



China and Iran – an unequal friendship

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Bild/Cover: Iranian President Hassan Rouhani, left, is greeted by Chinese President Xi Jinping before the opening ceremony at the fourth Conference on Interaction and Confidence Building Measures in Asia (CICA) summit in Shanghai, China Wednesday, May 21, 2014. (AP Photo/Mark Ralston, Pool)

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Summary

Over the past decade, the China-Iran relationship has expanded into what today is termed a comprehensive strategic partnership. China is Iran's largest trade partner and leading oil customer. For Beijing, Iran has a strategic location for securing trade routes, while Tehran is also an important partner in the region, outside the circle of American allies. Both countries share the view that a US-led world order is undesirable. China's infrastructure construction projects are of great importance for Iran, and Iran has the potential to become a strategic node for Beijing's Belt and Road Initiative. Thus, there are complementary and mutual benefits in the political, economic and military realms. However, the US decision to leave the nuclear deal and re-impose secondary sanctions has complicated Sino-Iranian ties. Iran's economy is in dire straits, and its dependency on China has become greater. Consequently, China is increasingly seen as a lifeline for the Iranian economy. On the other hand, China, given its deep entrenchment in the global economy, must for its part balance its relationship with Iran against its ties with the US. Thus, Beijing is temporarily downgrading its relationship with Iran to avoid further affecting its already souring relations with the US, without also alienating Iran.

Keywords: China, Iran, US, strategic partnership, cooperation, JCPOA, trade, energy, sanctions

Sammanfattning

Relationen mellan Kina och Iran har fördjupats under det senaste årtiondet och uppgraderats till ett s.k. ”omfattande strategiskt partnerskap”. Kina är Irans största handelspartner och den viktigaste exportmarknaden för iransk olja. Ur Pekings perspektiv är Tehran en strategiskt viktig partner i en ekonomiskt betydelsefull region där många länder är allierade med USA. Iran och Kina delar inställningen att en USA-ledd världsordning inte är önskvärd och vill hellre se en multipolär ordning. För Iran är kinesiska infrastrukturinvesteringar mycket viktiga, och tack vare sitt geografiska läge kan Iran på sikt bli en strategisk nod i Pekings omfattande handels- och transportnätverk *Belt and Road Initiative*. Därmed finns det alltså komplementära och gemensamma politiska, ekonomiska och militära intressen. Den bilaterala relationen har dock försvårats i och med USA:s beslut att lämna kärnavtalet och återinföra sekundärsanktioner. Irans ekonomi har drabbats mycket hårt och dess beroende av Kina har ökat. Följaktligen betraktar Iran i ökande grad Kina som en ekonomisk livlina. För Kinas del medför landets starka förankring i den globala ekonomin att banden med Iran måste balanseras mot relationen med USA. Således nedgraderar Peking temporärt sina relationer med Iran för att undvika att ytterligare försvåra de redan ansträngda relationerna med USA, utan att samtidigt alienera Iran.

Nyckelord: Kina, Iran, USA, strategiskt partnerskap, samarbete, JCPOA, handel, energi, sanktioner

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1 Introduction

Relations between China and Iran go back to ancient times, but recently they seem to have gained in importance and appear set to deepen. In May 2018, the United States withdrew from the nuclear agreement, formally known as the Joint Comprehensive Plan Of Action (JCPOA), with Iran. Following the withdrawal, Washington launched a “maximum pressure” campaign containing sanctions targeting Iran’s key industries and banking system, and aiming to impair the Iranian economy. The US initially granted waivers to all major customers of Iranian oil, including China, but these were revoked as of April 2019. The US’ secondary sanctions on any company that trades with Iran make it difficult for the other signatories of the nuclear agreement to honour their parts of the bargain, which includes unencumbered trade relations. For China – Iran’s most important trade partner and one of the signatories of the JCPOA – the new situation tests Beijing’s abilities to adjust its planned expansion of bilateral ties with Iran. Although China has considerable interest in maintaining a close relationship with the Islamic Republic, it also needs to weigh it in a regional and global context.

Iran’s ruling elite, for its part, is struggling to find solutions. For some within the political establishment, the answer is deepening cooperation with China, in line with the so-called “Look East” policy. The question is whether China can or even wants to be the saviour that Iran needs during these challenging times. The answer essentially comes down to how China views the relationship with Iran, and to what degree Beijing will be inclined to cross Washington over it.

1.1 Aim and research questions

The aim of this study is to describe the political, economic, and military relations between China and Iran, and to analyse some of the potential obstacles and opportunities that could shape development in these areas going forward. This includes examining the general shape and content of the bilateral relationship before the US withdrew from the JCPOA, as well as analysing its trajectory after the US’s re-imposition of sanctions. By doing this, we can better assess to what extent China may be a reliable partner during Iran’s current economic difficulties. Consequently, the paper is guided by its main research questions, as follows:

- What are the main factors shaping political, economic, and military relations between China and Iran?
- How are Iran and China engaging with each other following the US’s unilateral re-imposition of sanctions?
- To what extent is China a reliable partner for Iran?

1.2 Limitations, sources, and outline

Except for when the provision of additional historical background is necessary, this paper mainly focuses on a descriptive overview of the China-Iran relationship, especially its political, economic, and military dimensions, around the time before and after the events following the US withdrawal from the JCPOA, in 2018. Due to time constraints that limit the scope of this study to China-Iran bilateral relations, we do not discuss the relationship in the context of China's wider Middle East strategy, which nevertheless remains an important area for further research. That research would place Sino-Iranian ties in the wider context of regional dynamics; the resulting insights would allow us to gain a more comprehensive understanding of how those dynamics are interrelated with regional and global developments.

The present analysis is based on material gathered from primary and secondary sources. Its key sources are official statements; Chinese, Iranian, and Western media reports; academic papers; and other publications, such as reports from research institutes and statistics from national as well as international institutions.

This report is divided into three parts, one for each of the dimensions – political, economic, and military – respectively, of the ties between China and Iran. Each part also looks into the ensuing trajectory of each dimension following the US withdrawal from the JCPOA. Finally, in closing the study, the paper offers a concluding analysis of the bilateral relationship and, going forward, what its potential implications are.

2 Political relations: the US as an important common denominator

Similar views on world affairs and mutual interests underpin cooperation between China and Iran. Today, the fact that the two countries have elevated their bilateral relationship into a comprehensive strategic partnership indicates that their ties have also risen in priority. But while there is political will on both sides to enhance cooperation, there are also considerable obstacles to doing so. The United States is an important common denominator that both prompts and deters a deeper relationship. The JCPOA had been perceived by both China and Iran as an opportunity to expand relations, but the plan was complicated by the US decision to leave the agreement in 2018.

2.1 Shared characteristics and views

Iran and China have some characteristics in common that make cooperation natural. Both countries are heirs to great empires and their joint official rhetoric often highlights that their relations go back to ancient times.¹ This is no exaggeration; trade between previous incarnations of China and Iran began during the Han dynasty's establishment of the Silk Road, during the first century B.C.²

The current political systems of both states are products of revolution, albeit with very different ideological foundations. Chinese and Iranian leaders alike frequently refer to a "unipolar world order", which they claim will give way to a multipolar one. China and Iran share the view that a US-led world is undesirable; this is an important ingredient in their relationship. Moreover, the two countries are also on common ground in their stated adherence to the principle of non-interference. An important milestone for relations between the current regimes was China's support of Iran during the Iran-Iraq war.

Chinese leaders portray Iran as a historical friend and a key partner in the Middle East.³ From Beijing's perspective, Iran is an attractive country to cooperate with. It holds vast energy reserves in oil and natural gas and provides a growing market for Chinese companies. Beijing also regards Iran's geographic location as of strategic interest for securing important trade routes,⁴ at the same time as Iran's geopolitical situation in the Middle East places Tehran outside the realm of US allies, thus allowing it to swing more easily towards China's sphere of interest. In addition to the important economic ties, Iran's leaders see China as a strategic partner that could help it offset US influence at global and regional levels.⁵ At

¹ Garver, John W. (2016).

² History (2017).

³ Pang Sen (2018); Raz Zimmt, Israel Kanner, Ofek Ish Maas, and Tal Avidan (2017); Zhou Xin (2016).

⁴ Lim, Kevjn (2015); Vatanka, Alex (2019).

⁵ Harold, Scott and Nader, Alireza (2012) p.5.

home, Iran feels surrounded by the US and its allies, and therefore perceives China's expanding engagement in the Middle East as a positive development.

2.2 Concerns and obstacles to China-Iran cooperation

Chinese analysts tend to emphasize the importance of maintaining close and favourable ties with Iran.⁶ There is a belief that a strong Iran would benefit China, as the two countries have similar views on many issues. That Tehran would not perceive a more powerful China as a threat is another positive aspect. At the same time, there is a concern that a strong and potentially more confrontational Iran may prompt a heightening of Iran-US tensions. In the event of such a conflict, the possibility that skirmishes and Iran's closing of the Strait of Hormuz would ensue and thus hamper energy flows from the region would be in stark contrast to Beijing's interests.⁷ Considering that 76 per cent of the 17.3 million barrels per day (bpd) of oil that flowed through the Strait of Hormuz in 2018 ended up in Asia, this would be an obvious headache for Beijing.⁸ China is the largest buyer, globally, of Middle East oil; it purchases about 40 per cent of its crude oil from the Middle East.⁹ On the other hand, some Chinese observers believe that a protracted and isolated US-Iran conflict may rather benefit China: if the US military were bogged down in the Persian Gulf, this could potentially impede deeper US commitment in the Asia-Pacific, Beijing's ultimate sphere of interest.¹⁰

Despite Iran and China's shared outlook on world affairs and their critical view of what they perceive as American hegemony, smoother development of Sino-Iranian ties have been impeded by the US. For instance, over the years, US sanctions have precluded the independent flourishing of economic relations between China and Iran. As China's role on the global stage has grown, its integration into the international system has increased. China is interested in stability and is reluctant to antagonize the West and in particular the US over their engagements with Iran.¹¹ From the Chinese perspective, its relationship with Iran needs to be constantly balanced against Sino-American ties. China is significantly more integrated in the global – and thus also the American – economy than Iran, which is almost entirely disconnected. China is firmly opposed to any Iranian development of nuclear weapons and, in order to avoid giving the Shanghai Cooperation Organization

⁶ Zhao Hong (2014) p. 410; Harold and Nader (2012) p. 19.

⁷ Harold and Nader (2012) p. 19.

⁸ U.S. Energy Information Administration (2019a).

⁹ CNBC (2020).

¹⁰ Shi Yinghong (2011); Hua Liming (2014) p. 13-15.

¹¹ Ehteshami, Anoushiravan, Horesh, Niv and Xu Ruike (2017) p.12.

(SCO) an anti-American tone, has been wary of granting Iran full SCO membership. Another difference is reflected in Iran's support of insurgencies and terrorist movements – something Beijing views with great dissatisfaction.¹²

It is clear that China's relations with Iran are a source of contention between China and the US, and perhaps sometimes also used as a bargaining chip in their disputes. In 2017, Chinese telecommunications company ZTE Corporation was indicted in the US for exporting technology to Iran and North Korea.¹³ ZTE pleaded guilty, was fined and placed under sanctions, which President Donald Trump proceeded to lift one year later, during trade negotiations with Xi Jinping.¹⁴ In 2018, Huawei, China's most important telecommunications company and a global frontrunner in 5G technology, was accused of bypassing US sanctions on Iran, and stealing trade secrets. The company's chief financial officer was arrested in Canada at the behest of the US, to which she now awaits extradition. China perceives the US's move as political and aimed at stifling Chinese technological development.¹⁵ Trump has personally done little to assuage this Chinese concern. He publicly stated that he would consider intervening in the case, in order to get a trade deal with China. However, US Secretary of State Mike Pompeo later denied the possibility of using the case in the trade talks.¹⁶

2.3 Iran's conundrum between West and East

Iran's policy has over the years oscillated between seeking increased economic engagement with either the West or the East (mainly China, India, and Russia), partly depending on which political faction is in power, and on the state of Iran's international relations. The Iranian reformist faction fears excessive dependence on China,¹⁷ and has sought to diversify Iran's trade relations. They are critical of the massive inflow of Chinese goods in the Iranian market, and of Chinese opportunism.¹⁸ During the previous round of sanctions (2010-2015), China benefited from bartering Iranian energy for Chinese consumer goods.¹⁹ This undermined domestic production in some sectors of the Iranian economy and exacerbated unemployment.²⁰ During the same time period, more specifically in 2009, China surpassed the EU as Iran's most important trading partner.²¹ There is also some concern that Iran's national interests are not sufficiently safeguarded in

¹² Harold and Nader (2012) p. 21.

¹³ Farrell, Henry (2019).

¹⁴ Swanson, Ana (2018).

¹⁵ Fan, Jiayang (2018).

¹⁶ BBC (2019a).

¹⁷ Ehteshami et al. (2017) p.8.

¹⁸ Ehteshami et. al. (2017) p.7.

¹⁹ The Guardian (2013).

²⁰ Ehteshami et. al. (2017) p.8.

²¹ Yacoubian, Alex (2019).

agreements reached with China.²² Some of Iran's Central Asian neighbours, such as Turkmenistan, Kyrgyzstan, and Tajikistan, have experienced economic difficulties as a result of substantial Chinese lending.²³ The JCPOA negotiations under President Hassan Rouhani were therefore aimed at enabling a balanced economic approach to both East and West.²⁴

On the other side of the political spectrum, conservatives such as Iran's Supreme Leader Ali Khamenei are deeply sceptical of the West and portray China as a trustworthy ally.²⁵ They do not see China's increasing global power as a threat to Iran, but as an opportunity. Khamenei nevertheless supported Iran's participation in the JCPOA negotiations, under the premise that the US would recognize Iran as a nuclear power, and that American sanctions against Iran would be removed.²⁶

2.4 The JCPOA – an opportunity to expand relations

China played a constructive role during the negotiations on Iran's nuclear programme (2013-2015), convincing the Iranian leadership that reaching an agreement would be in their own favour.²⁷ While the Chinese government views the Iranian regime's ambition to develop nuclear energy for civilian purposes as legitimate, it opposes Iran's development of nuclear weapons.²⁸ China views the nuclear deal with Iran as an important precedent for other similar disputes, and as a stabilizing factor for the Middle East.²⁹ A successful implementation of the nuclear agreement, or the JCPOA, could prevent nuclear proliferation among other countries in the region. To this end, Beijing also sees an opportunity to present itself as a responsible and peaceful stakeholder, both regionally and globally.³⁰ Arguing that multilateralism is the way forward in solving the disagreements about JCPOA allows Beijing to criticize the unilateral actions taken by the US.³¹ Moreover, securing leverage and achieving a long-term solution of the nuclear agreement requires that other signatories are included, and it is unlikely that Beijing wants to be seen as the "sole protector" of Iran.

The nuclear agreement created an opportunity for increased cooperation between China and Iran. After the signing of the nuclear agreement in October 2015, relations thrived. In 2016, the visit to Iran by State Chairman Xi Jinping, the first

²² Shariatinia and Azizi (2017) p.9.

²³ Hedenskog, Jakob, Holmquist, Erika and Norberg, Johan (2019) p.41-42.

²⁴ Bourse and Bazaar (2019a) p.3.

²⁵ Ibid.

²⁶ Khamenei, Ali (2019a).

²⁷ Garver (2016).

²⁸ Ehteshami, Anoushiravan, Horesh, Niv and Xu Ruike (2017) p.13.

²⁹ Liu Jun and Wu Lei (2010); Xinhua (2017); McKimm, Rebecca (2018).

³⁰ Scita, Jacopo (2019); Zhao Hong (2014) p. 410.

³¹ Vatanka (2019).

by a Chinese leader in ten years, resulted in the establishment of a “comprehensive strategic partnership”.³² This is a designation used by China to emphasize that the relationship is a priority, thus placing Iran in the same category of relationships as such states as Egypt, Saudi Arabia, France, Spain, and Australia.³³ The statement of the partnership consists of 20 articles outlining the intended expansion of Sino-Iranian ties in several fields.³⁴ In the political domain, the two countries established a mechanism of annual meetings between their foreign ministers to “enhance mutual strategic trust”. As outlined in the statement, they seek to expand both the relations between central governments and the cooperation between local governments, as well as the exchanges and cooperation between both countries’ legislative bodies. The two sides also underscored strong support for each other’s core interests: “independence, national sovereignty, and territorial integrity”. This implies Iran’s commitment to the One-China policy.³⁵

In stating their partnership, the two countries agreed to “recognize terrorism, extremism and separatism as threats against all humanity and the global peace and stability”. Deeply pragmatic in its dealings with China, Iran, despite its claims of being a leader of the Islamic world, has not voiced any public complaints against the repression by Chinese authorities of Muslim minorities in Xinjiang.

2.5 Effects of the US decision to leave the JCPOA

When the US announced its decision to withdraw from the JCPOA, Iran embarked on an intensive diplomatic campaign aimed at saving the agreement. China has been central to this effort. Only a few days after the US announcement of withdrawal, Iran’s foreign minister, Mohammad Javad Zarif, travelled to meet with the remaining signatories of the agreement, starting with China.³⁶ There has since been a steady flow of official visits between Tehran and Beijing along various tracks, to discuss the JCPOA, the continuation of trade, and military cooperation.³⁷

³² Wuthnow, Joel (2016).

³³ Ibid. (The categorization of a comprehensive strategic partnership is merely a sign that the relationship is one of priority, but it does not distinguish the level of importance that it has for China. For instance, Russia is also designated as a comprehensive strategic partner, but is likely to be of higher priority to China than Iran).

³⁴ Full text of Joint Statement on Comprehensive Strategic Partnership between I.R. Iran, P.R. China (2016).

³⁵ The “One-China policy” asserts that there is only one sovereign state with the name of China. This opposes the idea that there are two states, the People’s Republic of China and the Republic of China, that officially include “China” in their names.

³⁶ Islamic Republic of Iran, Ministry of Foreign Affairs (2018).

³⁷ Based on a review of official statements, published between May 2018 and August 2019, at the Ministry of Foreign Affairs of Iran. See statements at www.mfa.ir.

Since May 2019, after failing to see any results from its diplomatic campaign, Iran has applied pressure by gradually reducing its commitments to the JCPOA, arguing that it cannot be expected to abide by the agreement when the other parties are not doing so.³⁸ Each step Iran has taken is reversible, however, and aimed at stimulating negotiation. Simultaneously, Iran has proven its willingness and capacity to disrupt the oil trade in the Persian Gulf through various means. Tensions between Iran and the United States have escalated considerably, culminating with the US attack on Iran's General Qasem Soleimani in early January 2020.

China has opposed the escalation between the US and Iran. In remarks from China's Ministry of Foreign Affairs, Beijing urged both parties, "the US side in particular, to remain calm and restrained and avoid further escalating the tensions", and for the "US not to abuse force".³⁹ Chinese state media portrayed the US as a destabilizing force, and in contrast presented China as a responsible and stabilising actor in both the regional and international arenas.⁴⁰ However, Chinese analysts and observers were quick to point out that a US-Iran war would not entail another "period of strategic opportunity" for China, as it would undermine regional stability, and consequently bring negative effects for energy imports and BRI projects in the region.⁴¹

Beijing has consistently condemned and opposed the American sanctions, referring to them as illegal, and rejected the sanctions on oil trading.⁴² The Chinese leadership has also repeatedly expressed its support to the Iranians. When receiving an Iranian delegation in Beijing in February 2019, Xi Jinping stated that, "No matter how the international and regional situation changes, China's resolve to develop a comprehensive strategic partnership with Iran will remain unchanged".⁴³

Iran's Supreme Leader Khamenei now believes that negotiating with the US was a mistake – that the current situation proves that the West cannot be trusted; and that Europe, failing to live up to its commitments under the JCPOA, has more or less withdrawn from the agreement.⁴⁴ As a solution to Iran's problems, he reiterates the importance of two things: strengthening Iran's domestic production capabilities, so as to reduce foreign dependence, and prioritising foreign relations with the East over the West (the latter priority is often referred to as the "Look East" doctrine).⁴⁵ However, these goals seem hard to achieve. Under the current

³⁸ Aljazeera (2019a).

³⁹ Ministry of Foreign Affairs of the People's Republic of China (2020a); Ministry of Foreign Affairs of the People's Republic of China (2020b).

⁴⁰ Chen Qingqing and Leng Shumei (2020); China Daily (2020); People's Daily (2020).

⁴¹ Yang Sheng and Liu Xuanzun (2020); Shi Jiangtao (2020).

⁴² AFP (2019).

⁴³ Xinhua (2019).

⁴⁴ Khamenei, Ali (2019b).

⁴⁵ Khamenei, Ali (2019c).

circumstances, Iran has difficulty obtaining various raw materials, and the number of partners prepared to trade with Iran has reduced significantly. This could arguably make Iran more dependent on those few that remain, such as China.

3 Economic relations: considerable potential and complementarity

Economic and energy relations are at the core of Sino-Iranian ties. The economic weight of China has increased significantly, as China surpassed the EU as Iran's most important trade partner in 2009. On the global scale, the two economies are complementary, which is manifested by the fact that China is the world's greatest energy consumer, while Iran has some of its largest unexploited energy reserves. However, American sanctions pose challenges for these ties. Trade data and other developments indicate that China is temporarily downgrading the Sino-Iranian economic relationship, while balancing its interests regarding the US in relation to its ties with Iran. Indeed, ongoing trade negotiations between the US and China constitute a direct and highly visible component affecting this temporary downgrading of relations. However, China's balancing act between the US and Iran stretches beyond mere trade disputes, and relates to the overall complexity of the relations between two interdependent, but increasingly antagonistic, global powers and their positioning against each other.

3.1 Burgeoning trade and oil ties

According to statistics for 2018, China was Iran's largest trade partner. Iran's imports from China amounted to 22 per cent of total imports, and Iran's exports to China accounted for almost 29 per cent of total exports.⁴⁶ At the time of Xi Jinping's visit to Iran in 2016, the two countries agreed to increase bilateral trade to USD 600 billion in the coming decade.⁴⁷ This is indeed a very ambitious goal, considering that their bilateral trade in 2018 amounted to USD 35 billion.⁴⁸ Trade between the two countries has almost doubled over the past decade: in 2007, Sino-Iranian trade totalled USD 19.2 billion.⁴⁹

Iranian and Chinese officials alike mention that their economies are complementary. Iran is a significant energy producer, with some of the largest proven oil and natural gas reserves in the world,⁵⁰ and China is the world's premier energy consumer.⁵¹ China is also Iran's top oil customer, purchasing 650,000 barrels per day (bpd) of crude oil at the time of the re-imposition of sanctions by the US in November 2018, and accounting for around 26 per cent of Iran's oil exports, while

⁴⁶ IMF (2020)

⁴⁷ Sharafedin, Bozorgmehr (2016).

⁴⁸ I.e. before oil waivers were revoked by the US.

⁴⁹ Observatory of Economic Complexity (2019).

⁵⁰ Second-largest proven- gas reserves, and fourth-largest proven oil reserves, according to the US Energy Information Administration (2019b).

⁵¹ US Energy Information Administration (2019c)

representing seven per cent of China's total oil imports.⁵² Additionally, China is also important for upgrading Iran's oil industry and gas refineries, since it has made large investments in exploration and excavation activities in Iranian oil fields.⁵³

As such, commercial ties have taken off considerably since the inception of China's policy of reform and opening, and the Iranian revolution, in 1979, with energy trade taking centre stage in their trading relationship. Following the end of the Iran-Iraq war, in 1988, trade shifted from arms sales to oil and energy. Henceforth, Iran has primarily exported petroleum products while China has sold it consumer goods, such as electronics, autos, clothing, household appliances, chemicals, and telecommunications equipment.⁵⁴

The Iranian oil sector has grown more dependent on China. In 2000, China accounted for only five per cent of Iran's total oil exports. By 2011, China's share had increased to 25 per cent of Iranian oil sales.⁵⁵ However, the Chinese reliance on Iranian oil imports has moved in the other direction. From 2000 to 2012, Iranian oil accounted for between 9 and 14 per cent of China's total imports.⁵⁶ As of 2018, the number has decreased to 7 per cent.⁵⁷ This is due to China's having diversified its sources of energy suppliers, increasingly looking to Russia for oil imports.

During the sanction years, 2010-2013, despite China's having to scale back some of its oil imports from Iran, it continued trading with it. Although its presence in Iran was expanded by Chinese companies, which also made investments in the energy sector in 2010, a new round of sanctions in 2012 affected the Iranian oil industry.⁵⁸ Therefore, in the same year, China cut back oil purchases from Iran by 20 per cent compared to 2011.⁵⁹ Moreover, in order to avoid sanctions on major Chinese energy companies, Beijing reportedly issued unofficial instructions to halt development projects in Iran's oil sector.⁶⁰ However, in November 2013, since Iran reached an interim deal with the p5+1⁶¹ powers over its nuclear program, its oil exports to China returned to pre-sanctions level.⁶² Following the announcement of the JCPOA, in 2015, China quickly moved forward to increase its economic engagement with Iran.

⁵² Joshi, Manoj (2019); Yacoubian (2019).

⁵³ Harold and Nader (2012) p.10; Wuthnow, Joel (2013) p.2; Kuo, Mercy A. (2019).

⁵⁴ Yacoubian, Alex (2019)

⁵⁵ Ibid.

⁵⁶ Davis et al. (2013) p. 19.

⁵⁷ Joshi (2019).

⁵⁸ Park, John S. and Glenn, Cameron (2010)

⁵⁹ U.S. Energy Information Administration (2015) p. 10.

⁶⁰ Yacoubian, Alex (2019)

⁶¹ These were the five permanent members of the UN Security Council, the US, France, the UK, China, and Russia, plus Germany.

⁶² Park, John S. and Glenn, Cameron (2010)

This back-and-forth pattern in energy trade reflects the asymmetry in power that constitutes the Sino-Iranian relationship in China's favour. As China holds the upper hand in the bilateral relationship, it has more power to determine the scope of energy flows between the two countries. This is in turn significantly affected by external factors, such as Iran's and China's respective relations to the US. It is also a trend that may be exacerbated, given China's capabilities for diversifying its dependence on Iran, while Iran is likely to become increasingly reliant on Chinese engagement. China is currently undergoing a transition from a heavy manufacturing-based economic model to a service-driven economy. In addition, China is also diversifying its energy base, as it is increasingly looking for natural gas and renewable energies to secure its energy supplies.⁶³ Thus, while China can diversify its energy supplies, it also looks set to reconfigure its energy mix, with less dependence on oil. This situation may put Iran at a disadvantage, going forward, unless it can step up its capabilities for exploiting its natural gas reserves.

3.2 Economic engagement beyond energy trade

China-Iran relations have over time also expanded into non-energy areas. More than 100 Chinese companies are active in the Islamic Republic.⁶⁴ China is involved in building infrastructure, such as railroads, bridges, the Tehran metro system, dams, airports, ships, and steel mills,⁶⁵ as well as in sales of machinery and manufactured goods such as clothing, lighting, vehicles, and electronics.⁶⁶

In relation to this, China's global investment project, the Belt and Road Initiative (BRI), is playing an increasingly central role in its foreign policy. China views Iran as a key partner in the BRI.⁶⁷ For China, the engagement of Iran in the BRI network contributes to an increase in China's freedom of action.⁶⁸ Iran's geographic location and relative proximity to China could make it a strategic hub for several of the BRI's envisioned transport and energy corridors, which would connect China and Asia with both the Gulf Region and Europe.⁶⁹ By partnering with Tehran, Iran's geostrategic role may help smooth China's access to important maritime trade routes, such as the Strait of Hormuz. Moreover, Iran presents an important bridge as a part of the six economic corridors that, according to the BRI framework, would span Asia and Europe, in a network of trade routes.

⁶³ International Energy Agency (2017).

⁶⁴ Vaez, Ali and Kovrig, Michael (2018).

⁶⁵ Esfandiary, Dina and Tabatabai, Ariane (2018a); Harold and Nader (2012) p.11; Vaez and Kovrig (2018).

⁶⁶ Wuthnow (2013) p. 2.

⁶⁷ Pang Sen (2018).

⁶⁸ Joshi (2019).

⁶⁹ Lim (2015); Lu Jin (2015) p. 55.

Many of the accords that the two countries signed during Xi Jinping's visit to Iran in 2016 were branded as BRI projects.⁷⁰ According to scholars Mohsen Shariatinia and Hamidreza Azizi, the BRI has several dimensions that are attractive to Iran. It could reduce poverty and thereby have a stabilizing effect on some of Iran's neighbours, such as Pakistan and Afghanistan; it could mean sizeable investments in energy and infrastructure; and the improved connectivity could in turn boost Iran's economic development.⁷¹

In 2018, Supreme Leader Khamenei outlined some of his reasons for preferring that Iran traded with the East in general and China in particular: Asia gives Iran access to several very large markets, with 60 percent of the global population. Focusing on trade with Asia could yield more balanced trade relationships, as some Asian countries may not only buy raw materials, but also consumer goods, from Iran. In Khamenei's opinion, in terms of political outlook, Iran has a lot more in common with Asian countries such as China than with Western ones, which tend to align themselves with US policy. Moreover, Asia offers Iran access to advanced technology.⁷² Of course, this is an optimal description of what Iran's ties with Asia, especially China, might bring. Under the current circumstances, the fact that many of Iran's Asian would-be partners also have significant relations with the United States presents a major obstacle to Khamenei's vision. As for China, the American factor plays a significant role in how it manages its relations with Iran.

3.3 FATF: another bump in the road?

Another obstacle to Iran-China trade, besides American sanctions, is the fact that Iran has not joined the Financial Action Task Force (FATF).⁷³ As a result, the People's Bank of China has classified Iran as a high-risk country in terms of business environment.⁷⁴ According to Iranian state media, the addition of Iran to the Chinese list of risk countries means that Chinese banks will not deal with Iranian counterparts without FATF compliance, nor provide services for Iranians or Iranian businesses in China.⁷⁵

The reason that Iran has not implemented all the FATF measures is that parts of the political elite are against it. The main critique is that the reforms could make it difficult for Iran to provide allies such as Hezbollah with monetary support, and that the Iranian banking system would become subject to wide-ranging

⁷⁰ Shariatinia and Azizi (2017).

⁷¹ Shariatinia and Azizi (2017) p.9.

⁷² Khamenei, Ali (2018).

⁷³ FATF, short for the Financial Action Task Force, is an intergovernmental organization that aims to "set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system." For more details, see: <http://www.fatf-gafi.org/about/>.

⁷⁴ IRNA (2018).

⁷⁵ Ibid.

international scrutiny.⁷⁶ There is an additional argument that, for Iran, being added to the blacklist does not matter very much, since it is already more or less cut off from the international banking system due to US sanctions. Proponents, on the other hand, argue that joining FATF will be crucial for Iran's economic recovery after sanctions are lifted. They also stress that FATF is an international framework, and Iran, as part of the international community, should join it. As of February 2020, Iran has failed to implement reform and is on the blacklist, while counter-measures have been reinstated.⁷⁷

In the context of Iran-China relations and the likelihood that being blacklisted could affect Iran's trade with China, these political divisions appear to be contradictory. The hardliners, who are the most adamant in their insistence that Iran should not implement FATF measures, are at the same time the "Look East" doctrine's main supporters.

3.4 Economic ties after US withdrawal from JCPOA

Following its exit from the JCPOA, the US has imposed a broad range of sanctions on Iran; these sanctions are even wider in scope than those in force during the pre-agreement era. The current sanctions target the country's most important industries and its banking system.

3.4.1 Iran's struggling economy

In response to the sanctions, many international companies have abandoned their activities in Iran. They have cited two main reasons for leaving: their wish to continue trading with the US, and the fact that the sanctions against Iranian banks mean that they cannot get paid. Because of the sanctions, Iran's economy has felt the pinch. According to the IMF, the Iranian economy contracted by 9.5 per cent in 2019.⁷⁸ The unemployment rate increased from 14.5 per cent in 2018 to 16.8 per cent in 2019.⁷⁹

Indeed, the plummeting oil exports are a key factor in this situation. Oil is Iran's main source of income; the state budget for the year 1398 (the Persian year 1398 corresponds to 21 March 2019–21 March 2020) was based on oil sales at the level of 1-1.5 million barrels per day (bpd). This is considerably less than the level of sales of the previous year, at 2.5 million bpd.⁸⁰ However, according to media reports, Iran's oil exports in October 2019 were down to under 400,000 bpd.⁸¹ That

⁷⁶ Bozorgmehr, Sharafedin (2019), Javedanfar, Meir (2019).

⁷⁷ FATF (2020).

⁷⁸ IMF (2019).

⁷⁹ BBC (2019b).

⁸⁰ Tavakol, Mohsen (2019).

⁸¹ Aljazeera (2019b).

said, accurately assessing the volume of Iranian oil sales has become difficult. In May 2019, Iran’s oil minister, Bijan Zanganeh, declared that the sanctions against Iran are illegitimate, and that Iran will therefore sell its oil on the “grey market”, and that “all necessary resources are being mobilised” to make this happen.⁸² This may imply barter trade, oil swaps and resale via third parties, attempts to hide shipping by turning off oil-tanker trackers, as well as shifting oil tankers en route and other creative measures.⁸³

3.4.2 China’s mixed reactions

China’s official rhetoric has retained its commitment to Iran, but trade data and recent developments provide mixed impressions of the situation. Following the US withdrawal from the JCPOA, the state-owned Bank of Kunlun – China’s principle financial institution for conducting transactions with Iran – adopted a new policy that limits its process of payments to areas not targeted by American sanctions, namely humanitarian trade, such as food, medicine, and consumer goods. In other words, China’s main exports to Iran, such as machinery and parts for the Iranian manufacturing industry, have become off-limits for going through the bank.⁸⁴ Considering that the Bank of Kunlun is the only Chinese bank that cooperates with Iran, this has posed significant challenges for bilateral trade.

As a result, bilateral trade fell by 34.5 per cent in 2019, to a total of USD 23 billion, in comparison with 2018, when total trade amounted to USD 35 billion.⁸⁵ Chinese exports to Iran declined by 31 per cent in 2019, to less than USD 9.59 billion.⁸⁶ Chinese imports from Iran – traditionally consisting mainly of crude oil – dropped by 36 per cent compared with 2018, down to around USD 13.43 billion.⁸⁷ These numbers are to be considered in light of the fact that the average of Chinese exports from 2014 to the beginning of 2018 was worth USD 1.6 billion per month, and the monthly average of imports between 2014 and the beginning of 2018 were around USD 1.3 billion.⁸⁸ Apart from this, non-oil imports have on the whole remained stable.

With regard to oil imports from Iran, China averaged around 300,000 bpd in 2019, which is to be compared with 650,000 bpd in 2018.⁸⁹ Iranian oil exports have been deeply affected by US actions, and Chinese oil purchases have been following the same pattern. As of May 2018, when the Trump administration announced its withdrawal from the nuclear deal, China was purchasing 775,000 bpd from Iran.⁹⁰

⁸² IRNA (2019).

⁸³ Dages, Holly and Barbara Slavin (2018).

⁸⁴ Bourse and Bazaar (2019a).

⁸⁵ General Administration of Customs People’s Republic of China (2020).

⁸⁶ Ibid.

⁸⁷ General Administration of Customs People’s Republic of China (2020).

⁸⁸ Batmanghelidj, (2019a).

⁸⁹ Scheid and Gupte (2020).

⁹⁰ Yacoubian, Alex (2019)

By September 2018, although Chinese oil imports from Iran were down to 330,000 bpd, they still comprised roughly a quarter of total Iranian oil sales. In November 2018, the US re-imposed sanctions but granted a number of countries a temporary waiver; China was allowed to purchase 360,000 bpd.⁹¹ The waivers expired in May 2019, making Chinese companies more hesitant about trade with Iran.⁹²

Thus, sanctions have caused Iranian oil exports to China to drop significantly, but do not seem to have stopped them entirely. Reports suggest that Iranian tankers have been shipping crude oil and liquefied petroleum gas (LPG) to China.⁹³ In August 2019, at least six Iranian tankers reportedly unloaded their oil cargoes at Chinese ports.⁹⁴ However, it is unclear whether the oil shipments technically violate US sanctions. Reports suggest that the oil is being kept in so-called “bonded storage”, which means that the shipped oil has not yet been cleared through Chinese customs and is thus not being used.⁹⁵ As a result, the oil does not show up on China’s import data and is therefore formally of Iranian ownership.⁹⁶ Moreover, the oil shipments may also be part of “pay back” contracts that Chinese state-owned enterprises, or SOEs, such as China National Petroleum Corporation (CNPC), Sinopec, and Cosco Shipping, signed with the Iranian government.⁹⁷ These contracts stipulate that Iran repay Chinese companies for their investments in Iran in the form of energy exports. In other words, at least part of the reported oil that has been shipped to China may have been repayments to Chinese companies.⁹⁸ Adding to the uncertainty enshrouding the Chinese-Iranian oil trade, reports also indicate that some Iranian oil may have been re-exported to China via Malaysia.⁹⁹

At the same time, China is cancelling its participation in important oil and gas development projects in Iran. Following the imposition of US sanctions, French energy company Total withdrew from the development of the South Pars gas field. CNPC initially agreed to taking over Total’s share in the project, but has now reportedly pulled out.¹⁰⁰

Consequently, data showing declining trade figures, together with official rhetorical support and reports of oil shipments, provide mixed indications of the extent to which China may be the all-weather partner that Iran hopes it is. Unlike earlier periods of sanctions, between 2008 and 2016, when Chinese businesses

⁹¹ Ibid.

⁹² Ibid.

⁹³ Singhvi, Anjali, Wong, Edward, and Lu, Denise (2019); Cho, Sharon and Cang, Alfred (2019); South China Morning Post (2019); Bourse and Bazaar (2019b); Kuo, Mercy A. (2019); Sundria and Murtaugh (2019).

⁹⁴ Singhvi et. al. (2019).

⁹⁵ Bloomberg (2019)

⁹⁶ Bloomberg (2019) .

⁹⁷ Yang Sheng and Li Xuanmin (2019).

⁹⁸ Khatinoglu, Dalga (2019).

⁹⁹ Batmanghelidj, Esfandyar (2019b).

¹⁰⁰ Bozorgmehr, Najmeh (2019).

expanded their commercial presence on the Iranian market, to fill the void after the exit of Western companies, this time around China appears to have downgraded its commercial presence and activities in Iran.¹⁰¹ However, reported oil shipments from Iran and possible new agreements also signal some degree of Chinese willingness to maintain some of its trade relations with Iran and oppose American sanctions in practical terms. Therefore, Beijing merely seems to be temporarily downgrading its relationship with Iran, while still balancing its interests vis-à-vis the US in its relations with Tehran. This underlines Iran's critical situation, indicating that Iran is therefore likely to accommodate and provide highly beneficial deals to Beijing.

¹⁰¹ Batmanghelidj, Esfandiyar (2019a).

4 Military relations: awaiting expansion

There is potential for China-Iran relations to expand in the military arena. China has a well-developed defence industry and Iran needs to update its aged technology. Military cooperation is not a new aspect of the China-Iran relationship, but it has been hampered by the US factor. Following the JCPOA, defence ties have been reinvigorated. Iran has discussed the possibility of purchasing technology, including new fighter jets, from China, should the UN arms embargo on conventional weapons be lifted in October 2020.

4.1 Military cooperation in the past

While military cooperation between Iran and China has varied in scope and intensity since 1979, there is no doubt that the relationship has played a significant part in the development of Iran's current military capability. China was Iran's main weapons supplier during the Iran-Iraq war, something that China denied at the time and that caused tensions between China and the US.¹⁰² Among the equipment that Iran procured from China were missiles, sea mines, fighter jets, tanks, and radar systems. Iranian Revolutionary Guard Corps (IRGC) pilots were also trained in China.¹⁰³ Cooperation with China has been crucial in moving Iran towards self-sufficiency in the ballistic missile technology arena.¹⁰⁴ Several of the missiles developed by Iran are either based on Chinese systems, design, and technology, or have been developed with Chinese assistance.¹⁰⁵ Today, Iran has the largest and most diverse missile arsenal in the Middle East,¹⁰⁶ and considers this capability key to its deterrence.¹⁰⁷

Between 1985 and 1996, China also played an important role in the development of Iran's nuclear programme. China was not a party to the Non-Proliferation Treaty (NPT) until 1992, hence any of its transactions before that time are considered legal.¹⁰⁸ China has also continuously defended its actions since then by saying that cooperation with Iran took place within the framework of civilian nuclear energy projects, which is permissible under the NPT. Through cooperation with China, Iran nevertheless obtained technical knowledge and equipment it had been unable to acquire from the West.¹⁰⁹ Policymakers in the US became worried that some of the know-how transferred from China to Iran could be used for military purposes.

¹⁰² Liu Currier, Carrie and Dorrai, Manochechr (2009) p.56.

¹⁰³ Rezaei, Masoud and Saeid Vossoughi (2017) p.28.

¹⁰⁴ Esfandiary, Dina and Tabatabai, Ariane (2018b), p.132.

¹⁰⁵ Rezaei and Vossoughi (2017), p.31.

¹⁰⁶ Center for Strategic and International Studies Missile Defence Project (2018).

¹⁰⁷ Connell, Michael (n.d).

¹⁰⁸ Currier and Dorrai, (2009) p.57.

¹⁰⁹ Cordesman, Anthony H. (2000) p.6.

Therefore, in 1997, after pressure from the United States, China agreed to end its nuclear cooperation with Iran.¹¹⁰ In exchange, the US allowed China to buy American technology for China's own nuclear programme.¹¹¹ For Iran, this was a blow, which strengthened the Iranian leadership's perception that none of Iran's foreign partners were reliable.¹¹²

4.2 Current and future military cooperation

After the election of Hassan Rouhani in 2013, when negotiations between Iran and the p5+1 finally seemed to be on a positive trajectory, the Chinese leadership decided to revive its defence relations with Iran.¹¹³ At the time, UN arms embargoes imposed against Iran in 2006 and 2010 prohibited the direct and indirect provision of ballistic missiles and of any major conventional weapons systems to Iran. In the UN Security Council, China was among the countries that approved broad sanctions restricting the majority of conventional arms to Iran.¹¹⁴

These embargoes remain in force, but now with the provision that any Iranian purchases are subject to review by the UN, and thus subject to the vetoes of UN Security Council members. The signatories of the JCPOA agreed that if Iran is found to be compliant with the agreement, and its nuclear program can be declared peaceful, the embargoes would be removed in two steps, by 2020 and 2023.¹¹⁵ After that, Iran would be free to buy any military equipment it desired.

It is likely that China seeks to position itself for a reopening of the arms trade with Iran. The Iranian demand for new military equipment is great, and China is well-positioned to provide it. During the nuclear negotiations, China frequently argued for a lifting of the arms embargoes. So far, there has been no evidence of any Chinese arms transfers to Iran. However, bilateral military relations have experienced some advances in recent years, reflected in port visits and high-level military exchanges.¹¹⁶ Moreover, in November 2016, the two countries signed a military cooperation agreement, not only to promote joint counter-terrorism training, military-to-military exchanges, and joint military exercises, but also to improve "equipment and technology".¹¹⁷ Discussions between the two sides are said to include the Chinese use of Iranian naval facilities and air bases in the Persian Gulf, as well as exchanges of experience in, for example, meeting the US military in the air and at sea.¹¹⁸ Reportedly, between 2014 and 2018, China and

¹¹⁰ Harold and Nader (2012) p.8.

¹¹¹ Cordesman (2000) p.9.

¹¹² Esfandiary and Tabatabai (2018b), p.75.

¹¹³ Rezaei and Vossoughi, p.31.

¹¹⁴ Wuthnow, Joel (2020).

¹¹⁵ SIPRI (2016).

¹¹⁶ Wuthnow (2016).

¹¹⁷ Wuthnow, Joel (2020).

¹¹⁸ Nadimi, Farzin (2016).

Iran conducted twelve military interactions, including bilateral exercises, high-level dialogues, and naval port visits.¹¹⁹

In 2014, the Chinese and Iranian navies carried out a joint naval drill in the Persian Gulf for the first time. In 2017, the two countries conducted another naval exercise, in the eastern Strait of Hormuz and the Oman Sea, involving one Iranian and two Chinese destroyers.¹²⁰ In September 2019, the armed forces chiefs of both countries visited a Chinese naval base together, while in December that same year, Iran, China, and Russia held a joint naval exercise in the Oman Sea and the northern Indian Ocean.¹²¹ The goal was to exchange knowledge and experience on how to improve maritime security, focusing particularly on countering piracy and terrorism, and on conducting rescue operations.¹²² On the purpose of holding such exercises, Brigadier General Ghadir Nezami commented that, “[t]he drills pursue various objectives, namely sharing tactical and military experiences, but they can be political as well and are indicative of some kind of convergence among the participants”.¹²³ Adding to this, Iranian Rear Admiral Gholamreza Tahani referred to the three participating countries as “the new triangle of power in the sea”.¹²⁴ Beijing was slightly more cautious in its remarks, stating that their participation had no connection to the regional situation and described it as “normal military cooperation”.¹²⁵

Enhanced defence cooperation with Iran could help China to increase its influence in the Middle East. Joint naval exercises may also give China an opportunity to keep an eye on the Iranian navy’s growing cooperation with India.¹²⁶ As Iran also has a strong interest in increasing its naval capabilities through cooperation with China, these exchanges are likely to continue. Acquisition of advanced military technology would indeed be of keen interest for the Iranian leadership. According to the head of the Iran Aviation Organization, Iran is discussing a purchase of fighter jets with both China and Russia.¹²⁷ Another way for China to further its defence relations with Iran could be to assist Iran in improving their unmanned aerial vehicle (UAV) guidance systems. In fact, Chinese companies have already initiated cooperation with the Iranian electronic and communications firm, Salran, to use the Chinese BeiDou-2 satellite system for military purposes.¹²⁸

The US has made several calls for extending the embargo on conventional weapons that is set to expire in October 2020, arguing that Iran is not compliant.

¹¹⁹ Wuthnow (2020).

¹²⁰ Zimmt et al. (2017) p. 50; Gady, Franz-Stefan (2017).

¹²¹ Reuters (2019c); Wuthnow, Joel (2020).

¹²² Westcott, Ben and Alkshali, Hamdi (2019).

¹²³ Press TV (2019).

¹²⁴ The Times of Israel (2019).

¹²⁵ Reuters (2019c).

¹²⁶ Ghoshal, Debalina (2016).

¹²⁷ O’Connor, Tom (2019).

¹²⁸ Nadimi, Farzin (2016).

This would pose a severe obstacle to any Chinese plans of selling arms to Iran, but at the same time Beijing also wants to be viewed as a responsible actor in favour of stability in the region. An extension would, however, require all UN Security Council members to agree.¹²⁹ This issue is complicated, because all remaining parties to the nuclear deal, including China, would prefer for it to survive, and the embargo would have to be extended as a consequence of the agreement's failure. Iran has threatened to escalate its nuclear program further and to withdraw from the Non-Proliferation Treaty (NPT) if UN sanctions are put back in place.¹³⁰ France, the UK, and Germany have activated the agreement's dispute resolution mechanism in response to Iran's increasing degree of non-compliance, and as a way to stimulate new negotiations. EU leaders have said that they are willing to extend the deadline for talks within the framework of the mechanism indefinitely, strongly signalling that they are unwilling to give up on the deal.¹³¹

China has yet to disclose its position regarding the extension of the embargo. But for Beijing, major arms sales to Iran would entail new opportunities for exploiting a new market in the Middle East, which is already the largest market for Chinese arms manufacturers. Although Beijing would have to compete with Russian weapon producers, China would avoid competition from Europe and the US, at least until the expiration in 2023 of EU embargoes. China's comparative advantage in weapon sales to Iran relies on its cheap products, low end-use restrictions, and high capabilities in areas such as shipbuilding and advanced materials.¹³² China may also exploit the US's desire for a weak Iranian military, and thus link its arms sales to Iran with other issues, such as US support in terms of arms sales to Taiwan. It is fair to say that the nuclear deal is hanging by a loose thread, but regardless, China-Iran military expansion may be to be expected.

¹²⁹ Harris, Bryant (2020).

¹³⁰ Reuters (2020a).

¹³¹ Reuters (2020b).

¹³² Wuthnow (2020).

5 Conclusions

Sino-Iranian relations are mired in a context consisting of a variety of factors pulling the two countries in different directions. While there are plenty of mutual interests that seemingly bind them together, there are also external forces impeding closer ties. This study set out to explore three questions pertaining to relations between China and Iran. This section provides brief answers to these questions, before concluding the paper with assessments of Chinese-Iranian ties and what may lay ahead for the bilateral relationship.

What are the main factors shaping political, economic, and military relations between China and Iran?

There is a strong asymmetry to current relations between China and Iran. Given China's economic leverage and internationally influential role, an isolated Iran often finds itself in a subordinated position subjected to China's interests and concerns. Strategic considerations determine the content of the bilateral relationship. Sino-Iranian ties are very much influenced by the US factor. Their shared opposition of the US-led world order, and their mutual advocacy for the principle of non-interference, creates common ground between the two in the international arena.

Economic interests play a significant role. China is Iran's top trading partner and while Iran holds vast oil and gas reserves, China has a large demand for energy. Additionally, Iran's geographic location serves Beijing's strategic interest to secure important trade routes, while Iran also is outside the American sphere of Middle East allies and thus is an important partner to counter US influence in the region.

Military relations is a field of cooperation that has been heavily shaped by external factors. UN arms embargoes and pressure from the US have prevented Sino-Iranian military cooperation from flourishing. But both countries have shown interest in expanding military cooperation, and some advances have been made in recent years. Going forward this development is likely to expand. However, for now, the scope and content of the military engagement is likely constrained by US policy.

How are Iran and China engaging with each following the US' unilateral re-imposition of sanctions?

The two countries' relations with the US constitutes the one major obstacle for the expansion of Chinese-Iranian ties. As China has become more integrated in the global system, Beijing's desire for stability and interdependence with international actors – foremost with the US – has become more palpable. As such, there are

limits to how much Beijing wants to antagonize the US over its relations with Tehran. China is balancing its ties with Iran against the complex dynamics and multilevel interests that are in play in its relations with the US. Mainly, this is seen in the economic and military spheres. The absence of a resolution of the JCPOA is clearly a significant barrier for the expansion of Sino-Iranian relations. So far, China has been very supportive of Iran in rhetorical terms, but trade figures indicate that China is not prepared to back its rhetoric with economic action.

5.1 Looking ahead

The Chinese-Iranian relations thus hold significant potential for greater cooperation, although external factors are holding back the bilateral ties. As China's international influence is seemingly growing while Iran again finds itself increasingly isolated, this of course affects the dynamics of their bilateral ties.

To what extent can China be a reliable partner for Iran?

For Iran, the US withdrawal from the JCPOA and its re-imposition of sanctions have had multiple consequences. Iran's economy has shrunk significantly, which has a serious impact on the livelihoods of ordinary Iranians. Politically, the reformist/centrist government, which was once elected on the promise that the JCPOA would lead to economic improvement, has been weakened. As a consequence, the "Look East" doctrine, traditionally advocated by the regime's hardliners, is gaining traction as part of a solution to Iran's problems. The reformists, for their part, have previously warned that such an approach could lead to excessive dependence on China and that Iran risks being taken advantage of. But as the situation stands, Iran does not seem to have many realistic options for solving this crisis; therefore, its reliance on China is set to increase.

Whether the more aggressive strategy applied by Iran since May 2019 will result in the renegotiation or the destruction of the JCPOA is too soon to tell. In the context of Iran-China relations, it is important to point out that both parties want to save the agreement and stand to gain economically were it to succeed. If the agreement can somehow be saved, the two UN arms embargoes on Iran will be removed in October 2020 and October 2023, respectively.

Chinese companies are also feeling the pressure from American sanctions.¹³³ Despite its reiterations to stand by Iran, there is also a realization in Beijing of how deeply integrated many of China's largest companies are in global value chains. To this end, large Chinese companies that operate in global markets are enmeshed in the intricate web of global production networks, and are therefore likely to view the Iranian market with caution. Given the potentially large costs of US punitive measures, companies with a global presence are likely to deem that the headache of dealing with Iran is not worth the trouble. At the same time, Chinese small- and medium-sized enterprises might be less inclined to stay away from Iran. These

¹³³ Yang Sheng and Li Xuanmin (2019)

firms may have limited activities on the global market and thereby also be less entangled in the US financial system, which could entail opportunities for them on the Iranian market and thus a larger role in terms of maintaining bilateral commercial relations.

For as long as the American sanctions are in place, Beijing is likely to continue to adjust its bilateral cooperation with Iran in the economic and military spheres, in order to avoid overly disturbing its relations with the US, while also not alienating Iran. Beijing will probably turn to other signatories, such as the EU, to find a multilateral solution for safeguarding the nuclear agreement with Iran, rather than taking unilateral action. Thus, the immediate Chinese response to Iran's isolation may be viewed as lukewarm and, for Iran's leadership, disappointing. There simply are limits to how far Beijing is willing to go for Iran, as Beijing's interests are enshrined in calculated pragmatism. This means that for now, at least, Tehran may have to settle for whatever it can get.

Thus the question of whether China can be a reliable partner for Iran, does not have a clear yes or no answer. In the short term, it is unlikely that China will provide any quick fixes to Iran's problems. But Iran's relationship with China will remain very important.

If sanctions remain, Iran's plans to diversify trade ties, in order to maximize its political and economic freedom of action, will be thwarted. Instead, the likely trajectory for relations between China and Iran is that the latter will have no other choice but to become more dependent on the former, exacerbating the asymmetric nature of relations even further. For Iran, this could be quite negative in an economic sense, since most deals will be made on China's terms which, as has previously been observed, could potentially undermine various sectors in the Iranian economy. It is possibly also negative in a political sense. One of the regime's chief goals since the revolution is to *reduce* foreign influence over Iran. Iranian hardliners currently argue that increased dependence on China does not matter so much, because politically Iran has much more in common with China than with the West. It remains to be seen whether it is a position they hold so as to distinguish themselves from the Rouhani government's policies, or one that they truly believe.

Iran's need for China has never been more obvious. With the added stress of the plummeting oil price, and the impact of Covid-19 on the Iranian service sector, the economic challenges ahead are likely to be grave indeed. Apparently, the Iranian leadership has been willing to take considerable risks in order to maintain Beijing's good opinion.¹³⁴ According to reports, Iran was slower than others to cease flight traffic to China at the outset of the Covid-19 epidemic.¹³⁵ Supposedly the flights continued for economic reasons, and Iran also provided humanitarian assistance to

¹³⁴ Behraves, Maysam, (2020)

¹³⁵ BBC (2020); Esfandiari, Golnaz (2020)

China.¹³⁶ China, somewhat later, returned the favour, shipping medical equipment and masks to Iran.¹³⁷

In a long term perspective, it seems that no matter which scenario takes place, relations between China and Iran are poised to deepen. Should the nuclear agreement be restored and sanctions removed, the Sino-Iranian bilateral relationship could grow closer in a manner more beneficial to Iran, as it would be possible for it to balance between China and other partners. From the Iranian perspective, there is substantial room, as well as political will, to expand political, economic, and military ties further. Beijing also sees significant strategic benefits in deepening its cooperation with Iran, from an economic, as well as a political and military point of view. There is considerable complementarity underpinning the two countries' relations. China is the world's greatest energy consumer, while Iran has some of the largest unexploited reserves in the world. China is developing increasingly advanced military technology and Iran's needs in this area, following decades of sanctions, are great. For China, in the long term, an increase in its influence over Iran will obviously strengthen its foothold in the Middle East. This in turn could spell a loss of influence for the EU, which, after its dealings with the JCPOA, increasingly risks being perceived as a powerless actor in the region.

¹³⁶ Lijm, Kevin (2020)

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China and Iran have expanded their relationship into what today is termed a comprehensive strategic partnership. While China is Iran's largest trade partner and top oil customer, Iran is an important partner in the Middle East for Beijing. Following its withdrawal from the Joint Comprehensive Plan of Action with Iran, the United States has imposed sanctions targeting Iran's key economic sectors. As a result, the Iranian economy is suffering, prompting the leadership in Tehran to look eastwards for deepening cooperation with China. However, Beijing needs to balance its interests in a regional and global context, thus raising questions whether China can or even wants to be the much-needed saviour that Iran is looking for.

The report describes the political, economic, and military relations between China and Iran. The two countries have a large number of common interests, but their ties to the United States hamper cooperation. China is therefore temporarily downgrading its relationship with Iran to avoid further affecting its already strained relations with the United States, without also alienating Iran.