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China-Iran Relations: A Limited but Enduring Strategic Partnership

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Key Findings

- The China-Iran relationship is rooted in limited pragmatic cooperation but has evolved in recent years into a partnership more pointedly opposed to the U.S.-led international order. Beijing views Tehran's opposition to the United States as augmenting China's increasing global influence, evidenced in part by Iran's proliferation of Chinese anti-U.S. disinformation during the novel coronavirus (COVID-19) pandemic. The Iranian regime's destabilizing actions in the Middle East also complicate the United States' efforts to shift its focus to the Indo-Pacific. For its part, Iran views China as a critical economic lifeline and diplomatic supporter against pressure from the United States. A 25-year cooperation agreement signed in March 2021 is the latest indication of the two sides' willingness to coordinate more closely.
- One factor limiting China's partnership with Iran is the Chinese government's apprehension over the prospect of armed conflict between Iran and the United States. Any conflict with Iran could destabilize the energy markets China relies on to fuel its growth. Beijing also benefits from the stabilizing effect of the U.S. military presence in the Middle East, which allows China to free-ride on the United States' regional security guarantee.
- China's growing involvement in the broader Middle East places another important limit on Sino-Iranian relations. Over the last two decades, China's deepening diplomatic, economic, and military ties with Iran's regional adversaries, such as Saudi Arabia and the United Arab Emirates (UAE), have forced China to strike a balance between its relationship with Iran and these emerging partners. Meanwhile, the Iranian regime eagerly seeks Chinese trade and investment but remains wary of becoming overly reliant on China economically.
- China has sustained its status as Iran's top economic partner despite significantly reducing economic engagement due to its partial compliance with U.S. sanctions. Nevertheless, various circumvention methods have allowed China to continue purchasing Iranian oil in violation of these sanctions. As Iran's primary oil customer, China provides an economic lifeline to the Iranian regime while deepening its leverage over the country. By also investing in Iran's energy infrastructure and regional integration, China seeks to improve its future access to Iranian energy and raw materials.
- China and Iran maintain modest defense cooperation and share intelligence, reportedly including information that led to the dismantling of much of the U.S. espionage network in both countries. China has supported Iran's cruise and ballistic missile programs for decades, including through technology likely utilized in at least one of the missile systems used in Tehran's 2020 attack on U.S. forces in Iraq. Despite Tehran's interest in procuring advanced weapons from China, Beijing may hesitate to sell the requested arms out of concern over jeopardizing relations with its Gulf partners.

Introduction

Having suffered years of diplomatic and economic isolation due to international sanctions, Iran has gradually deepened its relationship with China, which has stepped in to become a critical strategic partner for Iran. Economically, China is Iran's top trading partner, a leading energy importer, and a top investor. The two countries also have longstanding military ties, consisting of strong cooperation in the 1980s and 1990s and more modest cooperation today, with semiregular engagements such as high-level military exchanges, exercises, and port calls. Beijing and Tehran's March 2021 25-year cooperation agreement reflects their deepening relationship, which continues to grow as the two countries strengthen their coordination on issues of mutual interest.

Despite their enduring strategic partnership, Beijing has carefully calibrated the growth of bilateral ties in an attempt to balance its other interests in the region. While Tehran has touted the new 25-year cooperation agreement as a milestone in Sino-Iranian relations, Beijing has downplayed its significance. Although Beijing does not seek to completely subvert the stability provided by the United States in the Middle East, increased Sino-Iranian coordination undermines the effectiveness of important U.S. policies such as nuclear sanctions. Meanwhile, Beijing's tacit approval of proliferation activities supporting Iran's missile program puts U.S. troops in the region at continued risk.

This report examines Beijing's diplomatic and political goals for its relationship with Tehran as well as the significant geopolitical constraints on the relationship. It then assesses Chinese economic assistance to Iran, evidenced by China's role as Iran's top import and export market and a critical investor in energy and transportation infrastructure. Finally, the report analyzes Sino-Iranian defense cooperation, including limitations associated with China's desire to balance its military partnership with Iran with its other significant equities in the Middle East. The report concludes with an analysis of the China-Iran relationship's implications for the United States.

Shared Worldview Augments a Pragmatic Partnership

The Sino-Iranian relationship is rooted in pragmatic cooperation on areas of overlapping interest but has evolved in recent years into a partnership more pointedly opposed to the U.S.-led international order and hostile to universal values, such as human rights. While there has always been a clear anti-U.S. element in the relationship, this dynamic has grown in prominence as China has more assertively promoted itself as an alternative to U.S. global leadership.* Accordingly, Chinese and Iranian elites frequently criticize the U.S.-led international order, which both countries deem as unfairly "unipolar" and threatening to their interests.¹ For its part, Iran views China as one of the only world powers that has the ability to provide diplomatic protection against U.S. pressure and remembers China's support for Iran during the early days of the Islamic Republic, such as through arms transfers and energy cooperation. Beijing supplied Tehran with fighter aircraft, surface-to-air missiles, rocket launchers, tanks, and artillery during the Iran-Iraq War (1980–1988) and provided significant assistance to Iran in developing its missile and nuclear programs in the 1980s and 1990s.^{† 2} At the same time, the Chinese government has consistently been opportunistic in its engagement with the Iranian regime and has not hesitated to support Iran's regional adversaries when Beijing has deemed it in its national interest to do so.[‡]

Today, Beijing regularly takes Tehran's side in disputes with Washington. In 2019, at a time when the United States was exerting pressure on Iran for its destabilizing actions in the region, General Secretary of the Chinese Communist Party (CCP) Xi Jinping declared, "No matter how the international and regional situation changes, China's resolve to develop [a] comprehensive strategic partnership with Iran will remain unchanged."³ In the aftermath of the 2020 U.S. strike against Qasem Soleimani, commander of the Iranian Revolutionary Guard Corps' Quds Force, China's Ministry of Foreign Affairs urged "the U.S. side in particular, to remain calm and restrained and avoid further escalating the tensions" and called for the United States "not to abuse force."⁴

Despite its rhetorical support for Tehran, China is concerned that a more confrontational Iran could prompt a full-on U.S.-Iran conflict that would hamper China's access to the region's energy markets.⁵ Moreover, Beijing wants to strike a balance between its historical partner and its newer ones, such as Saudi Arabia and the UAE. Starting in the mid-1990s and accelerating after U.S.-led sanctions against Iran in the early 2000s, Beijing has been gravitating toward Arab countries in the Gulf Cooperation Council (GCC)[§] to fulfill its growing energy demands (for a map of China's strategic partnership agreements in the region, see Figure 1).⁶

* Initially, the Islamic Republic of Iran was suspicious of China. For instance, Chinese leader Hua Guofeng was one of the last foreign leaders to meet the Shah of Iran before his regime was overthrown in the Iranian Revolution of 1979. After the revolution, China extended recognition to the new state and gradually deepened ties with Iran. Both regimes found common cause in opposing what they perceived was U.S. "domination" of the international system. Scott Harold and Alireza Nader, "China and Iran: Economic, Political, and Military Relations," *RAND Corporation*, May 3, 2012, 2–5.

† Over this same period, China also provided significant assistance to Pakistan's nuclear weapons program, including blueprints for a bomb, technology and equipment, and technical support from Chinese scientists. Combined with its efforts to support Iran's nuclear program, China's proliferation activities in Pakistan raised serious concerns for U.S. policymakers. William Burr, "China, Pakistan, and the Bomb: The Declassified File on U.S. Policy, 1977–1997," *National Security Archive*, March 5, 2004. <https://nsarchive2.gwu.edu/NSAEBB/NSAEBB114/index.htm>; Tim Weiner, "U.S. and China Helped Pakistan Build Its Bomb," *New York Times*, June 1, 1998. <https://archive.nytimes.com/www.nytimes.com/library/world/asia/060198pakistan-nuke-history.html>; Congressional Research Service, "Chinese Proliferation of Weapons of Mass Destruction: Background and Analysis," September 13, 1996, 2–4.

‡ For example, China is believed to have also supplied Baghdad with weapons during the Iran-Iraq War. Richard Weitz, "China-Iraq Ties: Oil, Arms, and Influence," *Second Line of Defense*, June 25, 2012. <https://sldinfo.com/2012/06/china-iraq-ties-oil-arms-and-influence/>.

§ The GCC is a trade bloc that includes the UAE, Bahrain, Saudi Arabia, Oman, Kuwait, and Qatar. Gulf Cooperation Council, "Member States." <https://www.gcc-sg.org/en-us/AboutGCC/MemberStates/pages/Home.aspx>.

Figure 1: China's Strategic Partnerships in the Middle East



Note: Dates denote the year when the partnership agreement was signed.

Source: Jonathan Fulton, "China's Changing Role in the Middle East," *Atlantic Council*, June 5, 2018, 4.

<https://www.atlanticcouncil.org/in-depth-research-reports/report/china-s-changing-role-in-the-middle-east-2/>.

China Uses Iran to Further Its Geopolitical Ambitions

China has markedly boosted its diplomatic engagement with Iran since 2015, coinciding with the signing of the Iran nuclear deal (the Joint Comprehensive Plan of Action, or the JCPOA) and the gradual easing of international sanctions on Iran in accord with the deal. * General Secretary Xi visited Iran in 2016, becoming the second leader of a UN Security Council member to do so after the signing of the deal (Russian President Vladimir Putin was the first).⁷ China used the occasion of this visit, which was the first by a top Chinese leader since 2002, to upgrade

* Per the JCPOA between Iran and the P5+1 countries (the United States, China, France, Russia, and the United Kingdom plus Germany), Tehran agreed to limit its nuclear activities and allow international inspectors to visit its nuclear facilities in exchange for gradually lifting economic sanctions. Despite the Trump Administration's subsequent withdrawal from the agreement, it remains in force until its expiration in October 2025. The JCPOA came into effect in October 2015, and all of the signatories started taking steps to implement their commitments: the United States lifted its nuclear-related sanctions on Iran, the EU terminated some of its nuclear-related sanctions on Iran, and the UN Security Council voided all its previous resolutions targeting Iran's nuclear program. For more information on the JCPOA, see Kelsey Davenport, "The Joint Comprehensive Plan of Action (JCPOA) at a Glance," *Arms Control Association*, May 2018. <https://www.armscontrol.org/factsheets/JCPOA-at-a-glance>; U.S. Department of the Treasury, *JCPOA Implementation*, January 16, 2016. https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/jcpoa_implementation.aspx.

bilateral ties to a “comprehensive strategic partnership,” one of the highest levels in China’s partnership diplomacy.*⁸ Beijing also agreed to support Iran’s bid to join the China-centric Shanghai Cooperation Organization as a full member and pledged to deepen bilateral cooperation in various fields, such as science and technology, the judiciary, media, and investment.⁹

China has continued its diplomatic engagement with Iran since the 2018 U.S. withdrawal from the JCPOA, often using the occasion of bilateral summits to denounce the United States and signal to Washington that China has robust geopolitical influence in the Middle East. Demonstrating the two countries’ mutual opposition to Washington, Beijing and Tehran coordinated their messaging during the COVID-19 pandemic. Both regimes rejected U.S. offers of assistance and echoed the other’s accusations that the United States unfairly restricted travel to China and prevented international medical assistance from reaching Iran.¹⁰ Iranian officials and media also spread Chinese disinformation during the crisis, accusing the United States of being responsible for the virus.¹¹

In March 2021, Beijing and Tehran finalized their 25-year cooperation agreement, which had been under discussion since 2016.¹² Many details of the agreement remain undisclosed.[†] While Iran has touted the agreement as a “complete road map” for relations going forward, China has insisted that it is simply “a general framework for China-Iran cooperation.”¹³ That the agreement was signed shortly after the March 2021 U.S.-China meeting in Alaska suggests Beijing may be less interested in the specifics of the deal than in signaling to Washington that China has the capacity to work with U.S. adversaries to undermine U.S. influence in the region.

Another benefit China derives from the Sino-Iranian partnership is that Tehran’s ambitions to attain regional dominance keep the United States preoccupied on the Middle East, preventing Washington from fully focusing its military, diplomatic, and economic attention to the Indo-Pacific, a region that is much more important to China’s vital national interests.¹⁴ Chinese scholars and former officials, such as Hua Liming, former Chinese ambassador to Iran (1991–1995), have argued that Middle East conflicts like a protracted U.S.-Iran dispute hinder Washington’s commitment to the Indo-Pacific region.¹⁵ Shi Yinhong, professor of international relations at Renmin University and a top advisor to China’s State Council, similarly argues, “Washington’s deeper involvement in the Middle East is favorable to Beijing, reducing Washington’s ability to place focused attention and pressure on China.”¹⁶ Iranian military actions likewise prevent the U.S. military from focusing more on the Indo-Pacific. As Jon B. Alterman, senior vice president and director of the Middle East Program at the Center for Strategic and International Studies (CSIS), argued, “If the United States puts two carrier strike groups off the coast of Iran, and it can only have three on station at any given time, that means that the United States only has one it can dedicate to China.”¹⁷ Tehran’s

* Beijing has a multitiered system to rank its diplomatic partnerships with countries around the world, including in the Middle East. In general, the higher the partnership level, the more Beijing will engage with the country and coordinate on international and economic affairs. The highest levels of partnership in the Middle East are “comprehensive strategic partnership” and “strategic partnership.” The Chinese government counts Egypt, Iran, Saudi Arabia, and the UAE as comprehensive strategic partners. Iraq, Jordan, Kuwait, Oman, Qatar, and Turkey are strategic partners of China. Jonathan Fulton, “China’s Changing Role in the Middle East,” *Atlantic Council*, June 5, 2018, 4. <https://www.atlanticcouncil.org/in-depth-research-reports/report/china-s-changing-role-in-the-middle-east-2/>; *South China Morning Post*, “Quick Guide to China’s Diplomatic Levels,” January 20, 2016. <https://www.scmp.com/news/china/diplomacy-defence/article/1903455/quick-guide-chinas-diplomatic-levels>.

† The agreement was originally leaked to numerous media outlets in July 2020. According to a leaked draft of the agreement, the roadmap would reportedly (1) boost Chinese investment to \$400 billion in Iran’s energy, infrastructure, and telecommunications sectors; (2) guarantee long-term Chinese access to Iranian oil and gas at a steep discount; and (3) upgrade defense ties to allow Chinese access to strategic port facilities along the Sea of Oman. It is unlikely the 25-year cooperation agreement will become fully implemented. Beijing’s reported pledge to invest \$400 billion in Iran under the terms of the deal appears highly unrealistic given that cumulative Chinese investment in the country over the last 15 years has totaled only approximately \$27 billion. Chinese leaders would likely hesitate to prioritize relations with Iran over concerns about antagonizing China’s other close partners in the region, such as Saudi Arabia. Moreover, after news of the proposed deal leaked, many Iranian citizens and political opponents of Iranian President Hassan Rouhani rejected the deal on the grounds that it sold out Iran’s resources to China. Jonathan Fulton, written testimony for U.S.-China Economic and Security Review Commission, *Hearing on U.S.-China Relations in 2020: Enduring Problems and Emerging Challenges*, September 9, 2020, 3–4; Jonathan Fulton, “Iran Isn’t the Only Middle Eastern Country in a Unique Partnership with China,” *Atlantic Council*, July 15, 2020; Golnaz Esfandiari, “Explainer: Why Are Iranians Angry over a Long-Term Deal with China?” *Radio Free Europe/Radio Liberty*, July 13, 2020; *Bourse and Bazaar*, “Despite Public Outcry, Consensus Builds for China-Iran Deal,” August 11, 2020. <https://www.bourseandbazaar.com/articles/2020/8/11/despite-public-outcry-consensus-builds-for-china-iran-deal/>; Farnaz Fassihi and Steven Lee Meyers, “Defying U.S., China and Iran Near Trade and Military Partnership,” *New York Times*, July 22, 2020.

actions also put pressure on the United States to continue serving as the region's security guarantor, allowing Beijing to free-ride on the U.S. military presence.¹⁸

China's Regional Balancing Act Limits Ties with Iran

Despite the enduring strategic drivers behind the Sino-Iranian partnership, China's growing involvement in the Middle East over the last two decades and its close relationships with regional adversaries of Iran, such as Saudi Arabia and the UAE, serve as important limiting factors in bilateral relations.¹⁹ As Lindsey Ford, then director of political-security affairs at the Asia Society, argued with co-author Max Hill, Chinese strategy in the Middle East "requires China to engage in a careful geopolitical dance, working to balance its engagement with longtime strategic partners such as Iran, even as it deepens ties to newer partners, including Israel and the Gulf States."²⁰ Beijing has deepened ties with the Arab League in recent years, facilitating closer relations with the Gulf States and other Arab countries in the region that Iran opposes.* In July 2020, Beijing hosted a virtual summit of the ninth China-Arab States Cooperation Forum,[†] praising Arab countries for their support of China's global diplomatic goals, such as isolating Taiwan and building a Sinocentric "community of common human destiny."²¹

While China's partnership with Iran is handled at the ambassadorial level, the Chinese government maintains higher-level diplomatic coordination with many of Tehran's regional adversaries.²² Besides Iran, China's main partners in the Middle East are Saudi Arabia, the UAE, and Egypt.²³ In 2016, General Secretary Xi traveled to Saudi Arabia to upgrade bilateral relations to a comprehensive strategic partnership just days before doing so with Iran.²⁴ That same year, the two countries established a High Level Joint Committee responsible for deepening bilateral ties, cochaired by CCP Politburo Standing Committee member Han Zheng and Saudi Crown Prince Mohammed bin Salman.²⁵ During General Secretary Xi's 2018 visit to the UAE, Beijing and Abu Dhabi boosted ties to a comprehensive strategic partnership.²⁶ Afterward, the UAE appointed Khaldoon Al Mubarak, an advisor to the Emirati royal family, to serve as presidential envoy to China in 2018, while Beijing has designated Yang Jiechi, Politburo member and director of the CCP's Central Foreign Affairs Commission Office, as special representative to the UAE.²⁷ Cairo has been a comprehensive strategic partner of Beijing since 2014, and Egyptian President Abdel Fattah el-Sisi has visited Beijing six times since assuming power that year.²⁸ Beijing has also enhanced ties with Israel, investing in ports and railways in the country, and has become an important player in the high-tech sector, including in disruptive technologies such as autonomous and electric vehicles.[‡] ²⁹ Jerusalem, however, has recently sought to distance itself from Beijing in the technology domain. Israel and the United States have reportedly been in discussions on limiting the role of Chinese companies in Israel's 5G infrastructure.³⁰

Iran Sees China as an Important Backer against the United States

Iran sees closer ties with China as important for supporting its economic development and ensuring backing in the international community, particularly in the face of U.S. pressure. According to Jonathan Fulton, assistant professor of political science at Zayed University, there are two main factions in the Iranian regime that support strengthening

* At the 2018 China-Arab States Cooperation Forum, General Secretary Xi announced a "new phase" in relations with the establishment of a "future-oriented strategic partnership of comprehensive cooperation and common development." In addition to China's pledge of \$23 billion in loans and foreign assistance to Arab states, both sides signed a Belt and Road Initiative (BRI) action plan. In its first official *Arab Policy Paper* in 2016, Beijing indicated its desire to expand involvement in the region and offered a blueprint for increasing cooperation across the diplomatic, economic, and security realms. *Xinhua*, "China Focus: China, Arab States to Forge Strategic Partnership," July 10, 2018. http://www.xinhuanet.com/english/2018-07/10/c_137315080.htm; Laura Zhou, "China Pledges US\$23 Billion in Loans and Aid to Arab States as It Boosts Ties in Middle East," *South China Morning Post*, July 10, 2018. <https://www.scmp.com/news/china/diplomacy-defence/article/2154642/china-pledges-us23-million-loans-and-aid-arab-states-it>; *Declaration of Action on China-Arab States Cooperation under the Belt and Road Initiative*, July 10, 2018. <http://www.chinaarabcf.org/chn/lthyjwx/bzjhywj/dbjbzjhy/P020180726404036530409.pdf>; China's Ministry of Foreign Affairs, *China's Arab Policy Paper*, January 13, 2016. https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1331683.shtml.

† The China-Arab States Cooperation Forum is a biennial ministerial-level meeting held since 2004. BRICS Policy Center, "The China-Arab States Cooperation Forum (CASC)." <http://www.bricspolicycenter.org/en/forum-de-cooperacao-china-paises-arabes/>.

‡ China does not engage with Israel through its traditional partnership diplomacy; therefore, Israel is neither a strategic partner nor a comprehensive strategic partner of China. Instead, Beijing and Jerusalem have agreed to an "innovative comprehensive partnership." This unique arrangement denotes "closer exchanges among young technological personnel, and cooperation in joint labs, a global technology transfer center, innovation parks and an innovative cooperation center." *Xinhua*, "China, Israel Announce Innovative Comprehensive Partnership," March 21, 2017. http://www.xinhuanet.com/english/2017-03/21/c_136146441.htm.

relations with China. The first faction views China as a critical economic lifeline for Iran in the face of international sanctions. The second faction sees the CCP as sympathetic to Iranian ambitions to revise the current geopolitical order in the Middle East.³¹ Not all Iranians support a stronger relationship with China, however: a third faction is skeptical of China and sees Beijing as increasingly encroaching on Iranian sovereignty.³² According to a 2019 poll conducted by the University of Maryland, a majority of the Iranian public (58 percent) viewed China favorably, whereas 39 percent viewed Beijing unfavorably.³³

Although Iran has a clear interest in welcoming China's presence in the Middle East and in strengthening relations with the Chinese government, the bilateral relationship remains one-sided.³⁴ While China provides unique benefits to Iran that few states are willing to provide, the asymmetry in the relationship gives Beijing enormous economic leverage over Tehran. For instance, in 2017 China's CITIC Group provided a \$10 billion line of credit to Iran that possibly helped blunt U.S. sanctions.³⁵ Put simply by Dr. Alterman, "Iran is by far the weaker party in this bilateral relationship.... Iran clearly needs China, but China has alternatives to Iran."³⁶

Iran Supports the CCP's Human Rights Abuses in Xinjiang

Iran's leaders, like many other leaders in the Muslim world, have endorsed the CCP's human rights abuses in the Xinjiang Uyghur Autonomous Region (hereafter Xinjiang), which the United States has labeled as ongoing "genocide."³⁷ In July 2019, Iran was one of 50 signatories to a letter to the UN Human Rights Council supporting Beijing's policies in Xinjiang.³⁸ Regime-aligned media outlets also have lent support to China's actions. In July 2020, a news agency linked with the Iranian Revolutionary Guard Corps rejected international criticism of China's Xinjiang policies, stating that they amounted to "disparaging propaganda, lies and accusations" and that Beijing follows "the best policy to defend human rights."³⁹

The Iranian regime has also grown less tolerant of domestic criticism of China's policies as Iran's growing economic reliance on China has increased. When the 2009 Xinjiang riots broke out, leaving over 140 dead and hundreds injured, high-ranking Muslim clerics in Iran critical of the Iranian regime widely condemned the CCP's suppression of Uyghurs, calling it "inhumane and harsh."⁴⁰ In contrast, recent Iranian public criticism of China's policies in Xinjiang has been met with widespread pushback from the government and regime-aligned media. For example, after former member of parliament Ali Motahari expressed support for the Uyghurs in August 2020, figures aligned with the Iranian regime justified Beijing's mass internment of the Uyghurs by claiming the Chinese government is battling "a hardline brand of Saudi-backed Islam" in Xinjiang.⁴¹ In a further rebuke, in response to Mr. Motahari's expressed support for the Uyghurs, conservative lawmaker Mahmoud Ahmadi Bighash disparaged Mr. Motahari as "mentally impaired."⁴²

Minimizing U.S. Influence in Afghanistan

China and Iran are aligned in their desire to undermine U.S. influence in Afghanistan, and both have taken steps that counteract U.S. interests in promoting good governance and democracy in the country, although there is little evidence of direct coordination. Beijing and Tehran also seek to bring about a withdrawal of all U.S. military forces from Afghanistan, viewing the presence of U.S. troops as threatening to their national security interests.⁴³ For instance, in December 2020 Axios reported U.S. intelligence claims that China had offered payments to nonstate actors to attack U.S. soldiers based in Afghanistan.⁴⁴ Beijing has also allegedly turned a blind eye to illicit weapons transfers to the Taliban. In 2007, U.S. officials accused China of selling Iran weapons, including HN-5 anti-aircraft missiles, which Tehran then passed on to the Taliban.⁴⁵ It is unclear whether China was aware of the diversion of the missiles.

Beijing and Tehran are agnostic to the future governance system in Afghanistan and maintain positive relations with the leaders of the Taliban insurgency and the Afghan government to ensure they both retain influence in Afghanistan after the United States withdraws from the country.⁴⁶ China and Iran, along with Russia, have held peace talks between the Taliban and Afghan government separate from those sponsored by the United States. The United States has participated in some of these talks, such as those held in 2018.⁴⁷ Russia also hosted similar talks in 2021, with China, the United States, and Pakistan participating.⁴⁸ The Chinese government's objectives for engaging in these talks include ensuring the protection of China's economic interests in Afghanistan and blocking

any potential support from Afghan militant groups for the Uyghurs living in China's Xinjiang region, regardless of the outcome of the Taliban insurgency.⁴⁹

China's Economic Leverage

Sino-Iranian economic relations demonstrate a stark power asymmetry as China exploits Iran's economic vulnerability following years of crippling sanctions. Over the last decade, trade with China has provided an economic lifeline to the Iranian regime. This affords China significant leverage in the relationship, which continues to deepen as China diversifies its economic engagement to include investment in critical Iranian industries such as energy, mining, and transportation. At the same time, China's ability to engage economically with Iran is constrained by international sanctions and by its partnerships with the Gulf states, which have significant economic appeal for China and generally contentious ties with Iran.

China Pursues Long-Term Returns, but Hedges on Near-Term Risks

China's economic interests in Iran include access to oil and other raw materials as well as development of a key Belt and Road Initiative (BRI) node. While Chinese engagement with Iran is significantly constrained by sanctions, in testimony before the Commission, Dr. Fulton argued that China maintains ties with Iran in the hopes it will gain greater access to strategic resources such as energy and raw materials if a revived nuclear deal normalizes Iran's relations with the global economy.⁵⁰ In investing in Iran as a "distressed asset," China anticipates future returns, including secure unrestricted access to the fourth-largest oil reserves and second-largest natural gas reserves in the world. Those returns also include access to a potentially lucrative export market and investment partner given Iran's population of 85 million and relatively diversified economy.⁵¹ Iran's geographic location at the confluence of the Middle East, Central and South Asia, and along the Strait of Hormuz, one of the world's most important oil shipping routes, further enhances its economic and geostrategic value to China.⁵²

Official statements from the Chinese government have set ambitious targets for increasing trade and investment with Iran, though the practical results have been more modest. In the recently signed 25-year cooperation agreement, China's government promised to increase investment in Iran by \$400 billion in sectors such as transportation, ports, and telecommunications in return for discounted oil.⁵³ During his 2016 visit to Tehran, General Secretary Xi announced Beijing's goal to increase bilateral trade to \$600 billion by 2026.⁵⁴ During the visit, the two sides also signed a memorandum of understanding (MOU) on BRI cooperation (for a list of select Chinese projects announced in Iran since the inception of BRI in 2013 see Appendix).⁵⁵ Although Chinese trade and investment in Iran have grown over time, they remain far below their stated goals, as bilateral trade in 2020 stood at just \$14.9 billion and foreign direct investment (FDI) stock in 2019 amounted to just over \$3 billion.⁵⁶

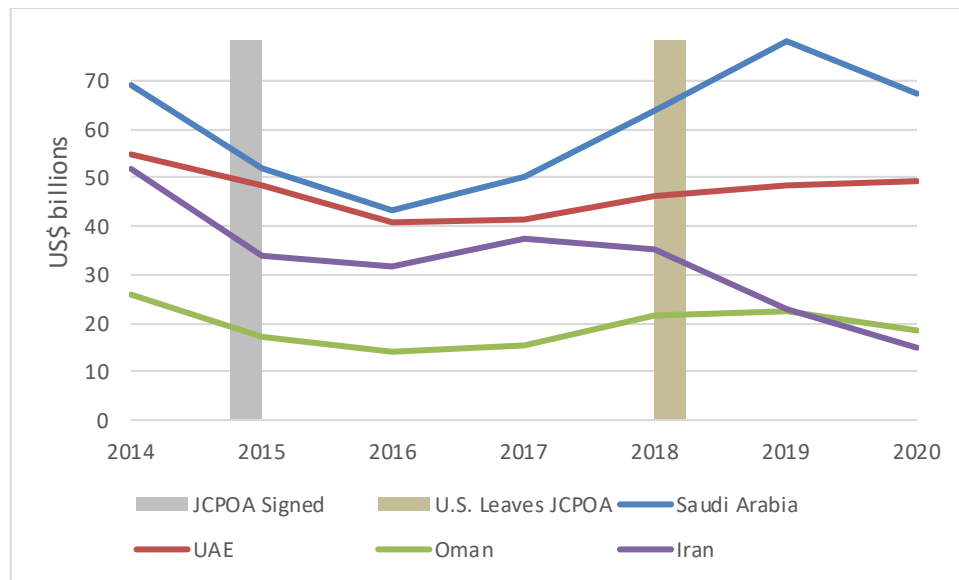
Over the last two decades, China has stepped in as an increasingly important economic partner for Iran as sanctions caused European and U.S. companies to retreat from the country. Prior to their retreat from the Iranian market, European companies had an economic foothold in the country; however, China supplanted Europe as Iran's largest supplier of industrial components and manufacturing machinery by 2008.⁵⁷ China-Iran annual trade between 2003 and 2014 increased more than ninefold from \$5.6 billion to \$51.8 billion, an all-time high, before declining after other countries entered the Iranian market through the JCPOA.⁵⁸ Compared to the steady expansion of Sino-Iranian commercial ties, trade between Iran and the EU decreased by 55 percent over the same period.⁵⁹ Chinese investment in Iran has also expanded, and Chinese FDI stock, which measures the total value of foreign investment rather than flows at a given point in time, increased by 541 percent from \$468 million in 2004 to \$3 billion in 2019, with investments concentrated primarily in the energy and raw materials sectors.⁶⁰

Although Beijing has signaled that it intends to sustain or even deepen economic ties with Iran, its willingness to do so is constrained by international sanctions as well as its comparatively greater ambitions within the Gulf, where it is currently negotiating a free trade agreement with the GCC economic union.⁶¹ As of 2020, China-Iran trade

* Prior to the reimposition of sanctions in 2018, Iran maintained a consistent trade deficit with China. This trend reversed in 2018, and as of 2020 Iran's trade surplus with China stood at \$76 million with China importing \$733 million worth of Iranian goods and services and Iran importing \$657 million worth of Chinese goods and services. China General Administration of Customs via CEIC Database.

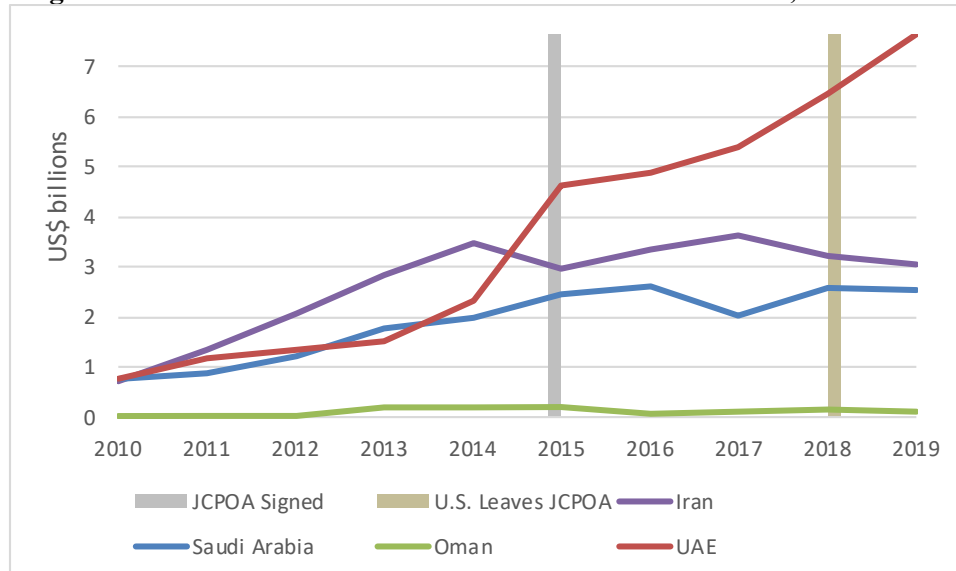
stood at \$14.9 billion, while China’s trade with Saudi Arabia and the UAE was valued at \$67.2 billion and \$49.3 billion, respectively (see Figure 2).⁶² China’s top import from each of these countries is oil—Saudi Arabia and the UAE are able to export large quantities to help meet China’s enormous demand for energy, while sanctions prevent Iran from doing so. Growth rates for Chinese FDI stock in Iran vis-à-vis GCC countries paint a similar picture. Between 2010 and 2019, Chinese FDI stock in Iran grew by 327 percent, while the average increase in FDI stock across GCC countries was 1,941 percent (see Figure 3).⁶³ Trends in Chinese FDI also signal that despite signing on to the BRI, Iran has been outcompeted by GCC countries for Chinese investment and contracts in both transportation and energy infrastructure.⁶⁴

Figure 2: China’s Trade with Select Middle East Countries, 2014–2020



Source: China General Administration of Customs via CEIC Database.

Figure 3: China’s FDI Stock in Select Middle East Countries, 2010–2019



Note: In the 2010–2019 period, Chinese FDI stock in Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the UAE grew by 8,031, 1,540, 496, 451, 232, and 899 percent, respectively.

Source: China Ministry of Commerce via CEIC Database.

Iran Seeks Foreign Capital

As Iran grew increasingly isolated under economic sanctions, China became the country's top import and export market.⁶⁵ China imports mostly crude oil from Iran, while Iran imports valued-added manufactured goods, such as machinery and industrial equipment, from China.⁶⁶ Iran's extractive sectors fuel its economy and provide the foreign exchange it needs to import critical supplies from abroad. These sectors are also significant recipients of FDI, with China and Russia traditionally dominating foreign investment in the energy sector.⁶⁷ China topped the list of countries announcing greenfield investments* in Iran between 2003 and September 2020 with 21 greenfield FDI projects, followed by Germany with 18 and Russia with 15.⁶⁸

Due to the reimposition of U.S. sanctions in 2018, however, very few of the projects have been realized, and only three new projects were announced between 2019 and September 2020.⁶⁹ Following the reimposition of U.S. sanctions, Iran witnessed a steady decline in global FDI inflows, which peaked in 2017 at \$5 billion but fell 70 percent to just \$1.5 billion in 2019.⁷⁰ By this time, China accounted for just 5 percent of Iran's inward FDI stock from a high of 8 percent in 2014, and in recent years it has registered net divestment of Iranian assets in line with the overall trend in declining FDI flows to Iran.⁷¹ Simply put, China's 2016 goals to expand investment in Iran have thus far fallen short, casting doubt that China will fulfill its commitment to fund \$400 billion in new investments under the newly signed 25-year cooperation agreement.

Due to the expiration of U.S. sanctions waivers and the collapse of oil prices amid the COVID-19 pandemic in 2020, Iran only recently began running a current account deficit, which has precipitated its need for foreign capital.⁷² According to the AidData research lab at William & Mary, which collects aid and development assistance data, China provided approximately \$32 billion in loans to Iran between 2000 and 2014.⁷³ Headline deals such as the 2017 CITIC Group \$10 billion credit line contribute to the perception that China is readily providing loans to Iran; however, China does not report its official lending and sparse data are available to confirm the total amount of Chinese lending to Iran since 2014. Independent analysis, such as the AidData database, tracks Chinese loans by triangulating open source information, but there is no complete accounting of Chinese loans to Iran.⁷⁴ Official reporting from Iran's government indicates that after years of isolation from global trade and financial networks, Iran has minimized its reliance on foreign financing by maintaining a current account surplus fueled by oil exports primarily to Asia.⁷⁵ It also prefers to finance its deepening fiscal deficit by issuing domestic bonds.⁷⁶ According to the Iranian Central Bank, as of March 2020 Iran's aggregate external debt stood at \$9.1 billion or just 1.44 percent of gross domestic product (GDP).^{† 77} In other words, although Iran does not disaggregate its reporting of external debt by country, the small size of Iran's aggregate external debt suggests it is not overly reliant on financing from China or any other external creditor.[‡]

* Greenfield investments refer to a type of FDI in which a parent company establishes a subsidiary business in a foreign country. This type of investment involves building a new base of operations from the ground up. James Chen, "Green-Field Investment," *Investopedia*, July 25, 2020. <https://www.investopedia.com/terms/g/greenfield.asp>.

† Between 2016 and 2017, Korea's Export Import Bank and Japan's Bank for International Cooperation with Nippon Export and Investment Insurance reportedly signed agreements to provide Iran \$9.4 billion and \$10 billion lines of credit, respectively. As evidenced by Iran's small external debt obligations, it is likely these loans never materialized due to the reimposition of U.S. sanctions on Iran. *Financial Tribune*, "Framework Agreement Signed for S. Korean Finance," August 25, 2017. <https://financialtribune.com/articles/economy-business-and-markets/71089/framework-agreement-signed-for-s-korean-finance>; *Japan Times*, "Tehran Open to Japanese Investment, Happy with \$10 Billion Credit Line, Deputy Foreign Minister Says," September 4, 2016. <https://www.japantimes.co.jp/news/2016/09/04/national/politics-diplomacy/tehran-open-japanese-investment-happy-10-billion-credit-line-deputy-foreign-minister-says/>.

‡ In compliance with sanctions, Chinese banks may currently hold up to \$20 billion in frozen Iranian assets, although this is denied by the Iranian Foreign Ministry. According to a report by Reuters, Iranian sources estimate Iran has a total of \$40 billion in frozen assets around the world, with South Korea, Iraq, Japan, and Luxemburg holding approximately \$7, \$6, \$1.5, and \$1.6 billion, respectively. <https://www.reuters.com/article/us-iran-oil-revenues-factbox/factbox-countries-where-iranian-oil-and-gas-revenues-are-blocked-idUSKBN29A1PB>; Maysam Behraves, "Partnership, Chinese Style: Iran's Risky Reliance on China," *Inside Arabia*, October 26, 2020. <https://insidearabia.com/partnership-chinese-style-irans-risky-reliance-on-china/>.

U.S. Sanctions Constrain China-Iran Economic Ties

In continuing to purchase Iranian oil, Chinese companies knowingly violate U.S. sanctions on Iran and continue to support the Iranian regime.* Despite the expiration of China's temporary sanctions waiver in April 2019, many observers assert that China continues to import substantial amounts of Iranian oil through various obfuscation and sanctions circumvention methods (see Figure 4).⁷⁸ These methods include using third countries' tankers to deliver the oil to its final destination and stockpiling the oil deliveries at Chinese ports in "bonded storage" to avoid processing them through Chinese Customs.⁷⁹ Iran's central bank has also adopted the renminbi (RMB) as its main foreign reserve currency as China continues to pay for oil in RMB.⁸⁰

According to data published by Refinitiv, Chinese "unofficial" purchases of Iranian oil with falsified identification from countries like Malaysia, the UAE, and Oman have significantly increased since late 2020 due to expectations that the Biden Administration would ease sanctions on Iran.⁸¹ Official Chinese import data paint a different picture.[†] According to official Chinese data, Chinese purchases of Iranian oil began significantly declining in 2019, suggesting Beijing was calibrating its sanctions compliance to avoid triggering penalties from Washington, including losing access to the U.S. financial system.[‡]⁸² China's 2020 official imports of Iranian oil averaged just \$118 million per month versus \$589 million per month in 2019—a decline of 82 percent year-on-year.⁸³

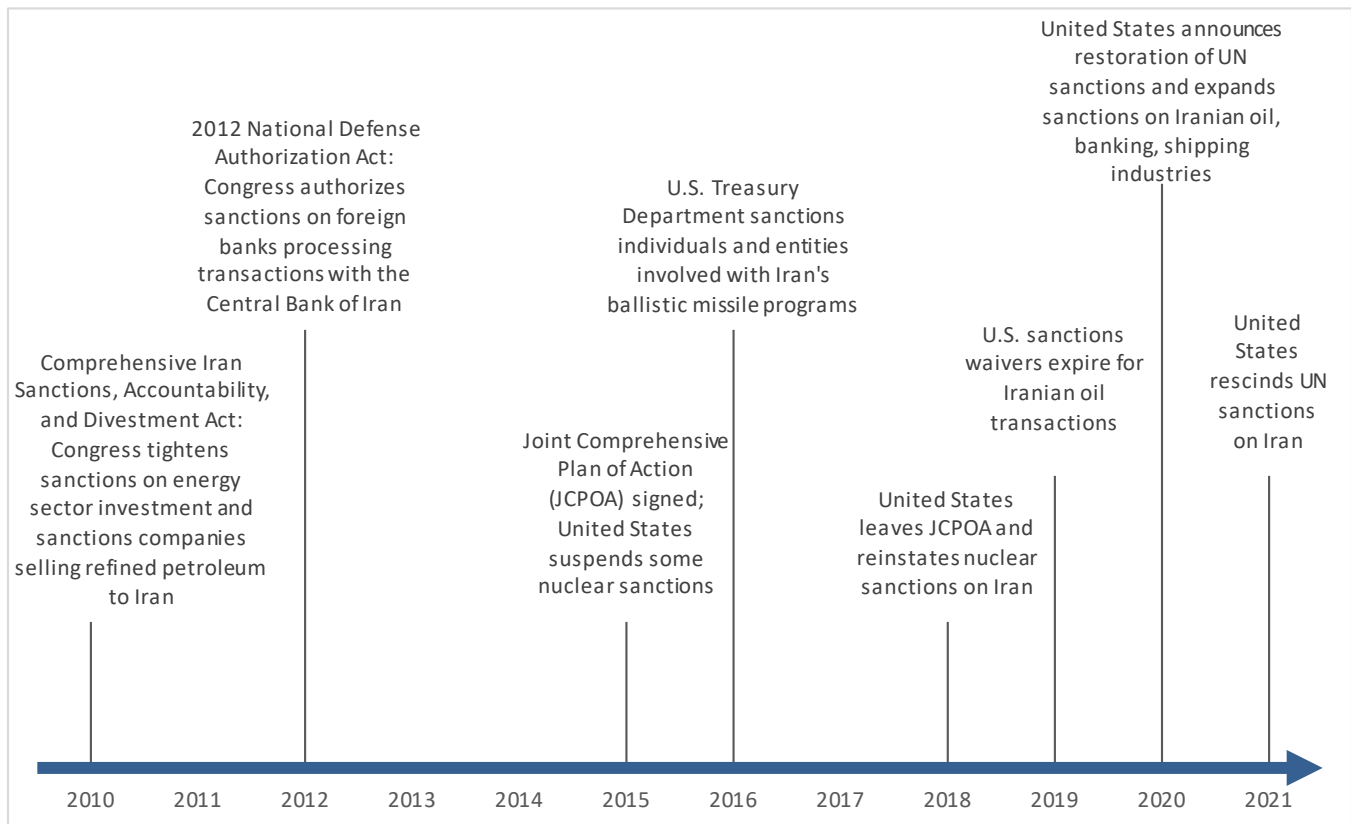
U.S. sanctions and the broader pressure campaign on Iran have also had an impact on China's commercial interests, prompting prominent Chinese technology firms, among other businesses, to withdraw their operations from Iran.⁸⁴ In March 2019, Chinese telecommunications firm Huawei reportedly laid off most of its 250 staff in Iran.⁸⁵ Huawei and its chief financial officer, Meng Wanzhou, daughter of company founder and CEO Ren Zhengfei, already face charges brought by the U.S. government in late 2018 for violating U.S. sanctions on Iran by allegedly obtaining prohibited U.S. technology for Huawei's Iran-based business and moving money out of Iran.⁸⁶ In addition, in 2019 Chinese computer manufacturer Lenovo prohibited its distributors from selling to the Iranian market.⁸⁷ Reflecting firm-level decisions to leave the country, Chinese FDI to Iran registered capital outflows of over \$990 million between 2017 and 2019.⁸⁸

* In its dealings with Iran, China primarily violates U.S. secondary sanctions, which are sanctions that apply to non-U.S. firms, individuals, and financial institutions that engage with Iran. For example, when a Chinese company does business with a sanctioned Iranian individual, firm, or industry such as the energy, petroleum, or shipping industry, such actions constitute a violation of secondary sanctions. U.S. sanctions also directly target purchases of Iranian oil, although purchasers were given 180-day waivers on oil purchases that were not extended. The sanctions also prohibit foreign exchange transactions subject to U.S. jurisdiction, which include transactions using the U.S. dollar or U.S. financial system. Latham & Watkins, "Top 10 Things to Know about Expanded U.S. Sanctions on Iran," November 6, 2018. <https://www.lw.com/thoughtLeadership/lw-top-10-things-to-know-expanded-us-sanctions-iran>; Rick Gladstone, "Iran Sanctions Explained: U.S. Goals, and the View from Tehran," *New York Times*, November 5, 2018. <https://www.nytimes.com/2018/11/05/world/middleeast/iran-sanctions-explained.html>; *Voice of America News*, "US Ending Iranian Oil Sanctions Waivers," May 2, 2019. <https://www.voanews.com/usa/us-ending-iranian-oil-sanctions-waivers>.

† Foreign economists, investors, and analysts remain skeptical about the reliability of China's economic data. Discrepancies between U.S. and Chinese trade data have been primarily attributed to differences in the reported value of goods as well as different origin and destination labels for goods that are transshipped through third locations like Hong Kong or Taiwan. For more on the reliability of Chinese data, see U.S. Congressional Research Service, "What's the Difference?—Comparing U.S. and Chinese Trade Data," May 20, 2020. <https://crsreports.congress.gov/product/pdf/RS/RS22640>.

‡ After the Trump Administration reimposed sanctions on Iran's oil sector in November 2018, it provided a temporary sanctions waiver to China and seven other major oil importers from Iran in a move to help stabilize global oil prices. The others that received 180-day temporary waivers were Greece, India, Italy, Japan, South Korea, Taiwan, and Turkey. Scott Neuman and Bill Chappell, "U.S. Renews Sanctions on Iran but Exempts 8 Oil Importers, Including China and Japan," *NPR*, November 5, 2018. <https://www.npr.org/2018/11/05/664275967/new-u-s-sanctions-against-iran-go-into-effect>.

Figure 4: U.S. Sanctions on Iran, 2010–2021



Source: Arms Control Association, “Timeline of Nuclear Diplomacy with Iran,” May 2021.

<https://www.armscontrol.org/factsheets/Timeline-of-Nuclear-Diplomacy-With-Iran>; Edith M. Lederer, “Biden Withdraws Trump’s Restoration of UN Sanctions on Iran,” *Associated Press*, February 18, 2021. <https://apnews.com/article/joe-biden-donald-trump-iran-united-states-united-nations-aa8f38fa3bf7de3c09a469ec91664a3c>.

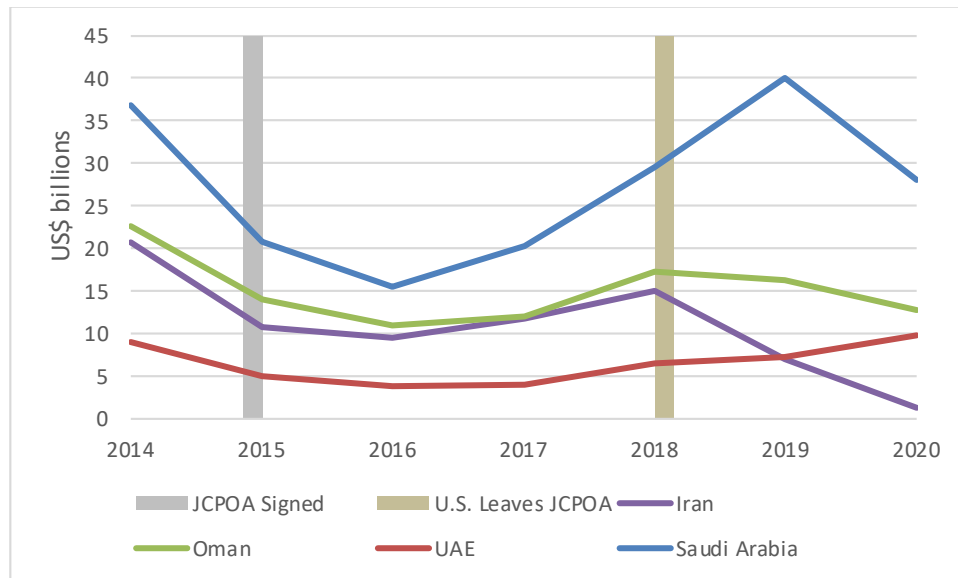
China Seeks Access to Iranian Oil and Other Natural Resources

Chinese engagement with the Iranian energy and mining sectors is intended to support China’s growing energy demand, with China predicted to reach peak demand for oil, coal, and natural gas in 2025, 2035, and 2040, respectively.⁸⁹ Due to mounting international sanctions, Iran has become increasingly dependent on trade with China and has offered attractive rebates on crude oil purchases reportedly reaching \$1 per barrel.*⁹⁰ Iranian discounts on propane also reportedly undercut Saudi prices by as much as 16 percent.⁹¹

Although China wants to reduce its reliance on Middle Eastern oil, its rapidly growing demand for energy means it is a top oil and gas customer for both Iran and its Arab competitors. When U.S. sanctions waivers expired in 2019, China rebalanced its official energy imports to the Gulf states. In 2014, Iran was ranked as China’s sixth-largest oil supplier behind Saudi Arabia, Angola, Russia, Oman, and Iraq.⁹² By 2020, however, China’s official oil imports from Iran had decreased 94 percent, while imports from Qatar, Kuwait, and the UAE increased by 651 percent, 18 percent, and 8 percent, respectively (see Figure 5).⁹³ Official statistics indicate Iran is no longer among China’s top ten oil suppliers.⁹⁴ Refinitiv’s research suggests, however, that total Chinese imports of Iranian oil, including illicit or “unofficial” imports, reached 3.75 million tons during the month of March 2021—a significant increase above official figures.⁹⁵

* India and South Korea are also reported to be major importers of Iranian crude oil that have benefited from crude oil rebates. At the time such rebates were reported, the average price for a barrel of crude oil was \$41.74. This amounted to a discount of approximately 2 percent, which would result in significant savings across the bulk of oil purchases. Market Watch, “WTI Crude Dec 2020,” November 19, 2020. <https://www.marketwatch.com/investing/future/wbsz20?countrycode=uk>.

Figure 5: China's Aggregate Official Annual Oil Purchases from Select Middle East Countries, 2014–2020



Note: Chinese purchases of Saudi Arabian oil peaked in 2019 and declined in 2020 due to the COVID-19 pandemic. Qatar and Kuwait, which for consistency are not included in this graph, increased their oil exports to China by 651 and 18 percent, respectively, over the six-year period.

Source: China General Administration of Customs via CEIC Database.

According to Iranian Oil Minister Bijan Zanganeh, as of 2017 Iran's oil and gas sector required between \$130 billion and \$150 billion in foreign investment to maintain existing resources and bring online new reserves.⁹⁶ Despite this, Iran's 2019 total inward FDI stock stood at only \$57 billion, or less than half of the foreign capital needed for these investments alone.⁹⁷ In a 2017 meeting with Chinese visiting officials, Minister Zanganeh expressed Iran's desire for Chinese investment, saying he hoped to "witness investment of Chinese private investors in Iran besides [sic] enhanced level of trade between the two countries."⁹⁸

Despite Iran's aspirations, China's investment in the Iranian energy sector is modest. In 2019, state-owned China National Petroleum Corporation (CNPC) exited the \$5 billion South Pars natural gas development project, which would have been the largest Chinese investment project in Iran to date, due to U.S. sanctions.⁹⁹ CNPC had taken control over the project when French oil giant Total exited in late 2018 after being unable to secure a sanctions waiver, but later left the project for the same reasons.¹⁰⁰ China's other major upstream projects have also faced significant delays, the longest being the Yadavaran oilfield project, which took nearly nine years to bring online.¹⁰¹ China's Petroleum and Chemical Company (Sinopec) was expected to develop the second phase of the project. Work has been stalled since 2016, however, due to disagreements between Sinopec and the National Iranian Oil Company.¹⁰² In addition, CNPC's \$2.5 billion investment in the first phase of the South Azadegan oilfield in 2009 was canceled five years later in 2014, with the Iranian Ministry of Petroleum blaming the Chinese firm's "lack of commitment" and failure to abide by the timetable established in the agreement with its Iranian partners.¹⁰³

Chinese companies are also invested in Iranian aluminum, steel, gold, and copper industries aimed at ensuring a secure supply for critical industries like advanced manufacturing. State-owned China Nonferrous Metal Industry's Foreign Engineering and Construction Co. (NFC) has been active in developing Iran's aluminum mining industry and, starting around 2011, provided approximately \$45.7 million worth of equipment, or 40 percent of the total necessary to establish an aluminum refinery at Jajarm, located in northeastern Iran.¹⁰⁴ Information gleaned from documents related to the project, supported by comments from one Iranian official, indicate the Islamic Revolutionary Guard Corps has since used the refinery to produce aluminum powder to support its missile

* Despite China's public withdrawal from the South Pars project, unnamed sources within the Iranian oil industry suggest China has continued to perform work on the project through shell companies that operate on a "contract-only" basis for individual project components. Simon Watkins, "China and Iran Start Drilling in This Super Giant Gas Field," *Oil Price*, December 21, 2020. <https://oilprice.com/Energy/Natural-Gas/China-And-Iran-Start-Drilling-In-This-Super-Giant-Gas-Field.html>.

program.¹⁰⁵ China's NFC also provided 85 percent of the financing for the \$1.2 billion Iranian South Aluminum Company (SALCO) aluminum refinery in the Lamerd Special Economic Zone, which came online in April 2020.¹⁰⁶ While public information has not implicated SALCO's involvement in Iran's military program, Iran's use of the Jajarm aluminum refinery for military purposes demonstrates that China's continued investment in "civilian" mining projects may indirectly support Iran's long-term military ambitions.

China Finances Iranian Transport Infrastructure to Drive Regional Integration

Iran's location at the crossroads between Central Asia, the Middle East, and Europe makes it an important regional hub. With an eye toward improving BRI integration, China has invested in surface transportation infrastructure to improve Iran's domestic and international connectivity.¹⁰⁷ The China-Central Asia-West Asia Economic Corridor—a BRI section—passes through Iran on its way to Europe and connects the country to China through Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan, and Tajikistan.*¹⁰⁸ The corridor leverages both existing and newly built freight lines between the countries, with at least \$2 billion in Chinese investment and contracts thus far devoted to integrating the region's transport networks.¹⁰⁹ Beijing intends to develop regional connectivity to improve market delivery for Chinese goods while improving resource security for key regional exports like oil, gas, and minerals.¹¹⁰ Building upon existing Central Asian freight rail connections, in 2018 China reportedly inaugurated two new connections between Inner Mongolia to Iranian cities (Tehran and Bam), with the lines cutting transit time by at least 20 days compared with the sea alternatives.[†]¹¹¹

Although Iran represents an important node within BRI, China has invested far more into projects in the Gulf and neighboring Pakistan. Saudi Arabia, the UAE, Oman, and Egypt are critical components of the Maritime Silk Road, which the Chinese government hopes will link the Gulf to the Arabian, Red, and Mediterranean seas.¹¹² Pakistan has also emerged as a key BRI partner within the China-Pakistan Economic Corridor and diverts BRI projects from Iran as it provides a direct route to the Indian Ocean from Western China, whereas routes through Iran are contingent upon multistakeholder linkages in Central Asia. According to data from the China Global Investment Tracker at AEI, since BRI was announced in 2013, Iran has only received \$12 billion in Chinese investment and contracts, while the GCC and Pakistan received \$69 billion and \$49 billion, respectively.¹¹³

Nevertheless, Beijing has supported infrastructure development within Iran by helping to fund and construct national lines that integrate the country's hinterland with wider regional networks. In 2018, China National Machinery Industry Corp., known as Sinomach, signed a \$845 million contract to build a railway connecting Iran's western cities of Hamedan and Sanandaj with Tehran, which is expected to be completed in 2022.¹¹⁴ This line will connect to a planned route linking Xinjiang's capital Urumqi with Tehran, which will make this route one month faster than traveling by sea.¹¹⁵ Additionally, China reportedly provided \$1.9 billion in credit to support China Railway Group Limited's construction of a high-speed railway from Tehran to the Iranian province of Isfahan, with completion expected in 2021.¹¹⁶ Although Chinese construction firms have performed the majority of work on these projects, Iran benefits from much-needed infrastructure. According to a 2019 World Bank model estimating the GDP and welfare benefits of BRI transportation infrastructure, such investments may increase Iran's GDP and welfare by as much as 6.18 and 5.34 percent, respectively.¹¹⁷

A Historic but Constrained Military Relationship

* The corridor crosses five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan) and 17 countries and regions in the Middle East (including Iran, Saudi Arabia, and Turkey) before connecting with existing rail networks that reach Europe. Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan also belong to the Shanghai Cooperation Organization, which may enhance their cooperation to implement multistakeholder investments to enhance regional connectivity. Nadège Rolland, "China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative," *National Bureau of Asian Research*, May 23, 2017, 81–85; *Xinhua*, "Backgrounder: Economic Corridors under Belt and Road Initiative," May 9, 2017. http://www.xinhuanet.com/english/2017-05/09/c_136268314.htm; PricewaterhouseCoopers, "Repaving the Ancient Silk Routes," June 2017. <https://www.pwc.com/ee/et/publications/pub/pwc-gmc-repaving-the-ancient-silk-routes-web-full.pdf>; Jennifer Philip, "China's Belt and Road Initiative," *Borgen Project*, May 25, 2019. <https://borgenproject.org/tag/the-china-central-asia-west-asia-corridor/>.

† Chinese state media has not yet indicated route details for these new freight lines. *Xinhua*, "New Cargo Route Links Inner Mongolia, Iran," September 4, 2018. http://www.xinhuanet.com/english/2018-09/04/c_137444535.htm.

China and Iran maintain a longstanding defense relationship consisting of semiregular high-level exchanges, combined exercises, and port calls as well as a history of robust cooperation during the 1980s to the 1990s. China was an early supporter of Iran's nuclear program, and continues to allow Chinese state-owned enterprises and private individuals to proliferate technology that Iran has used to improve the accuracy, range, and lethality of its ballistic missiles.¹¹⁸ Iran has an interest in expanding defense ties with China by acquiring advanced Chinese arms to make up for its inferiority in conventional weapons capabilities relative to its regional rivals.¹¹⁹ Tehran also would like to strengthen defense ties with Beijing to signal to the United States that the Iranian regime is not completely isolated. For China, increasing defense ties with Iran may increase pressure on the United States in a calibrated way while potentially keeping Washington distracted in the Middle East. Nevertheless, China-Iran defense ties are limited by Beijing's desire to avoid antagonizing its other partners in the region, such as Saudi Arabia and the UAE.¹²⁰ For this reason, Beijing is likely to be wary of selling Tehran large numbers of advanced weapons as doing so would risk destabilizing the region and put China's economic and diplomatic interests at risk.¹²¹ Selling Iran such arms would also violate U.S. sanctions, a factor Beijing is likely to consider before any potential arms sales.

China Proliferates Dangerous Weapons and Technology to Iran

Although China announced the end of all official missile and nuclear assistance to Iran in the late 1990s after growing international scrutiny on Iran, it has not cracked down on state-owned and nonstate Chinese proliferators that aid Iran's cruise and ballistic missile programs in violation of U.S. and UN sanctions.*¹²² In 2017, the U.S. Department of the Treasury sanctioned Chinese state-owned company Wuhan Sanjiang Export and Import Co. Ltd. for selling technologies to an entity under Iran's Ministry of Defense and Armed Forces Logistics.¹²³ In 2020, the U.S. Department of State sanctioned the company for supporting Iran's missile program in violation of the Iran, North Korea, and Syria Nonproliferation Act.¹²⁴ The Chinese government also has turned a blind eye to the proliferation of technologies that according to the U.S. Department of Justice, "could be used in the production of weapons of mass destruction and/or devices used to deliver weapons of mass destruction."¹²⁵ Such proliferation activities have strengthened Iran's missile capabilities and increased the risk to nearby U.S. military bases, illustrated most graphically by Iran's 2020 ballistic missile attack on U.S. forces in Iraq. At least one of the missile systems Tehran claimed to have used in the attack is very likely to have been developed with Chinese ballistic missile technology.[†]¹²⁶

China has spurned requests from the United States to halt the proliferation activities of Chinese entities and individuals, some of whom have proliferated advanced technology for years. Tim Morrison, then senior director for weapons of mass destruction at the National Security Council, stated in May 2019 that serial Chinese proliferator Li Fangwei (or Karl Lee) has "contributed to Iran's development of more advanced missiles with improved accuracy, range, and lethality" since at least 2006.¹²⁷ Mr. Li remains at large today, despite the U.S. Federal Bureau of Investigation placing a \$5 million bounty on him.¹²⁸ Beijing registered its opposition to U.S. moves to enforce sanctions on Mr. Li in 2014, stating, "China resolutely opposes the U.S. citing domestic laws to unilaterally impose sanctions on Chinese companies or individuals."¹²⁹ Although the degree of cooperation between the Chinese government and Mr. Li is unknown, according to *Newsweek*, he is "virtually irreplaceable to both Beijing and Tehran" due to his connections in Iran and the fact that he has been able to operate freely in China.¹³⁰ Over the last two decades, the U.S. government has sanctioned other Chinese individuals and entities repeatedly for violating

* In February 2020, then Secretary of State Michael R. Pompeo announced U.S. sanctions on five Chinese entities and individuals for supporting Iran's missile program. This followed U.S. sanctions on serial Chinese proliferator Li Fangwei and other individuals for their continued transfer of barred dual-use technology and equipment to Iran. Michael R. Pompeo, *New Sanctions under the Iran, North Korea, and Syria Nonproliferation Act (INKSNA)*, February 25, 2020. <https://2017-2021.state.gov/new-sanctions-under-the-iran-north-korea-and-syria-nonproliferation-act-inksna/index.html>; *Federal Register*, "Imposition of Nonproliferation Measures against Foreign Persons, Including a Ban on U.S. Government Procurement," May 22, 2019. <https://www.federalregister.gov/documents/2019/05/22/2019-10664/imposition-of-nonproliferation-measures-against-foreign-persons-including-a-ban-on-us-government>.

† Iran claimed to use the Qiam-1 and Fateh-313 missiles in the January 2020 attack. In 2006, the Treasury Department accused Great Wall Industry, a Chinese firm, of aiding in the development of the Fateh system. Sebastien Roblin, "Meet the Qiam Missile Iran Used to Blast a U.S. Airbase," *National Interest*, January 11, 2020. <https://nationalinterest.org/blog/buzz/meet-qiam-missile-iran-used-blast-us-airbase-112911>; Anthony H. Cordesman, "Iran's Rocket and Missile Forces and Strategic Options," October 7, 2014, 72–73. https://csis-website-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/141007_Iran_Rocket_Missile_forces.pdf.

sanctions on transferring sensitive dual-use technologies such as metals, fibers, and composite materials to Iran, mostly to support Iran's ballistic missile program.¹³¹

Iran Seeks Chinese Assistance to Compensate for Its Conventional Warfare Deficit

Iran views procuring Chinese advanced weapons as key to compensating for its conventional warfare deficit in the region. Since the JCPOA was agreed upon, high-level Iranian military officers have reportedly expressed interest in buying Chinese fighter jets, and their repeated visits to Chinese naval bases and inspections of various naval equipment suggest broad interest in Chinese ships and other systems.¹³² According to a senior U.S. intelligence official, Iran will seek to buy fighter jets and tanks from both China and Russia in the wake of the October 2020 expiration of the UN arms embargo on Iran.*¹³³ In August 2019, the director of Iran's Aviation Industries Organization reportedly claimed that China and Russia have both proposed fighter sales to Iran (Tehran has a particular interest in China's third-generation J-10B).¹³⁴ Farzin Nadimi, associate fellow at the Washington Institute, assesses Iran could pursue the purchase of various Chinese systems that would improve its anti-access/area denial capabilities and fill other gaps, including fighter jets, frigates, submarines, antiship missiles, and tanks.¹³⁵

Despite Iran's interest in procuring defense equipment from China, potential Chinese weapons sales to Iran would be limited by the Chinese government's desire to avoid unnecessarily aggravating its other partners in the region and violating U.S. sanctions. Saudi Arabia and the UAE buy substantial quantities of Chinese weapons systems, such as unmanned aerial vehicles (UAVs), and selling Iran arms would almost certainly face strong opposition from these important Chinese partners.† Beijing is also likely to factor in Washington's response to any arms sales to Iran as they would violate the September 2020 U.S. Executive Order 13949, which prohibits any entity from selling arms to Iran and punishes such behavior by blocking offending entities' access to U.S. property and assets.¹³⁶ U.S. sanctions on Iran's banking system pose another obstacle to any Chinese arms sales to Iran as the sanctions would likely bar the involved Chinese bank from accessing the U.S. banking system.¹³⁷

Increasing Ties through Semiregular Contacts, Exercises, and Port Calls

Since the early 2010s, China and Iran have engaged in semiregular high-level military exchanges, which have accelerated since the JCPOA was agreed upon.¹³⁸ Starting in 2014, Chinese and Iranian defense ministers have conducted reciprocal visits almost every two years.¹³⁹ In September 2019, the top commander of the Iranian

* Per the JCPOA, most arms transfers to Iran after October 2020 are no longer subject to unanimous approval by the UN Security Council except those involving ballistic missile-related technology; these will remain controlled until 2023 as long as Iran remains committed to not using such technology for nuclear weapons delivery systems. Joel Wuthnow, "Will China Strengthen Iran's Military Machine in 2020?" *National Interest*, January 16, 2020. <https://nationalinterest.org/blog/middle-east-watch/will-china-strengthen-iran%E2%80%99s-military-machine-2020-114681>; Stockholm International Peace Research Institute, "UN Arms Embargo on Iran," January 20, 2016. https://www.sipri.org/databases/embargoes/un_arms_embargoes/iran.

† UAVs are one of China's top military exports to the Middle East. This could prove to be another limiting factor for any future Chinese arms sales to Iran as Tehran already has a well-established and sophisticated domestic UAV industry, so there is little demand for Chinese UAVs emanating from the country. By contrast, China sells significant quantities of UAVs to Iranian rivals such as Saudi Arabia and the UAE. Beijing is also thought to have aided in Saudi Arabia's ballistic missile program. In 1988, China sold Saudi Arabia the DF-3A ballistic missile, and some public reports speculate that Saudi Arabia procured the DF-21 ballistic missile from China in 2007. Jonathan Fulton, "Will China Become a Major Arms Supplier to Iran?" *Atlantic Council*, June 9, 2020. <https://www.atlanticcouncil.org/blogs/iransource/will-china-become-a-major-arms-supplier-to-iran/>; 21st Century Asian Arms Race, "The IISS Released an Extremely Detailed Report on the Iranian Military," December 25, 2017. <https://21stcenturyasianarmsrace.com/2017/12/25/the-iiss-released-an-extremely-detailed-report-on-the-iranian-military/>; International Institute for Strategic Studies, "Gulf Security after 2020," December 19, 2017. <https://www.iiss.org/blogs/analysis/2017/12/gulf-security>; Aniseh Bassiri Tabrizi and Justin Bronk, "Armed Drones in the Middle East: Proliferation and Norms in the Region," *Royal United Services Institute for Defense and Security Studies*, December 2018. https://rusi.org/sites/default/files/20181207_armed_drones_middle_east_web.pdf; Minnie Chan, "Chinese Drone Factory in Saudi Arabia First in Middle East," *South China Morning Post*, March 26, 2017. <https://www.scmp.com/news/china/diplomacy-defence/article/2081869/chinese-drone-factory-saudi-arabia-first-middle-east>; Paul Iddon, "What Weapons Systems Won't the U.S. Sell the UAE?" *Forbes*, January 17, 2021. <https://www.forbes.com/sites/pauliddon/2021/01/17/what-weapons-systems-wont-the-us-sell-the-uae/?sh=5e4df707db31>; Phil Mattingly, Zachary Cohen, and Jeremy Herb, "Exclusive: US Intel Shows Saudi Arabia Escalated Its Missile Program with Help from China," *CNN*, June 5, 2019. <https://www.cnn.com/2019/06/05/politics/us-intelligence-saudi-arabia-ballistic-missile-china/index.html>; Paul Sonne, "Can Saudi Arabia Produce Ballistic Missiles? Satellite Imagery Raises Suspensions," *Washington Post*, January 23, 2019. https://www.washingtonpost.com/world/national-security/can-saudi-arabia-produce-ballistic-missiles-satellite-imagery-raises-suspensions/2019/01/23/49e46d8c-1852-11e9-a804-c35766b9f234_story.html.

military, Major General Mohammad Baqeri, visited China on a three-day visit during which he coordinated the then upcoming trilateral naval exercise with China and Russia, visited the PLA Navy's South Sea Fleet, and promoted joint defense research and development and educational exchanges.¹⁴⁰ During then Chinese Defense Minister Chang Wanquan's visit to Tehran in 2016, he signed a military cooperation agreement with his counterpart to expand bilateral military training and counterterrorism efforts as well as to hold more exercises.¹⁴¹ The visit also facilitated an agreement to establish a joint commission between the general staffs for improving coordination across all aspects of military-to-military ties.¹⁴² At the service level, Chinese and Iranian air force and naval commanders have met periodically since the early 2010s.¹⁴³

China and Iran have also conducted occasional naval exercises and port calls that appear to both build trust between militaries and signal to the United States that the two sides stand together despite U.S. pressure. In December 2019, the Iranian navy conducted a four-day combined naval exercise with China and Russia—the first trilateral exercise between the three countries.¹⁴⁴ Although Iranian Naval Commander Hossein Khanzadi played up the strategic significance of the exercise as countering the United States and helping build a regional security coalition, China's defense ministry spokesperson downplayed the exercise as part of a "normal military exchange arrangement."¹⁴⁵ Moreover, just weeks prior to the drill, China conducted a three-week bilateral naval exercise with Saudi Arabia that appeared to be designed to balance Iran.¹⁴⁶ In February 2021, Russia's ambassador to Iran announced that China, Russia, and Iran would conduct another trilateral naval exercise in the northern Indian Ocean, although China ultimately did not participate in the exercise for reasons the Chinese government has not disclosed.¹⁴⁷ Previous China-Iran naval exercises since 2013 have involved basic drills and mainly coincided with reciprocal port calls.*

Potential Intelligence Sharing and Coordination to Counter the United States

Media reporting indicates that China and Iran may have conducted high-level cooperation on intelligence matters that dismantled much of the U.S. espionage network in both countries over the last decade. According to a series of investigative reports by Zach Dorfman and Jenna McLaughlin for Yahoo News and *Foreign Policy* that interviewed 11 former U.S. intelligence and government officials, the United States' loss of dozens of its assets in China over the 2010–2012 period might have resulted from Iranian assistance.¹⁴⁸ The gutting of the U.S. spy network occurred after China's primary spy agency, the Ministry of State Security (MSS), discovered how to penetrate the U.S. communication system used by U.S. intelligence agents to talk with their sources.¹⁴⁹ The messaging system the Chinese authorities uncovered was reportedly first discovered by the Iranian government in 2010, when Iranian authorities caught 30 spies.¹⁵⁰ Some U.S. intelligence officials asserted that high-level meetings and communication at the time between China and Iran indicated the two potentially shared information about the penetration of U.S. covert communication systems. Several former U.S. officials noted senior MSS counterintelligence officials meeting with their counterparts in Tehran during this period.¹⁵¹

Implications for the United States

Although the China-Iran partnership has clear limitations, the two regimes' shared anti-U.S. policy orientation has long-term implications for Washington's interests in both the Middle East and the Indo-Pacific. First and foremost, Iran's destabilizing actions in the Middle East preoccupy the United States and prevent it from fully shifting its strategic focus to the Indo-Pacific region—the United States' declared "priority theater."¹⁵² As a result, Beijing has more opportunities to expand its influence and presence in the Indo-Pacific. As the United States continues to

* The two navies conducted bilateral exercises in 2013, 2014, and 2017. The 2017 exercise coincided with a PLA Navy port call at an Iranian port and focused on formation movement and communication. In the previous drill, also near the Strait of Hormuz in the Persian Gulf, the two navies focused on search and rescue operations overlapping with the PLA Navy's first port call in Iran. The 2013 exercise followed the Iranian Navy's first port call in China and involved an Iranian helicopter carrier and destroyer. Yan Guiwang, "Chinese Naval Fleet Wraps Up Visit to Iran," *China Military Online*, June 19, 2017. http://eng.chinamil.com.cn/view/2017-06/19/content_7644718.htm; *Fars News Agency*, "Commander: Iran to Stage Massive Naval Drills in Winter," September 29, 2014. <https://webcache.googleusercontent.com/search?q=cache:WsJb18R8NKcJ:https://en.farsnews.ir/newstext.aspx%3Fnn%3D13930707000446;Ankit+Panda,+China+and+Iran's+Historic+Naval+Exercise,+Diplomat,+September+23,+2014.+https://thedi diplomat.com/2014/09/china-and-irans-historic-naval-exercise/>; Thomas Erdbrink and Chris Buckley, "China and Iran to Conduct Joint Naval Exercises in the Persian Gulf," *New York Times*, September 21, 2014. <https://www.nytimes.com/2014/09/22/world/middleeast/china-and-iran-to-conduct-joint-naval-exercises-in-the-persian-gulf.html>.

maintain troops and invest budgetary resources in the Middle East, it will be less able to focus on the Indo-Pacific. China's support for the Iranian regime is complicated, however, by China's desire to free-ride on the presence of the United States in the Middle East, and an excessive provocation by Iran could harm China's economic interests in the region.

Expanding Chinese and Iranian coordination in Afghanistan has complicated U.S. objectives in the country, such as building a prosperous, democratic, and stable Afghanistan and completing the withdrawal of U.S. troops. Beijing and Tehran's reported indirect provision of the Taliban with weapons undermines the lawfully elected Afghan government and may have contributed to the loss of life of U.S. service members. China and Iran's approach to maintaining positive ties with both the elected Afghan government and the Taliban insurgency further undermines good governance and stability in the country.

China's call for the "unconditional return of the United States to the JCPOA and the lifting of all relevant sanctions" contravenes the Biden Administration's condition that the lifting of U.S. sanctions be predicated on Iran's mutual return to JCPOA compliance.¹⁵³ Though China benefits from stability in the Middle East, a revived nuclear deal is primarily a means for China to increase its economic engagement with Iran without the threat of U.S. sanctions. Therefore, in trying to bring Iran to the negotiating table and simultaneously pressuring all stakeholders to reach a deal, the Chinese government is pursuing its own pragmatic interests in the country while looking to cast itself as a constructive diplomatic stakeholder in the region. During previous JCPOA negotiations, China tied the possibility of increased investment and economic assistance to Iran's participation in the deal.¹⁵⁴ If future negotiations on the JCPOA are to be held, the United States can expect China to once again couple its own economic interests in Iran to the revival of the deal.

China's continued trade and investment with Iran provides a critical economic lifeline to the Iranian regime, reducing the efficacy of U.S. sanctions. China's long-term investment in regional connectivity and continued interest in accessing Iranian resources means China benefits from an economically and politically stable Iran. Though China's trade and investment with the regime contributes to the welfare of the average Iranian citizen, it also emboldens the Iranian regime to continue its malign activities in the face of international pressure.

Despite Iran's signals that it would welcome a more formalized defense partnership, China and Iran do not have a military alliance and it is unlikely the two countries will establish one. Nevertheless, the two countries can and already have posed serious challenges to U.S. security interests, as evidenced by China's proliferation activities and Beijing and Tehran's apparent coordination on intelligence matters. Iranian missiles developed with Chinese technology have likely already been used against U.S. forces and partners in the region. Although China has not commented on whether it will sell Iran advanced weapons such as tanks and fighter jets in the aftermath of the UN arms embargo's October 2020 expiration, doing so in a measured way that does not upset the balance of Beijing's relations in the region would further enhance Iran's ability to threaten U.S. forces and those of its regional allies and partners.

Appendix: Select Chinese Investment Projects in Iran since 2013*

Date	Project	Companies	Estimated Cost (US\$ millions) [†]	Financing	Status
Aug 2019	Rail line	Genertec, Beijing Power	1,540		Not reported.
Mar 2018	Tehran-Hamadan and Sanandaj Railroad	Sinomach (China National Machinery Industry Corp.)	845		According to the agreement, Sinomach is responsible for the design, procurement, and construction of the 225-mile rail line due for completion by 2022.
Mar 2018	Rail line	Sinconst	700		The finished route will cover 280 miles between the Iranian cities of Marvdasht, Shiraz, Kwar, and Firozabad, and Farashband.
Jan 2018	Rail line	China Railway Construction	540		According to the signed contract, over four years a subsidiary of China Railway Construction will build a railway line spanning 163 miles between the western Iranian cities of Kermanshah and Khosravi.
Dec 2017	Oil development	Sinopec	1,050	China Export and Credit Insurance Corp.	Sinopec's agreement with National Iranian Oil Engineering and Construction is for developing the second phase of Abadan refinery, Iran's oldest crude oil refinery, and is set for completion by 2022.
Dec 2017	Construction of five hospitals	Iranian Health Ministry	2,000	China Development Bank and China Exim Bank	The Chinese banks financed the construction of five hospitals that are due for completion by 2021.
Nov 2017	Chemical plant construction	Norinco	1,530		Norinco will build a chemical plant for an Iranian petrochemical company that converts natural gas into polypropylene. It will also provide other services including training for operating the plant.

* This chart contains a list of identified Chinese projects in Iran as of the date of publication. Projects have been identified using open source material with sources included below.

[†] Unless noted otherwise, this section used the following exchange rate throughout: \$1 = RMB 6.53.

Date	Project	Companies	Estimated Cost (US\$ millions) †	Financing	Status
Feb 2017	Oil project	Sinopec	590		Not reported.
Feb 2017	Metals project	Sinomach	220		Not reported.
May 2016	Utilities project	China Energy Engineering	1,960		Not reported.
Jan 2016	Rail project	Norinco and Golbahar New Town Development	330		Not reported.
Jan 2016	Steel project	Sinosteel and Bafgh Kasra (Iranian firm)	47		Under the agreement, Sinosteel would build one million metric tons per year integrated steelworks.
Feb 2015	Tehran-Qom-Isfahan high-speed railway	China Railway Engineering Corp. and Khatam Al-Anbia Construction	1,800		China Railway Engineering Corp. is performing construction on the railway, which is estimated for completion in 2021. The 233-mile railway will connect Tehran, Qom, and Isfahan and support speeds between 186 mph and 217 mph.
Sept 2015	Highway project	China Communications Construction	500		Not reported.
Dec 2014	Coal project	Sinosteel, Zarand	180		Not reported.
Nov 2014	Rail project	Sinomach	320		Not reported.
May 2014	Steel project	Metallurgical Group Corporation (MCC)	350		Under the agreement, MCC would finance the construction of a plant for Sepid Dasht Steel with a one million metric tons per year capacity.
April 2014	Oil Project	CNPC	2,500		Not reported.
Mar 2014	Construction project	China Communications Construction	160		Not reported.
Jan 2013	Steel Project	China Nonferrous Metal Mining Group	712		Not reported.

Source: American Enterprise Institute's China Global Investment Tracker; Reconnecting Asia, "Tehran-Isfahan High Speed Rail (Construction)," 2019. <https://reconnectingasia.csis.org/database/projects/tehran-isfahan-high-speed-rail-construction/08745c54-5441->

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