchored the international response against the Trump administration, and specifically its attempts to extend the arms embargo and invoke the snapback of sanctions against Iran. Both are similarly major power patrons in Iran's efforts to balance against the US, although China has proven the less unreliable. Between 2008 and 2012 for instance, at a time when Russia under President Dmitry Medvedev improved relations with the US and downgraded its defense cooperation with Tehran, China maintained its own arms delivery pipeline, becoming Iran's top military purveyor by default. While perspectives may differ in Beijing, Tehran views joint military exercises including December 2019's trilateral drills with Russia as proof it still has powerful friends.

For Beijing, Iran is the only supplier in the energy-critical Persian Gulf not easily susceptible to US pressure in the event of US-China tensions. Because of its longstanding hostility towards Washington, Iran is useful leverage for Beijing to distract the US, divert its resources, and degrade its dominance. Additionally, if China maximizes the BRI's potential, Iran is the only east-west Eurasian land bridge south of the Caspian, besides Russia to the north. China-Russia relations are mostly cooperative at present, but would likely again turn more competitive over time given China's growing power and influence especially in Russia's backyard.

In the 1980s and through the 1990s, China was a key arms supplier and later helped Iran establish its nuclear program and elements of its missile and rocket programs, including solid-fuel technology, which over time improved Iranian self-sufficiency when few countries were willing to sell it arms. Chinese defense exports including inventory items like fast attack boats and anti-ship missiles likewise contributed to keeping Iran militarily

relevant particularly in the Persian Gulf and the Strait of Hormuz, raising the costs of an attack or commercial blockade by the US. Although Beijing officially rejects a nuclear-armed Iran, it takes a less stringent view of proliferation if it is unambiguously aimed against China's adversaries, first India (by Pakistan), and down the road potentially the US. At present, China at the very least likely views an Iranian threshold capability as a potential asset more than a threat, something to keep the US strongly distracted in the region.

Under international and US sanctions, China has also become, and now remains, Iran's largest trade and investment partner, and energy client, as the next chapter on bilateral commerce shows. To illustrate the tenor of broader strategic relations, at least from Iran's viewpoint, some of these indicators are worth mention here. According to IMF Direction of Trade Statistics, mainland China's merchandise trade with Iran, worth \$239.2 million in 1988, peaked over two hundredfold at \$51.8 billion in 2014, amid UN sanctions, before falling to slightly less than half that figure in 2019 under US sanctions. The China Global Investment Tracker places total Chinese investments and construction contracts in Iran between 2005 and 2020 at \$26.56 billion, more than any other foreign government. Additionally, between 2001 and 2015, China's share of Iran's oil exports rose from 10 percent to a record 56 percent, settling at 49 percent in 2019, according to calculations based on International Trade Center data. Under current US sanctions, other than trace volumes to Syria, the vast bulk of Iran's oil exports appear to have gone to China, partly via third countries like Malaysia, although steeply declining energy exports have in 2020 also led, for once, to an Iranian trade deficit with China and the world.

In 2005, a year before UN sanctions began, China represented 10 percent of Iran's total trade. In 2014, that proportion reached a record 36 percent. For perspective, more of Iran's trade depends on faraway China than Armenia's (which owing to geopolitical tensions is partially blockaded by Turkey and Azerbaijan) depends on nearby Russia. And if Iran mainly exports energy to China, China sells Iran almost everything imaginable, both industrial and consumer goods, from refined petroleum to cars, electronics and even carpets, Iran's signature export.

Indeed, Iran-China traffic also accompanied COVID-19's rapid and virulent spread in Iran and especially the holy city of Qom in early 2020. On January

31, 2020, the Rouhani government ordered the suspension of all China-linked flights, of which several ran each week between Tehran and major Chinese cities, and even destinations farther afield like Urumqi in Xinjiang province. Despite the official ban, however, Iran's IRGC-affiliated Mahan Air continued flying to and from several Chinese metropolises, ostensibly for a combination of repatriation sorties and medical supply runs, but possibly also for passenger traffic. Iran's own Deputy Health Minister Alireza Raisi subsequently even linked Qom's COVID-19 virus strain to Chinese workers and university students in the city (Ansari, 2020). Whatever the motives for those post-ban flights (or the origins of Iran's coronavirus crisis), they exemplified the importance of Iran keeping its lines of communication – and borders – open to China even despite the pandemic.

In Central Asia, bilateral economic interests meet through energy and especially cargo transit infrastructure, now formally incorporated within the BRI. From Central Asia to the Middle East, both Beijing and Tehran also have an interest in neutralizing Sunni Islamic fundamentalism and terrorism, especially the Islamic State and its affiliates. Both maintain good relations with North Korea, whether as leverage (against the US and its northeast Asian allies) or for military assistance. To circumvent US sanctions, Iran has a stake in China's growing global financial presence and the renminbi's internationalization. Although China has cornered Iran's domestic market, Chinese goods and especially technology are swiftly rising in quality, with Iran for instance looking to incorporate Huawei's 5G networks into its national mobile and IT infrastructure. Furthermore, while Russia is an important major power partner, China and particularly Iran view it with relatively more historical distrust than they do with each other.

China and Iran's interests have most pointedly converged on joint opposition to the Trump administration, which had also opened additional fronts against Beijing beyond trade and technology. For both partners, the previous administration's unilateralism, especially Trump's withdrawal from the nuclear agreement, has been a useful foil by which to demonstrate their relative adherence to international law and diplomatic norms. Even though Joe Biden appears to signal a relative measure of détente, his privileging of multilateral diplomacy could in fact facilitate a more united international front, this time not only against Iran as during the Obama administration, but

also against China. The more China is able to expand its sphere of influence against the US, the greater the maneuver space for Iran, in theory.

Divergences and Constraints

Still, there are inherent limits. While Chinese communism and Iran's Islamic revolution have not hampered bilateral relations, and Iran has refused in particular to criticize China's treatment of its own Muslim Uyghurs, Tehran's relations with and support for both Shia and Sunni extremist groups risk influencing Chinese Muslims. Iran's quiet anti-US support for the Sunni Afghan Taliban, with whom it nearly went to war in 1998, is one established vector of extremist influence on China's Uyghurs for instance, given that Uyghurs have also joined the Taliban, among other Jihadist groups.

Before the Xi-Trump era, China and Iran approached the US and the international order differently. While Ahmadinejad's Iran sought feckless confrontation, Hu Jintao's China (2002-2012) for the most part preferred measured subtlety, at least before 2008. Even now, Beijing remains wary of getting dragged into Tehran's score-settling with Washington, one probable reason the Chinese co-led Shanghai Cooperation Organization (SCO) has so far refrained from according Iran full membership.

As chapter 3, on bilateral diplomatic relations, also shows, China's ties with the US have likewise repeatedly tempered its ties with Iran in other ways. Meeting with US President Clinton in 1997, and amid earlier efforts to lower tensions over the Taiwan Strait crisis, Jiang Zemin agreed to curtail nuclear cooperation with Iran (Russia then picked up the slack). Under Washington's "maximum pressure," Beijing has reduced, not increased, its economic and banking ties with Iran to avoid sanctions exposure and plausibly as leverage in trade talks with the US. Indeed, as of October 2020, Iran still reportedly faced difficulty repatriating some \$20 billion in foreign exchange revenues from China.

In 2010, Beijing along with Russia fully supported the Obama administration-cosponsored Security Council Resolution 1929 opening the way for far-reaching UN sanctions against Tehran, which in turn prompted criticism from Ahmadinejad government officials. But the move also benefited China by allowing Chinese goods to flood out Iranian bazaars. In turn, after signing the 2015 nuclear agreement which also included China, the Rouhani government leveraged the expectation of improved relations with the US

and the EU to expand trade with both, and by implication, to reduce Iran's relative economic dependence on Beijing.

Within the Middle East, China's approach likewise differs starkly from Iran's. While Iran demands the departure of American forces from the region starting with Iraq, China benefits from the US' existing (if shrinking) security umbrella, seeking its removal mainly from East Asia and the First Island Chain to forestall strategic encirclement. Iran's relations with Israel are dangerously hostile, on the one hand, and destabilizingly tense with Saudi Arabia and its Sunni allies, on the other. Conversely, China maintains good relations with all regional stakeholders, the only Security Council permanent member to do so without yet being necessarily perceived as partial, unlike Russia which has openly backed Bashar al-Assad's government in Syria's civil war. While China has dialed up tensions in multiple theaters, it has remained muted in the Middle East, neither taking sides nor embroiling itself in conflicts.

The importance and equilibrium of China's relations with regional partners like the UAE, Saudi Arabia, and Israel constrain the extent to which Beijing might pivot towards Tehran. As chapter 2, on bilateral commerce shows, China trades more in value terms with both Saudi Arabia, its top oil supplier, and the UAE than with Iran. And although Iran attracted more Chinese investments and construction contracts than most other regional countries including Israel between 2005 and 2020, China invested even higher sums in Egypt, the UAE, Saudi Arabia, and especially Pakistan. China maintains Comprehensive Strategic Partnership relations with Saudi Arabia, Iran, and the UAE and, indeed, with some three dozen other countries. It also maintains a uniquely-crafted Comprehensive Innovative Partnership with Israel, allowing Beijing and Jerusalem to sidestep questions concerning the actual strategic significance of bilateral ties. Moreover, even as it disavows official defense alliances (with the exception, though arguable, of North Korea), China's priority strategic partnerships lie beyond the Middle East, including with Russia and Pakistan.

While Beijing-Tehran military cooperation has deepened since 2014 in the form of naval visits, China has conducted more drills and port calls with and sold more advanced weapons to some other regional partners, especially Saudi Arabia. China likewise has joint weapons (UAV) production with countries like Saudi Arabia and Pakistan, but not with Iran, although the

latter also has a relatively developed indigenous military industry including for drones. Moreover, China has reportedly helped Riyadh stand up a nuclear program, including a secret yellowcake extraction plant, and improve its solid-fuel ballistic launcher capabilities. China's two-track approach is not new. In the 1980s, it did not just sell arms to Iran but also to its wartime enemy, Saddam Hussein's Iraq.

Although China has previously helped strengthen Iran's military and especially conventional capabilities, and could do so again now that the UN arms embargo has expired, Tehran's unconventional reliance on and support for extremist client and proxy groups remains a point of ambivalence for Beijing, and not only because of China's own Muslims. In Iraq for instance, insecurity linked to Iranian-backed militias seeking to force the US' troop departure places at risk Chinese interests, including in the energy sector. And although China like Iran consistently backs the Palestinian cause against Israel, missile and rocket fire by Lebanese Hezbollah and Gaza's militants on Israeli cities jeopardize Chinese citizens and assets in Israel. In Tel Aviv, Ashdod, and Haifa, Chinese firms have sizable stakes in construction projects or port management, including a 25-year agreement to manage a new, automated segment at Haifa port, and contracts to build part of Tel Aviv's light rail network. In other words, while Iran's disruptive regional behavior keeps the US glued to the Middle East, it can also hurt Chinese interests.

In the Persian Gulf and neighboring areas such as Bab al-Mandeb, hostilities initiated or backed by Iran, including through Yemen's Ansar Allah (Houthi) militia, jeopardize China's energy security and commercial shipping. Similarly, Iran's potentially fomenting unrest among the southern Gulf's Shia populations would increase project and investment risks for China. In Saudi Arabia, the Eastern Province is home to both the country's Shia as well as its massive oil fields and infrastructure.

In Asia, on the other hand, China's tensions with neighbors including in the South China Sea, especially if disputes become militarized, would create similar uncertainty for Iranian goods and oil exports, although except with China, these have currently been decimated by sanctions. Still, neither has directly criticized the other in such contexts, not even after the attack on Saudi Aramco facilities in September 2019 attributed to Iran – which reportedly included the use of Ya Ali cruise missiles similar to China's YJ-62/C-602 – or after Iran sabotaged the six foreign tankers earlier that May and June.

Furthermore, Iran juggles the interests of rivals China and India within its territory. India has leased Chabahar's Shahid Beheshti port, which is only 150 kilometers (km) west of the Chinese-managed Gwadar port in Pakistan. The resulting competition, however, is not only between India and China alongside Pakistan, but also between China's BRI (specifically the China-Pakistan Economic Corridor, or CPEC) and Russia, since Chabahar is a central node in the International North-South Transport Corridor (INSTC) binding together Russia, Iran, and India. Tehran has tried to solicit deeper Indian involvement in Chabahar-linked infrastructure, including a free trade zone and, less successfully, construction of a railway line to Zahedan. Iran has even dangled the possibility of China's involvement in Chabahar, if only to spur commitment from India.

But India's commercial presence in Chabahar would also intensify competition if – as the draft, leaked in July 2020, of the 25-year Iran-China cooperation agreement, itself finally signed on 27 March 2021, indicates – China subsequently develops and potentially leases Iran's Jask port 250 km to the west (Foreign Ministry of the Islamic Republic of Iran, 2020). Such competition would raise three-way tensions if either or both external powers ever deployed some kind of security presence, which Iran has so far officially prohibited. Even though oil exports have currently ceased under US sanctions, ties with populous India help diversify Iran's economic partnerships. Without India, Iran would likely deepen its economic integration with China and Pakistan including by enmeshing its transportation and energy infrastructure with that of the CPEC.

Because Iran's hardliners have so far rejected ratification of the Financial Action Task Force's remaining two conventions on money-laundering and terrorism financing, Chinese banks, which still heavily rely on the dollar and hence US clearing houses, face problems transacting with Iran. This in turn affects implementation of any long-term cooperation agreement, in the best case limiting transactions to suboptimal workarounds like barter and currency swaps.

The view of China from Tehran, at least among its hardline conservatives, could not be more different. However, this asymmetry of priorities, and aspirations, limits how much China would extend itself for Iran, and how much strategic commitment Iran should in turn expect from China.

Bilateral Relations Moving Forward

China-Iran relations rest on overlapping interests, but are also the product of decades of economic sanctions, diplomatic isolation, and geopolitical uncertainty, which have kept most governments at arm's length from Tehran. While sanctions have had dampening effects, Iran's isolation has still benefited Beijing more than most. Looking ahead, China's relations with Iran still heavily depend on China's ties with the US and with other key regional partners, as well as the effectiveness of any US or international sanctions regime.

Economically, Iran is likely to remain one of China's main regional partners, though not the most important. Diplomatically, Beijing is likely to continue defending Tehran where benefits outweigh costs, and especially to the extent that Washington presses its China offensive. Militarily, while China is unlikely to enter defense alliances, US rhetoric and threats against both partners (and Russia) help Beijing justify deepening cooperation with Iran. Yet, such cooperation, even if seen as qualitatively different in Tehran, would likely remain comparable to China's other regional military-to-military commitments, especially with Riyadh, comprising arms trade, joint exercises, port calls, and other routine exchanges. In addition, even with the official signing of the 25-year China-Iran cooperation agreement, the scope of which covers practically all Iranian sectors according to the leaked draft from last summer, implementation could still prove halting and heavily uneven.

Many of China's interests overlap with Iran's, and these are likely to expand if China-US tensions worsen, and if hardliners in Iran's 2021 presidential elections, like in 2005, again dominate all of its elected institutions along with its unelected bodies. Yet, there are substantial divergences as well, with implications for China's own relations vis-à-vis significant Others like the US and its closest allies in the Middle East. Unless these latter relations deteriorate dramatically, or China explicitly positions itself within an anti-US geopolitical bloc (perhaps even as it increases its financial clout and lowers its reliance on the dollar), Beijing's interpretation of a "Comprehensive Strategic Partnership" is likely to continue differing from Tehran's.

Chapter 2

Bilateral Commerce in Regional Perspective

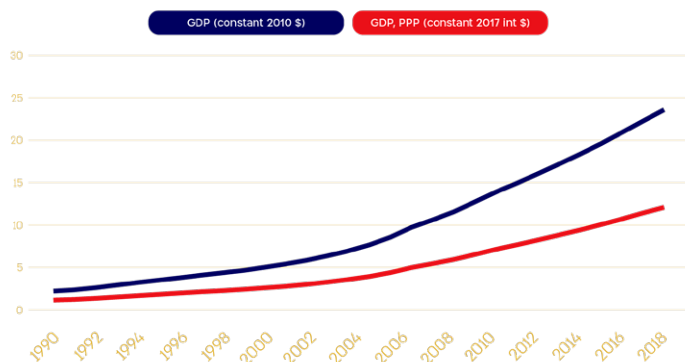
Economic relations with Iran are among China's most significant in the West Asia region. Iran is an energy supergiant in proven oil and gas reserves, a sizable consumer market, and a key east-west land bridge along China's Belt and Road Initiative (BRI). At the same time, China has become Iran's largest trade partner, energy client and source of investments and foreign construction contracts. And yet, not only is Iran far more reliant on China than vice versa, it is also more reliant on China than other regional states are. Moreover, Beijing has developed higher trade and investment ties with some of Iran's regional rivals and neighbors. This chapter examines the data for Iran-China trade and investment ties and contrasts them against China's other regional economic partnerships.

Between 1978 and 1979, when Ayatollah Khomeini's revolution toppled the Pahlavi monarchy, mainland China's merchandise trade with Iran as reported to the IMF dropped from \$119 million to a mere \$68 million. But bilateral trade recovered after the Iran-Iraq War, surpassing \$1 billion in 1997 and then \$10 billion in 2005. The 1990s was a time when China's economy also began growing significantly (graph 1).

China-Iran Trade

Graph 1

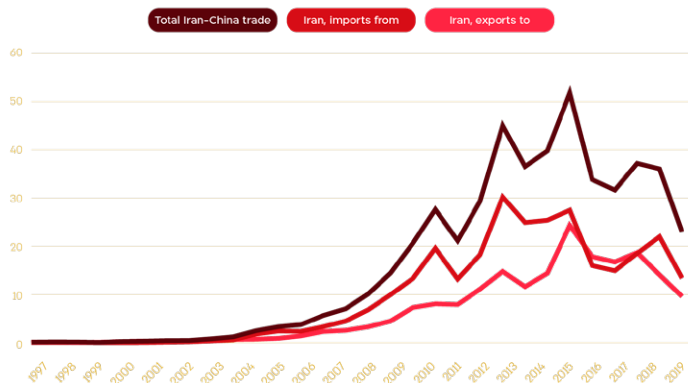
China's GDP In \$ trillions



From the World Bank, n.d. (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD?locations=CN>)

Graph 2

China-Iran goods trade In \$ billions



From IMF DOTS (<https://data.imf.org/regular.aspx?key=61013712>)

Between 2005 and 2007, at the height of the neoconservative president Mahmoud Ahmadinejad's first term, trade doubled to \$20.6 billion (graph

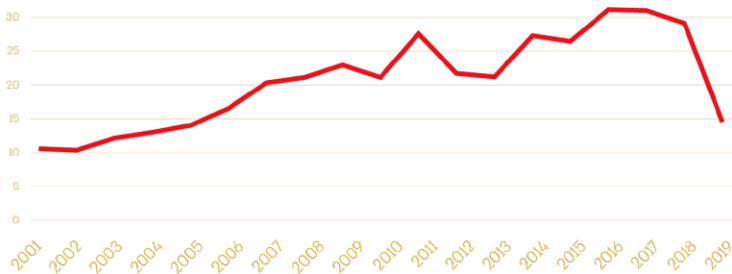
2). This dovetailed with Tehran's "look East" strategy at a time of rising tensions with the US and the West over Iran's nuclear program. In 2010, trade reached \$29.3 billion and peaked at a record \$51.8 billion in 2014 during the period of international sanctions on Iran.

Although China backed these sanctions, including to significant effect from 2010, it also exploited Iran's diplomatic and trade isolation to increase its own commerce with the country. Moreover, while its economy slowed down following the 2007-2008 subprime financial crisis, in 2009 China still overtook Germany as the world's leading goods exporter, and in 2013 it surpassed the US as the world's largest trading state. When disaggregated, China-Iran export and import data still peaked during the 2010-2015 international sanctions period. China's exports to Iran surpassed \$10 billion in 2010 and crested at \$24.3 billion in 2014. Imports from Iran similarly peaked at \$30.2 billion in 2011. However, as the US' maximum pressure on Iran intensified between 2018-2019, China's total trade with the Islamic Republic declined from \$36 billion to \$23 billion.

Merchandise Trade

Graph 3

China's crude imports from Iran (HS 2709)
In million tons



From International Trade Centre (ITC), n.d. (<https://bit.ly/3ue2gpD>)

Graph 4

China's crude imports from Iran (HS 2709) In \$ billions

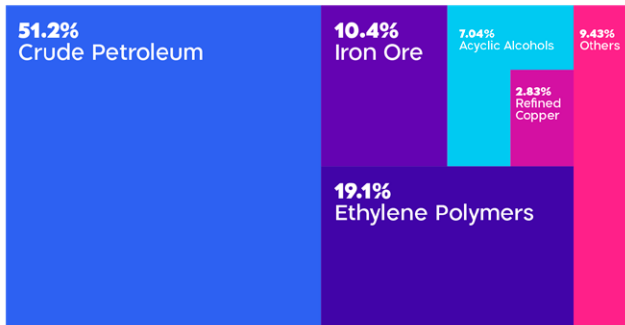


From ITC, n.d. (https://www.trademap.org/Bilateral_TS.aspx)

The bulk of Iran's exports to China has traditionally comprised crude oil, condensate and other energy products. According to International Trade Centre (ITC) data, China's crude imports by tonnage from Iran trebled from 10.8 million in 2001 to 31.3 million in 2016 (graph 3). By value, they rose elevenfold from \$2 billion in 2001 (10.8 million tons) to \$21.8 billion in 2011 (27.7 million tons), amid international sanctions (graph 4). In 2013, China surpassed the US as the largest net importer of total petroleum and other liquid fuels. But in 2019, under reinstated US sanctions, China's Iran crude imports dropped to \$7 billion, and remained depressed through the rest of the Trump presidency, at least according to official statistics. As an indicator of oil dominance, the peaks and troughs in both China's crude imports from Iran (graph 4) and overall bilateral trade (graph 2) in value terms largely correlate.

Treemap 1

China's imports from Iran by value 2019



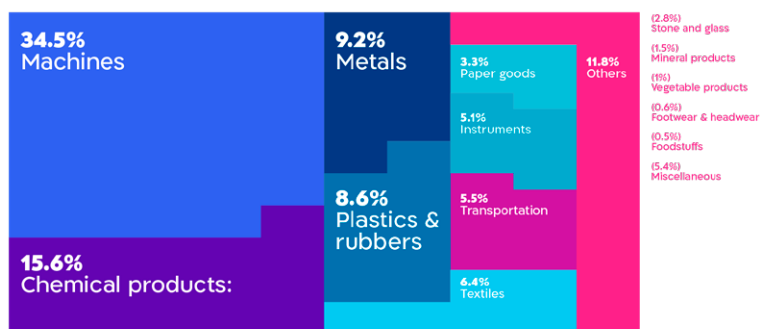
From the Observatory of Economic Complexity (OEC), n.d. (https://oec.world/en/visualize/tree_map/subnational_chn/import/chn/irn/show/2019/)

Even in 2019, crude petroleum still made up over 51 percent of Iranian exports by value, according to UN Comtrade data as reported by the Observatory of Economic Complexity (OEC, treemap 1). Combined with other mineral exports like iron ore, the figure rises to 65 percent. The next largest group of Iranian exports at 20 percent comprised polymers, followed by chemical products, metals like refined copper and semi-finished iron, and then vegetable products like nuts, fruits and spices. In 2011, when Iranian exports to China peaked, crude alone comprised nearly 75 percent (84 percent if all mineral products are included). In 2020, with Iranian crude exports reduced by sanctions, the share of other export categories increased.

On the other hand, Chinese exports to Iran are highly varied. Iran is a sizable consumer market just as it is a major source of hydrocarbons. China's exports comprise a sprawling catalogue of raw, semi-finished and finished goods including vehicles and vehicle parts, electronics, precision instruments, metal products, everyday consumer goods, tea and various spices, even textiles and carpets, Iran's signature export. Given Iran's limited refining capacity and aging infrastructure, it also buys refined petroleum from China.

Treemap 2

China's exports to Iran by value 2019



From OEC (https://oec.world/en/visualize/tree_map/subnational_chn/export/chn/irn/show/2019/)

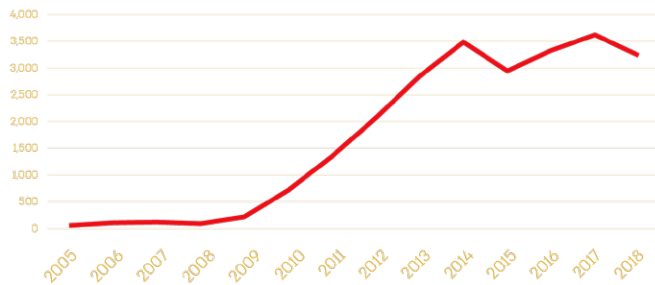
In 2019 for instance, one third of the value of China's exports comprised electronics, electrical equipment, and industrial machinery (OEC, treemap 2). Chemical products represented the next largest group at 15 percent. The composition was similar in 2014, when China's exports to Iran peaked. Despite growing international sanctions during the 2010-2015 period, Beijing continued buying Iranian crude. Yet, Chinese goods, largely low-quality and also deliberately imported by Iranian merchants rather than solely pushed by their Chinese counterparts, flooded Iran's bazaars, prompting Tehran to ban some items already being produced at home.

Where Tehran's conservative hardliners favored close trade and strategic ties with China as a way of affirming Iran's own independence and influence, the reformists and moderate conservatives instead saw the historical peril of inordinate reliance on a foreign power. In the bazaars, many merchants and ordinary Iranians too saw China's growing commercial presence with a mix of resentment, frustration, and unease. On the other hand, where the West had failed them, China stepped into the breach, offering a critical lifeline. The moderate conservative government of President Rouhani has hence had to close ranks with its domestic rivals in moving closer towards China.

Chinese Investments and Construction Contracts

Graph 5

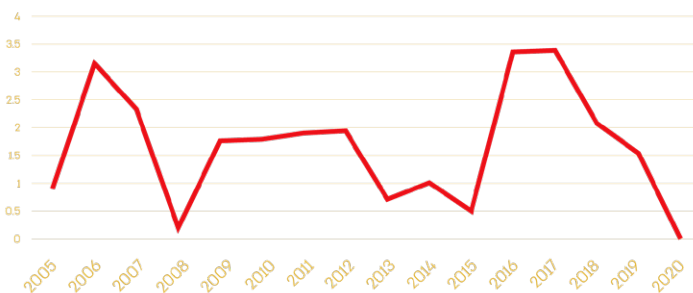
China's outward FDI stock in Iran In \$ millions



From *Statistical Bulletin of China's Outward Foreign Direct Investment*, 2011, 2018, Chinese Ministry of Commerce

Graph 6

China's annual investments and contracts in Iran In \$ billions



From China Global Investment Tracker, n.d. (<https://www.aei.org/china-global-investment-tracker/>)

China's FDI stock in Iran grew from \$56 million in 2005 to \$3.5 billion in 2014, through the period of UN sanctions, and again peaked at \$3.6 billion in 2017 after the nuclear agreement known officially as the Joint Comprehensive Plan of Action (JCPOA) came into force (graph 5). According to World Bank data, the single largest FDI net inflow into Iran of any year was also in 2017, at over \$5 billion in current dollars. China's capital controls – put in place to regulate its forex reserves, balance of payments, and currency exchange rate – limit how much money beyond non-financial investments Chinese firms can move abroad, especially since late 2016. Beijing's regulators however view BRI-related investments in a strategic rather than commercial light. Furthermore, many of these infrastructure projects are not only spearheaded by politically-connected state-owned enterprises but are also financed by loans from Chinese policy banks (i.e., the China Development Bank and the Export-Import Bank of China) rather than FDI.

According to the American Enterprise Institute and Heritage Foundation's China Global Investment Tracker, between 2005 and 2020 (until October 2020), Chinese investments combined with construction contracts in Iran totaled \$26.56 billion, peaking at \$3.39 billion in 2017 (graph 6). During the entire period, Iran's energy sector received 40 percent (\$10.74 billion), the transport sector 26 percent (\$6.92 billion), and metals just under 19 percent (\$4.96 billion). While these figures varied during the 2010-2015 sanctions period, they have fallen dramatically since 2017, when Trump came into office.

Within the energy sector, in July 2006 Sinopec (China Petrochemical) for instance agreed to a \$2.84 billion construction contract to expand Arak refinery's capacity. In December 2007, Sinopec and the National Iranian Oil Company (NIOC) signed a \$2 billion buy-back agreement for development of the Yadavaran field. Then in January 2009, China National Petroleum Corporation (CNPC) and NIOC signed a \$1.76 billion agreement to develop the north Azadegan oil field. That same year, CNPC also inked a \$4.7 billion deal, replacing France's Total, to develop South Pars Gas Field's Phase 11.

But there were also problems. In July 2012, CNPC was forced to pull out under sanctions pressure, and in April 2014, citing repeated delays, Tehran cancelled a \$2.5 billion contract for South Azadegan reportedly agreed in 2009. Then in November 2016, after the start of the JCPOA's implementation, CNPC again signed the South Pars Gas Field Phase 11 agreement, taking up

a 30-percent minority stake alongside France's Total and Iran's PetroPars, only to find itself by October 2019 again forced to withdraw, this time under US sanctions pressure.

Transport followed the energy sector in importance. After previous involvement in building the Tehran metro, Norinco (China North Industries Corporation) signed several construction contracts between 2006 and 2012, the largest for \$1.25 billion with Tehran Urban and Suburban Railway Co. to further expand Tehran metro's Line 6. In 2015, China Railway Group Limited (CREC, an acronym left over from its predecessor China Railway Engineering Corporation) finalized a contract for over \$2 billion to construct the Tehran-Qom-Esfahan high-speed rail, partnering with the Revolutionary Guards' (IRGC) economic and engineering conglomerate, Khatam ol-Anbia.

That same year, China's National Machinery Import and Export Corporation (CMC) also agreed to finance the electrification of the Tehran-Mashhad railway line, although the Chinese concerns then reportedly ditched both financing and construction of the project in 2020 (Mehr News, 2021). In January 2016, Norinco inked another \$330 million agreement to construct the Golbahar-Mashhad Electrified Railway. Then in January 2018, China Railway Construction Corp (CRCC) signed a \$540 million Kermanshah-Khosravi railway construction contract, and that March, Sinomach finalized a \$845 million contract to build the Tehran-Hamedan-Sanandaj railway line.

Among the abovementioned Chinese firms, some such as Norinco and CRCC, and others not mentioned here but including 5G telecommunications giant Huawei and CRRC, which has supplied metro cars and other rolling stock for Iranian rail systems, figure among the 31 companies the US Department of Defense has banned over links with China's military establishment (Sanders, 2020).

Payment Mechanisms

Because of sanctions, barter and the use of local soft currencies have come to play an important part. Such restrictive bilateral arrangements were what allowed the dumping of low-quality Chinese goods in Iran, even while China leveraged sanctions to secure Iranian oil discounts. For private-sector traders, the network of informal money transfer agents offers another suboptimal workaround.

Additionally, during the UN sanctions period, the Xinjiang-based Bank of Kunlun, a CNPC-owned subsidiary originally established in 2006, became the conduit for non-barter transactions and especially for oil, reducing the sanctions exposure of other Chinese financial institutions. The US Treasury sanctioned the bank in 2012. After the Trump administration reinstated Iran sanctions in 2018, the Bank of Kunlun suspended Euro-denominated transactions with Iran, and then limited its Iran dealings to renminbi-denominated humanitarian trade from after 2019, at about the time when US sanctions waivers for China and seven other Iran oil clients expired. In summer 2020, the Bank of Kunlun again reportedly refused further dealings with Tehran over the Financial Action Task Force's (FATF) blacklisting of Iran. However, on November 15, 2020, Deputy Foreign Minister for Economic Diplomacy Gholam-Reza Ansari confirmed Iran was still conducting trade with China in renminbi (Radio Farda, 2020).

China continued to import Iranian crude but justified this as payment for earlier investments in the Yadavaran and Azadegan fields. As of October 2020, China still held some \$20 billion in Iranian foreign exchange earnings, more than that owed Iran by India, South Korea, Iraq, and Japan combined. Iran's difficulty in repatriating hard currency feeds into the rial's instability, and the IMF in its October 2020 update estimated that Iran can only readily access a fraction – about \$8.8 billion – of its total foreign currency reserves. Still, given that Iran's long-standing crude-based trade surplus has transformed into deficit in 2020, these funds would likely instead service balance of payments requirements by financing Tehran's growing imports from China.

For their part, Chinese capital investments in Iran typically do not involve forex transfers to Iranian counterparts. Instead, they usually entail green-field investments with Chinese concerns directly financing property, equipment, and manpower requirements, perhaps in part also with Iranian funds held in Chinese accounts.

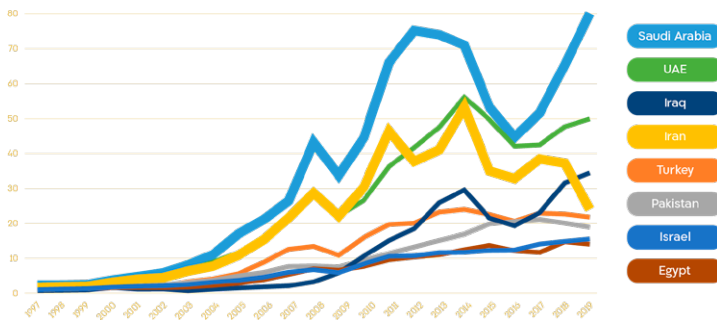
At present, both governments are mulling ways of improving bilateral transactions. In its unfinalized draft version leaked in July 2020, the 25-year cooperation agreement for instance referred to the creation of a bilateral financial settlement mechanism, a joint commercial company to facilitate goods trade, a joint Iran-China bank with branches in both countries, and the opening of Iranian bank branches or representations in Special Economic Zones in China (Foreign Ministry of the Islamic Republic of Iran, 2020). Still,

unless Iran ratifies the two remaining FATF conventions on terrorism financing and money-laundering, Chinese banks will continue facing challenges transacting with their Iranian counterparts.

Chinese Commerce in Regional Perspective

Graph 7

China's total goods trade with partner countries
In \$ billions



From IMF DOTS (<https://data.imf.org/regular.aspx?key=61013712>)

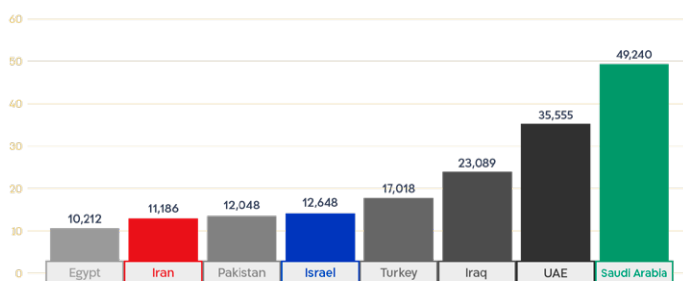
China's broader commerce with regional partners paints a more varied picture. Beijing's trade with Saudi Arabia and the UAE stand out in particular. In 2019, China-Saudi Arabia trade crested at \$78.2 billion, with Riyadh's exports to China reaching a record \$54.9 billion in 2012, with similar figures in 2019. Likewise, in 2014, the year that China-Iran trade marked its highest point at \$51.8 billion, Beijing's own trade with the UAE peaked slightly higher, at \$54.6 billion (some of it plausibly masking reexports between Iran and China), with China's exports to the UAE that year also cresting at \$39 billion. In 2019, China-UAE trade stood at \$49 billion, over twofold that of China-Iran trade (graph 7).

For perspective, Iran, with a population of 83 million and a sanctions-constrained nominal GDP of \$584 billion in 2019, ought to be viewed in comparison with its leading regional economic rivals. For instance, while the 2019 GDP of Saudi Arabia, a country of 34 million, amounted to \$793

billion, the economy of the UAE with a population of only 9.8 million – 12 percent of Iran’s – was, at \$421 billion, 72 percent that of Iran’s economy (nominal GDP figures are from IMF, 2020).

Graph 8

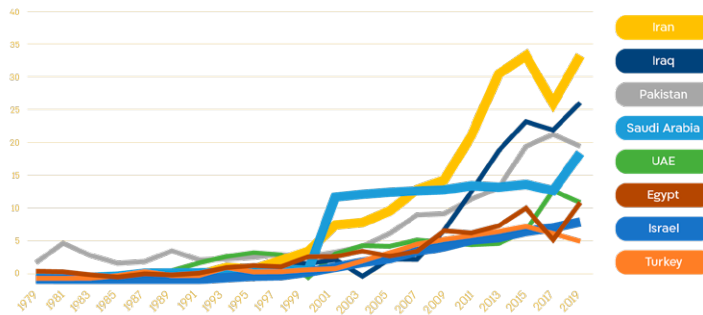
China’s goods trade with partners
In \$ billions, Jan-Sep 2020



From IMF DOTS (<https://data.imf.org/regular.aspx?key=61013712>)

In the first nine months of 2020, as the COVID-19 pandemic took hold worldwide, China’s total reported trade with Iran amounted to only \$11.2 billion, compared to \$49.2 billion with Saudi Arabia, \$35.5 billion with the UAE, and even \$12.6 billion with Israel (graph 8). Under the pandemic’s levelling effect, China still apparently favors other partners.

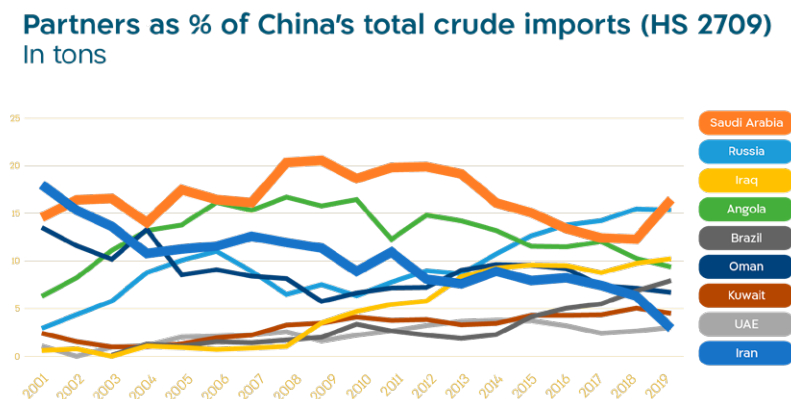
Graph 9

China as % of partners' total goods trade

Note: The calculations are from IMF DOTS (<https://data.imf.org/regular.aspx?key=61013712>)

Not only is China's bilateral trade with Saudi Arabia and the UAE more important, these two partners are also less dependent on China compared to Iran. Iran's dependence on China has steadily grown over the years, and since 2007, Iran has been the most dependent of these regional partners, with China making up a record 36 percent of Iran's merchandise trade in 2014 (graph 9). From 2015, with the signing of the JCPOA, trade dependence temporarily dipped, a reflection of Iran's increased access to other markets. But by 2019, a year after Trump withdrew from the JCPOA, a full 33 percent of Iran's total goods trade was again with China, higher than any other regional state and 13 percentage points more than even Pakistan, with which China maintains the closest strategic and investment relationship among these regional partners. On the other hand, Iran at its peak in 2011 represented a mere 1.2 percent of China's total world trade.

Graph 10

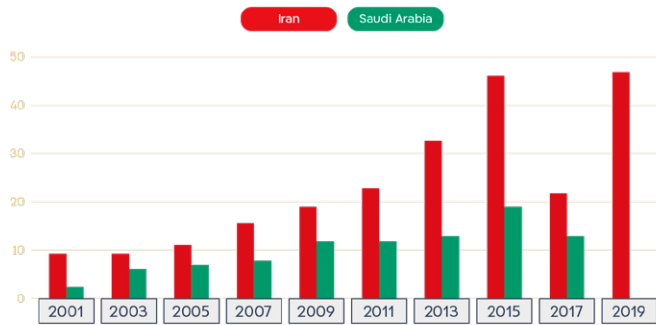


Note: The calculations are from ITC, n.d. (https://www.trademap.org/Bilateral_TS.aspx)

In terms of oil exports by tonnage, according to calculations based on ITC data for 2001-2019 (graph 10), Iran at its peak in 2001 supplied 18 percent of China's total crude imports, compared to Saudi Arabia's 15 percent that year, at a time when Beijing's thirst for foreign energy was rising. But Iran's proportion has largely gone downwards since, with Tehran supplying only 3 percent in 2019. Since 2001, Saudi Arabia has consistently eclipsed Iran. Between 2008 and 2013, Saudi Arabia supplied one fifth of China's total crude imports. In recent years, Saudi Arabia has remained China's top supplier, losing that place to Russia only briefly in 2016-2018. In 2019, Riyadh supplied over 16 percent of China's total crude imports, nearly six times more than Iran.

Graph 11

China as % of partners' total crude exports (HS 2709) In tons



Note: Saudi Arabia data unavailable for 2018-2019

From ITC, n.d. (https://www.trademap.org/Bilateral_TS.aspx)

Likewise, while Riyadh supplies far more crude to China in absolute and relative terms than does Tehran, Iran's dependence on China as an oil client far eclipses that of Saudi Arabia. China's patronage has consistently represented a larger proportion of Iran's crude exports by tonnage, reaching 49 percent in 2014-2015, and nearly 50 percent in 2019 (graph 11). By value, the figure peaks even higher at 56 percent in 2015. Throughout 2020, firms such as Kpler and Refinitiv Eikon which track commodity markets have offered differing assessments on the volume of crude oil China has been buying from Iran. Yet they agree that China remains far and away Iran's most important client (Sharafedin & Lawler, 2020; Khatinoglu, 2020). Around the time Joe Biden assumed the US presidency, China's crude oil imports from Iran reportedly grew again, unofficially through third countries including Oman, the UAE, and Malaysia, although these imports have also yet to recover to their pre-sanctions levels (Verma & Zhang, 2021).

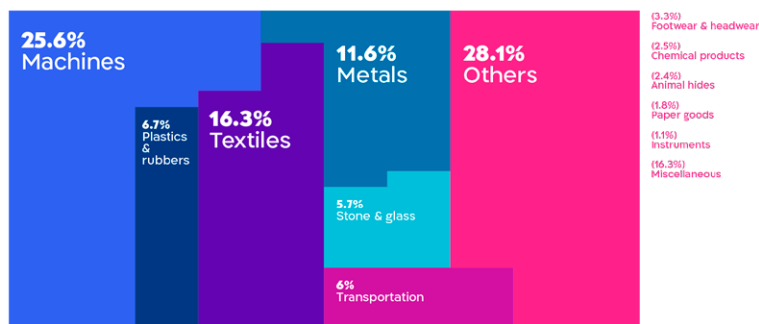
Broadly, the make-up of Saudi exports to China is comparable to that of Iran. In 2018, 70 percent of Saudi exports to China comprised crude, followed by polymers and then chemical products. In the UAE's case, crude in 2018 comprised 34 percent (mineral products together made up 62 percent). Before polymers and chemical products, however, the UAE's

next largest export was vehicles. On the other hand, in 2018, machinery and electronics made up Israel's top export category (55 percent) to China, especially integrated circuits, followed by precision instruments and then chemical products.

Like in Iran's case, China also exports a highly variegated catalogue of industrial and consumer goods to its other regional partners. In 2018, the largest groups of Chinese exports to Saudi Arabia, the UAE, and Israel for instance comprised machinery and equipment, followed by textiles and metals (OEC, treemaps 3-5).

Treemap 3

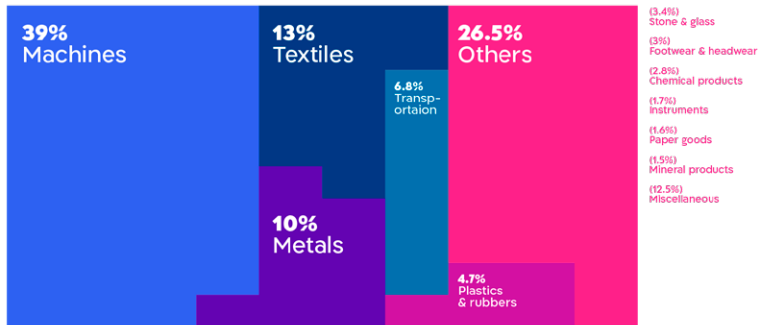
China's exports to Saudi Arabia by value 2019



From OEC (https://oec.world/en/visualize/tree_map/subnational_chn/export/chn/sau/show/2019/)

Treemap 4

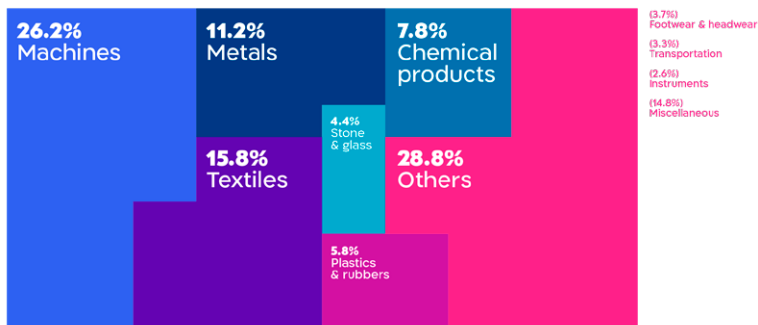
China's exports to the UAE by value 2019



From OEC (https://oec.world/en/visualize/tree_map/subnational_chn/export/chn/are/show/2019/)

Treemap 5

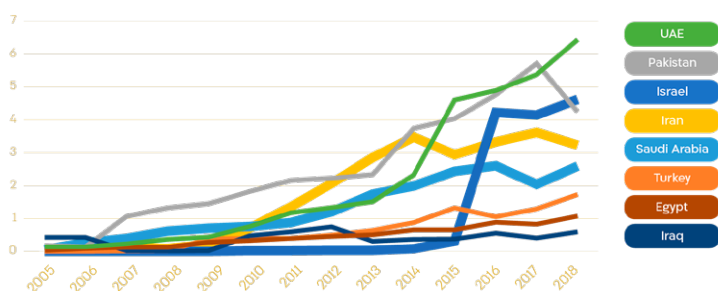
China's exports to Israel by value 2019



From OEC (https://oec.world/en/visualize/tree_map/subnational_chn/export/chn/isr/show/2019/)

Graph 12

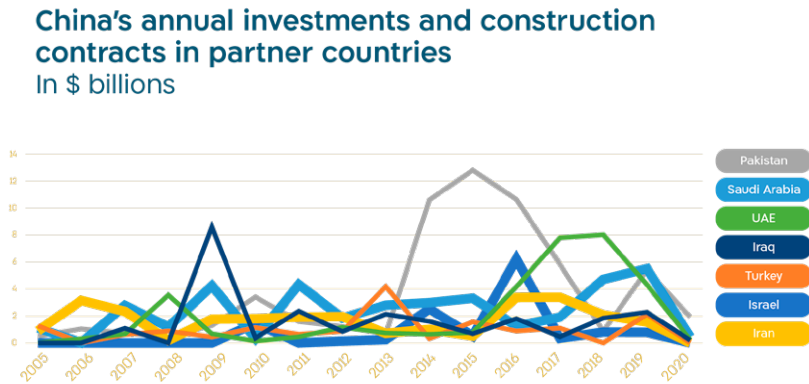
China's outward FDI stock In \$ billions



From *Statistical Bulletin of China's Outward Foreign Direct Investment*, 2011, 2018, Chinese Ministry of Commerce

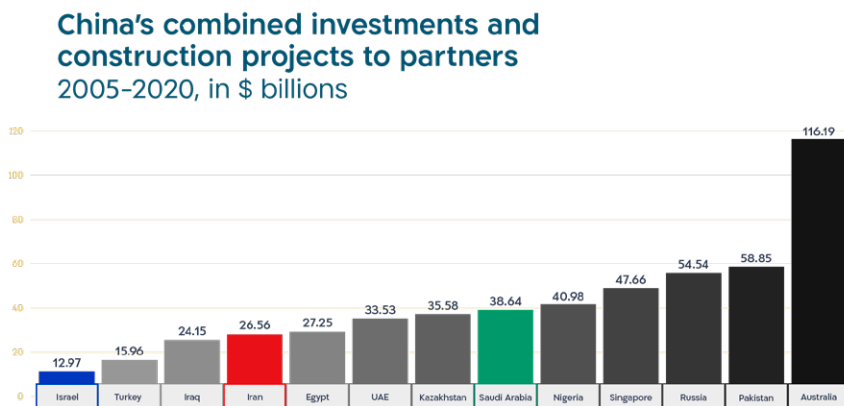
As recipients of China's FDI stock, the UAE and Pakistan have been ahead of Iran in recent years (graph 12). At its peak in 2017, Chinese FDI stock in Iran totaled \$3.6 billion. At their respective peaks, Pakistan, the UAE, and Saudi Arabia's figures reached \$5.7 billion (2017), \$6.4 billion (2018), and \$2.6 billion (2016). While China's FDI stock in Israel long remained relatively negligible, in 2016 it rose thirteenfold, notably in the technology and life sciences sectors, before declining after 2018, according to INSS data (Ella, 2021).

Graph 13



From China Global Investment Tracker, n.d. (<https://www.aei.org/china-global-investment-tracker/>)

Graph 14



From China Global Investment Tracker, n.d. (<https://www.aei.org/china-global-investment-tracker/>)

According to the China Global Investment Tracker, between 2005 and 2020, China channeled more investments and construction contracts combined into Iran, at \$26.56 billion, than into regional countries like Iraq (\$24 billion),

Algeria (\$23.9 billion), Turkey (\$15.96 billion), Israel (\$13 billion), Kuwait (\$10.75 billion), Qatar (\$7.72 billion), Oman (\$5.8 billion), and Bahrain (\$1.42 billion). However, it also allocated \$38.64 billion in Saudi Arabia, \$33.53 billion in the UAE, \$27.2 billion in Egypt, and above all \$58.85 billion in Pakistan (graphs 13-14).

In Saudi Arabia, China's portfolio is comparably more diversified than in Iran, with energy comprising 37 percent (\$14.34 billion), transport 15 percent (\$5.88 billion), and both utilities and real estate at 14 percent (\$5.58 billion and \$5.57 billion). In the UAE, energy comprises 51 percent (\$17.24 billion), real estate 24 percent (\$8.13 billion), and transport 12 percent (\$4.07 billion). In Pakistan, the bulk of Chinese investments and construction contracts have gone into the energy sector at 70 percent (\$41.39 billion), followed by transport at 21 percent (\$12.29 billion). In value terms, Pakistan remains a cut above the others, including Iran, since the China-Pakistan Economic Corridor (CPEC) so far remains Beijing's single largest investment focus along its Belt and Road Initiative.

Conclusions

The foregoing data position Iran among China's more important trade and investment partners in the region, but certainly not its most important, let alone among China's top partners globally. Regionally, these most prominently include Saudi Arabia and the UAE. Elsewhere, they include many of the major Western governments starting with the US itself. On the other hand, Iran only contributes to a negligible slice of China's overall trade, while China comprises a significant chunk of Iranian trade. Despite the size of Iran's energy reserves, and even if they are cheaper because of sanctions, hydrocarbons are ultimately fungible and available from elsewhere. With some exceptions, like ferrous metal products, handwoven carpets, and pistachios, the quality of Chinese imports from Iran is not largely distinguished from parallel imports from countries like Saudi Arabia. Conversely, though lower in total value, Israeli exports come higher up on the value chain.

China-Iran trade and investments have both benefited from and suffered under UN and US sanctions. If trade and FDI stock reached new levels between 2010 and 2015, energy-sector contracts remained far shakier, as Iran's experience with the South Pars Gas Field and South Azadegan projects shows.

Relative to hydrocarbon projects, China's investments and construction contracts in Iranian infrastructure including railways and urban subways appear to be on slightly firmer ground. These include the Tehran-Qom-Esfahan railway, Iran's only high-speed line, construction of which apparently continues despite sanctions and COVID-19. But still, Chinese infrastructure projects have gone smoother in other regional countries.

Similarly, although Iran's energy reserves, economic dynamism, and geolocation might hint otherwise, it is partners like Saudi Arabia, the UAE and Pakistan which China has so far privileged. Meanwhile, Iran more than others has had to increasingly rely on China for trade and investments notably during sanctions periods, which gives Beijing significant leverage. If Iran-US relations again improve and sanctions are lifted, Beijing would face less obstacles doing business with Iran. But the paradox is that Tehran would then also have more leeway and – for the moderate conservative and reformist factions – incentive to rediversify trade relations and reduce its reliance on China.

At present, with COVID-19's disruptive effect on external commerce and supply chains compounding the trade war with the US, China will also likely tone down its heavy focus on exports, investment outflows and loans, especially as partner economies struggle to recover. In May 2020, Xi Jinping announced a “dual circulation” strategy in line with which China would rebalance its hitherto externally-oriented growth model with greater domestic demand. The 14th Five Year Plan (2021-2025) preliminarily outlined in late October and finally released in March 2021 adds further detail, emphasizing high-quality (as opposed to high-speed) domestic growth, domestic markets, self-innovation and self-sufficiency in technology, especially along the Yangtze River Economic Belt (Yao, 2020; Wong, 2020).

This in turn carries implications for China's overseas trade and investment partnerships moving forward, particularly in regard of the now official 25-year China-Iran cooperation agreement. Whatever the finalized text – and neither side has so far published the full details or indicated if they differ from those of the July 2020 leaked draft – the agreement and specifically the magnitude of proposed Chinese investments and, importantly, their long-term implementation should hence be viewed in this light.

Chapter 3

China-Iran Diplomatic Relations in Broader Perspective

In January 2016, just after the JCPOA came into force, China's President Xi Jinping visited Tehran, nominally upgrading bilateral relations to the level of a Comprehensive Strategic Partnership. As noted in an earlier chapter, both sides additionally pledged to raise trade tenfold to \$600 billion by 2026. Iran had long sought, and only then formally attained such high-level strategic partnership relations with China.

One product of this upgraded relationship is the China-Iran 25-year comprehensive cooperation agreement, signed on 27 March 2021. Though, as discussed, no details of the finalized agreement have yet been released, the Persian-language draft leaked to the press in July 2020 offers important indicators (Foreign Ministry of the Islamic Republic of Iran. 2020). Along with security and diplomatic cooperation, its terms encompass a vast swathe of Iran's economic sectors including port development, telecommunications, and renewable energy. And while the agreement draft is couched in general terms without specific numbers, a point again confirmed after the signing by both countries' foreign ministries, it would nonetheless mark a zenith in bilateral diplomatic relations, at least symbolically, and especially at a time when both China and Iran, along with Russia, are increasingly challenging the US.

This chapter places China-Iran diplomatic relations in broader perspective by examining three key aspects: Iran's standing within China's diplomatic web of partnerships, China's Security Council positions concerning Iran's nuclear program, and Iran's relationship with the Shanghai Cooperation Organization. As we see, despite the above milestones in bilateral diplomacy, Iran still remains only one of China's more important, not the most important,

partners in the region, let alone globally. Furthermore, China's own policy record in both the Security Council and the SCO suggest greater diplomatic inertia in Beijing than Iran has attempted to portray.

China's Universe of Diplomatic Partnerships

China-Iran relations need to be viewed from a Chinese diplomatic perspective too. Xi Jinping's 2016 trip to Iran was only the last leg of his three-country Middle East tour, starting with Saudi Arabia, where he also signed a Comprehensive Strategic Partnership (CSP). Abdelfattah al-Sisi's government in Egypt, the second stop, had already signed a CSP with China in 2014. And during the same trip in which Chinese Foreign Minister Wang Yi inked the 25-year cooperation agreement with his Iranian counterpart Mohammad Javad Zarif, he also visited five of China's other regional partners including Saudi Arabia, the UAE, Bahrain, Oman, and Turkey. Placing the China-Iran CSP into context requires understanding China's diplomatic system of "partnerships."

Chinese diplomacy pivots on the stated "Five Principles of Peaceful Coexistence" it first brooked with India in April 1954. These are: mutual respect for sovereignty and territorial integrity; mutual non-aggression; non-interference in each other's internal affairs; equality and mutual benefit (what the Chinese repeatedly refer to as "win-win cooperation"); and peaceful coexistence. By this logic, China has also sidestepped formal alliances since the 12th Party Congress in 1982 (with the residual albeit arguable exception of North Korea, through the 1961 Sino-North Korean Treaty of Friendship, Cooperation, and Mutual Assistance, itself valid until 2021 unless renewed), viewing these as Cold War artifacts, and instead prefers partnerships without alignment.

While they vary widely in names, these very broadly fall under three gradations, at the top of which are comprehensive strategic partnerships, followed by strategic partnerships, and then regular partnerships (see, for instance, Li & Ye, 2019, pp. 66-81). As of late 2016, including Iran, China had CSP relations with about 35 states and the EU. Within the CSP band, however, there is qualitative variation. At the summit are China's Comprehensive Strategic Partnership of Coordination with Russia (upgraded in 2011) and its All-Weather Strategic Cooperative Partnership with Pakistan (2005). In addition, Germany and the UK respectively enjoy an All-Round Strategic

Partnership and a Global Comprehensive Strategic Partnership for the 21st century. China also has Comprehensive Strategic Cooperative Partnerships with Belarus, Cambodia, Chile, Laos, Myanmar, Congo-Brazzaville, Thailand, and Vietnam. It maintains CSPs, properly speaking, with the remaining but already growing list of countries.

Within the Middle East and North Africa (MENA), China has signed CSPs with Algeria and Egypt (2014), Saudi Arabia and Iran (2016), and the UAE (2018). It likewise has a Comprehensive Innovative Partnership with Israel (2017) and a Strategic Cooperation Partnership with Turkey (2010). It similarly maintains mid-level strategic partnerships with Sudan and Qatar (2014), Iraq and Jordan (2015), Morocco (2016), Djibouti (2017), and Kuwait and Oman (2018).

Consequently, CSP-grade relations do not place Iran within an ultra-exclusive group, let alone privilege Iran above Beijing's other comprehensive strategic partners. For China, CSPs are at least as important with a number of other regional countries such as Saudi Arabia and the UAE and, outside the region, even more important with near-allies like Russia and Pakistan. Indeed, China also continues to maintain CSPs with partners increasingly at odds with it, such as Australia (CSP since 2014), a country with little over one-third of Iran's population but nearly 2.5 times its economy and, in 2019, goods trade with China totaling \$167.7 billion – over sevenfold more than Iran-China trade. In November 2020, both China and Australia, along with Japan, South Korea and New Zealand as well as ASEAN's 10 member states signed the Regional Comprehensive Economic Partnership (RCEP), touted as the largest-ever free trade agreement. No similar free trade agreement, bilateral or multilateral, exists between China and Iran, not even their 25-year strategic cooperation agreement.

China's Security Council Positions towards Iran

Iran's reliance on China as a diplomatic patron and backstop has increased over time. And yet, the compliment is not always returned, including where Chinese diplomatic support would have most mattered to Iran – at the Security Council, as Iran's nuclear standoff worsened. In the 10 UN Security Council resolutions (UNSCR) issued against Iran between July 2006 and June 2014, China voted for every single one *without exception*.

The first, UNSCR 1696 (2006), demanded a halt to Iran's uranium enrichment program (only Qatar voted against), and was itself a *démarche* made possible after the International Atomic Energy Agency's (IAEA) board of governors decided, in a majority vote including China, Russia and India, to refer Iran to the Security Council in February 2006. Following this was UNSCR 1737 (2006), which imposed the first set of sanctions on Iran for its failure to stop enrichment activity, with UNSCR 1747 (2007) then expanding on these sanctions.

The following year, UNSCR 1803 (2008) called on Iran to cease uranium enrichment (only Indonesia abstained), while UNSCR 1835 (2008) reaffirmed the previous four resolutions. The most politically and economically significant would be UNSCR 1929 (2010), which greatly intensified these sanctions with China and Russia's full buy-in (only Brazil and Turkey voted against, while Lebanon abstained). Four other resolutions which China voted for – UNSCR 1984 (2011), UNSCR 2049 (2012), UNSCR 2105 (2013) and UNSCR 2159 (2014) – all extended the mandate of the Panel of Experts' sanctions monitoring activity.

However, Beijing also sought to soften the letter if not the spirit of the resolutions, keeping them beyond the military purview of Article 42 (Chapter VII) of the UN Charter. This it did to protect its economic interests in a captive market, forestall the possibility of regime change in Tehran by foreign powers, and – despite the optics – continue keeping Iran on its side.

After the US' 2018 withdrawal from the JCPOA, China repeatedly criticized the Trump administration for contravening multilateral diplomatic norms and international law even though Iran had, according to the IAEA's inspectors, held up its end of the deal. In August 2020, China along with 12 of the 15 Security Council members vetoed the US' attempt at extending the arms embargo on Iran, slated to expire within two months. Similarly, in September, China, alongside Russia and the E3 ignored the US' unilateral announcement that all UN nuclear-related sanctions on Iran had henceforth snapped back.

While Chinese state-owned companies and banks have generally shunned Iran under the threat of US sanctions exposure, other Chinese or China-based firms with less exposure have continued cooperating in different sectors including missile technology, air freight, oil, and especially oil shipments,

including at least two COSCO Shipping Corporation subsidiaries, according to US authorities.

Furthermore, Russia has indicated interest in selling Iran weaponry after the UN embargo's expiry, and China may do likewise (Tasnim, 2020). In mid-September 2020, then-US secretary of state Mike Pompeo warned the US would prevent Iran from purchasing "Chinese tanks and Russian air defense systems" (Al Jazeera, 2020). In its October update, the IMF assessed the accessible, non-frozen portion of Iran's foreign exchange reserves to have dwindled to \$8.8 billion – compared to \$122 billion in 2018. But China, at least as of late 2020, still retained some \$20 billion in Iranian export revenues which could go towards financing any military purchases, if or when Tehran does buy.

Iran and the Shanghai Cooperation Organization

A third aspect of Iran-China relations lies in Tehran's longstanding request for full membership in the SCO. Iran became an observer state alongside India and Pakistan in July 2005. But since Tehran's official application for full membership in 2008, the SCO has deferred on a decision. In 2010, the SCO formalized its membership criteria, precluding applicants facing UN sanctions – an implicit reference to Iran – or engaged in armed conflict.

Even if the SCO lacks a common defense clause comparable to the North Atlantic Treaty Organization's (NATO) Article 5 and the Collective Security Treaty Organization's (CSTO) Article 4, Iran's conflictual relations with the US and a number of other states, especially during the period spanning Ahmadinejad's presidency, risked dragging the SCO into fights not of its choosing. Significantly, Iran's SCO membership request was also the first time the Islamic Republic, which has long flaunted sovereign independence as a virtue, had voluntarily sought a security-oriented partnership with major powers.

Officially, membership requests, like other institutional decisions, require consensus by all SCO members. Incensed over Tehran's hosting a Tajik opposition Islamist figure in December 2015, Tajikistan for a while ostensibly posed the main obstacle to Iran's membership. But despite the official requirement for consensus, there is little question that any final decision on SCO expansion depends on Russia and, perhaps more importantly, an increasingly powerful and influential China. At the very least, if they

wanted Iran's accession, both could easily gang-press the other members into acquiescence, suggesting that China too is not yet fully on board with the idea.

In 2017, the SCO finally admitted India and Pakistan, relenting on its earlier membership barrier concerning armed conflict. But until now, even with UN sanctions on Iran lifted from January 2016, the SCO or China has yet to signal progress on Tehran's application – except in one passing and ambiguous instance.

In the leaked draft of the 25-year cooperation agreement, section 9 of annex 3 calls for the continuation of both countries' support for the other in international and regional forums and organizations. It also stipulates "China's active support for the full membership of the Islamic Republic of Iran in the Shanghai Cooperation Organization." This is the only entity specified by name in this section.

Separately, section 8 of the same annex calls for cooperation on counterterrorism and issues such as transnational crime and trafficking, as well as the conduct of joint air, naval, and land military exercises. These modalities of cooperation all fit squarely within the SCO's remit, and for conventional military exercises, the SCO's "Peace Mission" war games which usually take place yearly or biennially involving up to 10,000 troops.

Iran has so far held joint naval drills with China in the Persian Gulf and separately with Russia in the Caspian Sea. For the first time, in December 2019, it also conducted trilateral naval exercises with both China and Russia, this time in the Gulf of Oman and the northern Arabian Sea. SCO admission would extend these to land and air military exercises throughout Eurasia, and potentially give the SCO war gaming access to the Persian Gulf.

The SCO's eight full members make up 20-25 percent of the world's economy and almost half its population. These also include two major energy exporters and four nuclear weapon states – two of which are the US' main strategic competitors. Iran's full accession would add another energy supergiant with a foot in both the Caspian and the Persian Gulf, as well as a threshold nuclear weapon state.

Internally, however, the SCO is increasingly incohesive with existing extra-organizational conflicts – between India and Pakistan, and China and India for instance – seeping in. Likewise, Russia – without which China likely could not and would not have forayed into Central Asia in the 1990s – remains

suspicious of China's broader, non-economic Eurasian ambitions. Even on economic affairs, it has undercut China's proposals for an SCO Development Bank and free trade zone, which Beijing would have summarily dominated (Gabuev, 2017). Such proposals would have simultaneously risked eating into Russian-dominated regional organizations like the Eurasian Economic Union, membership of which includes Kazakhstan and Kyrgyzstan, which are also SCO members. Russia has likewise pressed to expand, and hence dilute, the SCO's Eurasian-focused membership, especially with the inclusion of India (Gabuev, 2017).

This may explain why, so far, Russia has signaled more enthusiasm than China for Iran's full accession. Meanwhile, China has preferred working with partners through the Belt and Road Initiative, and in mid-2020 began separately engaging the five Central Asian republics ("5+1"), sidestepping Russia. If decisions run on consensus within the SCO, then little wonder that policy inertia prevails. The upshot is that while Iran may view full admission as the institutionalization of its anti-US external balancing strategy, the SCO's internal tensions and paralysis, particularly between China and Russia, would ironically leave Tehran with an objectively weaker institutional bulwark.

Conclusions

Iran-China diplomatic relations bespeak more media prominence than actual privilege. As with its economic aspects, they are asymmetrical in being far more important to Iran than they are to China. While bilateral relations have been upgraded to the CSP level, China maintains a raft of bilateral relations at similar or higher levels. Within the Middle East, this includes ties with some of Iran's leading adversaries or competitors including Saudi Arabia, the UAE, and Egypt, even as Beijing maintains its most significant diplomatic partnerships outside the region with countries like Russia and Pakistan. On the diplomatic and commercial fronts, China has made greater strides even with of-late increasingly assertive comprehensive strategic partners like Australia than it has with Iran, despite China's constant declarations of friendship and support to Tehran.

True, China provided a crucial diplomatic and military backstop to Iran during the latter's eight-year war with Iraq, and Beijing was again Tehran's main economic lifeline during the UN sanctions years, when Iran's oil exports and economic growth largely contracted. Yet China also shortchanged Iran at

critical junctures, especially when Beijing's own relations with Washington demanded it. When Iran most needed diplomatic support in the Security Council over its controversial nuclear program, Beijing backed sanctions, merely diluted the wording of resolutions, but then exploited to the hilt Iran's isolation to capture the country's markets. China did not endorse just UNSCR 1929 (2010), the hardest-hitting resolution, but all 10 Iran-related UNSCRs in that eight-year period.

In addition, while Iran has officially applied to, and repeatedly signaled its interest in joining the SCO as a full member – its only such official request to any organization with a security agenda – the SCO, with China now arguably the more influential of its two co-leads, has yet to advance Iran's dossier in any meaningful way even after a dozen years.

Future indicators of China granting Iran relatively higher diplomatic priority include a CSP upgrade with a unique designation, Iran's accession to the SCO as full member, and robust – and unflagging – implementation of the 25-year agreement, which according to the leaked draft includes wide-ranging diplomatic, economic and military cooperation.

An improvement in Tehran's relations with Washington would smoothen, for instance, China's trade and investments ties with Iran. However, détente would for Iran also lower the urgency of China's diplomatic, economic, technological, and military patronage. This may have been the reason for which both sides took four years to only produce a generic 18-page draft document following Xi Jinping's 2016 Tehran visit. After having agreed on the JCPOA and hence détente mainly with the US but also the EU, Hassan Rouhani's government moved to rebalance its external relations by reengaging the West. But when Trump abandoned the JCPOA and embarked on "maximum pressure," Rouhani's government found itself having to recenter its external relations on China as well as Russia. That the Iranian side leaked the draft in its Persian version is hence unsurprising, very likely a signal to both Beijing, to publicly bind it to commitment, and to Washington, to show Iran cannot be cowed into submission.

US President Joe Biden, even before assuming office, indicated he would return to the JCPOA if Iran complied with its commitments. Biden is, however, also still quite unlikely to squander the leverage created by Trump to press for broader concessions on Tehran's nuclear program, ballistic missiles, and regional behavior. His emphasis on multilateral diplomacy is moreover

rather likely not only to facilitate renewed talks with Iran but also to enable a stronger international front against Tehran if it refuses to brook more far-reaching concessions. Both China and Russia have voted against Iran at the Security Council where interests intersected and a tactical consensus among the Permanent Five prevailed. This scenario is once again somewhat more probable under Biden, compared to Trump.

At the same time, though not as bluntly and disruptively as Trump, there is every indication of Biden continuing to significantly pressure China to change its positions on issues like trade, the South China Sea islands, and domestic human rights, and to compete against China's technological rise. If so, these taken together point to the continuation of overlapping diplomatic and strategic interests between Iran and China during Biden's presidency.

Conclusions and Implications for Israel

From Israel's perspective, China's relations with Iran undermine its interests to the extent that Beijing palliates Tehran's difficulties and strengthens its capabilities. On the trade and commerce front, this includes helping replenish Iran's foreign exchange revenues and reserves. Even if they increase Iran's dependence on Beijing, any Chinese hard currency transfers to Iran and influx of capital into its energy, industrial, and transport infrastructure would help Tehran mitigate the bite of US sanctions, and are moreover likely to benefit the vehemently anti-Israel Islamic Revolutionary Guard Corps (IRGC), which controls significant economic stakes in the country.

Elsewhere, this includes China's vetoing Security Council resolutions on Tehran's conduct, and boosting its technological, cyber, intelligence, and military capabilities, notably now that the UN arms embargo on Iran has expired. If it occurs down the road, China's acquiescing to Iran's full membership in the SCO would likely also embolden Tehran, which views the regional organization as the closest thing to a countervailing bloc against the US.

Similarly, the presence of Chinese state-owned enterprises and their subsidiaries in construction and infrastructure projects in both Iran and Israel require careful treatment and insulation, and Jerusalem must assume information-sharing between Beijing and Tehran. Some of these projects are hotwired with control, signaling, and monitoring networks looped into broader urban or national-level grids that can be electronically disrupted and manipulated, while others may be located in the proximity of sensitive government sites including military, naval, and intelligence facilities. For instance, the China Railway Tunnel Group, which holds 51-percent shares in a joint consortium constructing much of the red line segment of Tel Aviv's light rail network, is a subsidiary of CREC, which is in turn partnered with the IRGC's Khatam al-Anbia conglomerate in the construction of the Tehran-

Qom-Esfahan fast rail. Likewise, Chinese investments and acquisitions in Israel's civilian tech sector, which is not subject to export controls by the Israeli government, also imply risks of technology leaks to Iran, potentially even with national security implications if these are manipulated for military purposes.

* * *

In the Middle East, Israel benefits from China sticking to business and not taking sides – that is, other than Beijing's longstanding UN support for the Palestinians. On its own, Israel holds little prospect of directly and bilaterally influencing China's Iran policy, perhaps not even through its own innovation-anchored relations with Beijing. China's Comprehensive Innovative Partnership with Israel is, to be sure, unique in that it draws on the latter's reserves of technological invention and innovation, and hence gives Jerusalem some weight in China, a country seeking to become a technological powerhouse itself. Yet even here, Israel must take into consideration the concerns of the US, its primary major power ally, and for whom the war with China over technology is almost certain to continue regardless of administration. Indeed, if its perceptions of the threat posed by China continue deepening, Washington will also find itself reallocating even more resources towards Asia, and away from the Middle East.

Directly persuading China to sever or significantly downgrade its ties with Iran is unrealistic, and probably even counterproductive. Such a strategy would be seen as heckling a major power, one that prides itself on maintaining good ties with all regional actors, into taking sides. Moreover, China's motives for deepening cooperation with Iran have little to do with Israel.

Rather than dissuade China from advancing ties with Iran, Jerusalem should instead constantly persuade Beijing, as a non-partisan actor seeking predictability especially in regional trade and business, to pressure Iran into *moderating* its destabilizing conduct. Alongside more robust and farsighted US policy in the Middle East, this would benefit the entire region's stability, and with it Chinese commerce and economic interests, more broadly. In this same connection, Israel should likewise prod China towards a stricter stance on nuclear assistance and proliferation, not just with Iran but also others like Saudi Arabia, another signatory to the Non-Proliferation Treaty.

On the other hand, China's relationship with, and strategic, economic, and diplomatic leverage over Iran, and the greater importance to Beijing of some of its regional partners also present opportunities, especially with the Abraham Accords now in place. The emerging strategic regional realignment that the accords formalized brings Israel even closer to the UAE and Bahrain, and more recently Morocco, but at the political elite level also to Saudi Arabia and its allies Egypt, North Sudan, Oman, and still others.

Until now, other than official if largely symbolic interactions with multilateral forums such as the GCC, the Arab League, and the Arab Maghreb Union, China has for the most part approached substantive relations with the region bilaterally, a characteristic familiar from its engagement with other parts of the world. A critical mass of shared diplomatic, economic, and military interests in the Middle East opposed to Iran can modulate the preferences and priorities of regional actors as we have seen, but also of extra-regional actors. If Israel and its burgeoning Sunni allies in the Gulf and elsewhere coordinate with each other in their interactions with China, they face better odds of getting Beijing to factor into account their preferences regarding Iran. Again, at the very least, this could nudge China towards more actively pressing Iran to moderate its conduct.

And if concerted and sustained, this strategic realignment could also in the longer run shape not only how Beijing conducts its commerce, but also how it thinks about its strategic, diplomatic and security priorities in the region. Indeed, if the US' security umbrella even under a Biden administration continues to shrink, China's reliance on multiple and more robust regional security partnerships would very likely deepen, giving these partners even greater say.

If China adopts a more proactive and principled diplomatic posture, which is somewhat likelier in the longer run the more its investments, projects, and trade rise in the region, and particularly if the US ever transitions towards an offshore balancing role, China's leverage over partners like Iran conceals the potential to even pave the way for conflict mitigation. Israel's potential as an overland and maritime bridge between regions – from the Red Sea through the Mediterranean, from the Persian Gulf and the Levant to the Mediterranean and Europe via Jordan and Haifa, or from Africa through to the Middle East – would raise its importance, in parallel to Iran's own land bridge, along China's Belt and Road Initiative. This in turn could

give Beijing a more compelling reason to intervene as buffer between both regional adversaries.

Conflict management under China's initiative could likewise extend into Eurasia. Israel has applied to the SCO for dialogue partner status, two grades lower than full member and one below observer state. Of course, a shared presence within an entity like the SCO says nothing about the probability of conflict resolution among its constituent states. But if it occurs, admission would at least put Israel along with Iran in the same diplomatic space – and one relatively more intimate than, for instance, the UN or even the Kazakhstan-based Conference on Interaction and Confidence-Building Measures in Asia (CICA), where both adversaries are also members. Relative proximity in such forums allows for the possibility of contacts mediated by third parties like China (or Russia). Though tightly constrained and improbable, it nonetheless also opens another channel for quiet direct contacts between both archenemies' more pragmatic representatives.

Still, for so long as Iran's leadership continues to threaten Israel with destruction and build up the means that would allow it to potentially pursue that end, Israel's decisionmakers would not be misguided in continually seeking to degrade and disrupt Iran's diplomatic, along with economic and military options, and certainly its nuclear program. China should pay heed if it is to become a more responsible global power. And that is because it is one of only very few actors, *if willing*, capable of changing the balance in the Middle East in favor of stability. For Israel's part, recognizing the strengths and limits of China-Iran relations will be crucial to moving forward.

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The Islamic Republic of Iran and the People's Republic of China embody the main strategic threats facing, respectively, Israel and its major power ally, the US. The relationship between both governments and their converging interests, especially in the contexts of energy and security cooperation, China's Belt and Road Initiative, and a shared vision of an alternative international order in which America exerts considerably diminished influence, pose challenges to Israel in particular.

China is not only one of Israel's top trade partners and investors, but is also an actual source of support and potential force multiplier for the Islamic Republic, Israel's archenemy. Yet divergences also abound between China and Iran, including in both countries' tolerance thresholds for instability in the Middle East, the desirability of the US' military presence in that region, and their views of what ought to constitute bilateral comprehensive strategic relations. Moreover, a survey of China's relations with Iran's regional neighbors shows a far more nuanced, and hence murkier picture - one in which constraints not only weigh heavily on Beijing's interactions with Tehran, but also one where strategic opportunities for Israel emerge, especially in the context of the Abraham Accords.

This web of strategic, economic, and diplomatic entanglements across the wider Middle East and its principal great power stakeholders ensures fertile ground for competition, and, no less so, for cooperation.