

# Strategic Analysis Paper

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## China in the Middle East: The Iran Factor

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### Key Points

- Iran possesses the world's fourth-largest proven crude oil reserves and the second-largest natural gas reserves.
- Iran has had an antagonistic dispensation towards the United States since 1979, just as China now has.
- For China, those two factors make Iran an attractive country with which to cultivate an economic and strategic relationship.
- The relationship remains one of convenience, however, and not a true partnership.

### Summary

As the [first paper](#) in this series indicated, China seeks to develop its relationships with Middle Eastern states for a number of reasons. Those include Beijing's need to secure its energy imports, to secure its exports via routes that pass through the Middle East and, in the longer term, to increase its regional influence and displace the United States in the region by doing so. These objectives apply fully to its relationship with Iran, perhaps more so than they do with other regional states like Saudi Arabia and the UAE. Both countries increasingly see themselves as being brought together by those goals and, just as importantly, by President Trump, who sees both as competitors and adversaries to be countered. They perceive the US as a common enemy that needs to be fought jointly by both.

## Analysis

Iran contains some of the world's largest proven deposits of oil and natural gas. According to the US Energy Information Administration (EIA), Iranian deposits contain an estimated 157 billion barrels of crude oil and a further 1,193 trillion cubic feet of natural gas deposits, making those the fourth- and second-largest deposits in the world, respectively. The abundance of energy reserves, Iran's relatively proximate geographic location to China and its geopolitical situation in the Middle East make Iran a very attractive country with which to develop a relationship for China.

The first recorded contact between China and the people of the region that now comprises Iran occurred during the journeys through Central Asia of the Chinese explorer, Zhang Qian, between 138 and 126 BC. It was little surprise then, that when President Jiang Zemin of the People's Republic of China (PRC) visited the Islamic Republic of Iran (IRI) in 2002, Iranian President Mohammad Khatami and he made much of the historical links between their countries. They did not dwell too long upon that link, however, both being more concerned with contemporaneous imperatives: China's seemingly insatiable (until recently) demand for energy products on the one hand and, on the other, Iran's need for technology inputs and for new export markets for its energy products in non-Western countries. Those forces have combined since that meeting to propel trade and co-operation between the two countries to increasingly higher levels.

In 2013, two-way [trade](#) between the IRI and PRC reached US\$39 billion and then soared by a further 72 per cent to reach almost US\$52 billion in 2014. In that year, Iran's exports to China were worth around US\$27.5 billion and its imports from China amounted to some US\$24.35 billion. Iran's exports to China are dominated by energy products. China imported 27.5 million tonnes of Iranian crude and condensate, an increase of 28.3 per cent over 2013. In the aftermath of the agreement between the US-led P5+1 and Iran, China's crude oil imports from Iran reached over [500,000 barrels a day](#); one estimate put that figure at rising to over 560,000 barrels per day in July of 2015. Iran's trade with China amounted to [US\\$19.66 billion](#) during the first half of 2018, registering an increase of 2.2 per cent compared with the corresponding period last year.

As it does with Saudi Arabia, the Chinese Government shares many commonalities with its Iranian counterpart. From a political perspective, both countries' leaders have the same primary objective: regime survival. In China's case, that means the continued rule of the Chinese Communist Party, while for Iran it refers to the rule of the theocracy. For both, regime survival depends on economic prosperity, which depends, in turn, largely on energy. China must ensure that it has enough energy to fuel its economic growth, while Iran must find a market for its energy resources. Energy aside, both countries are aspiring powers. China's tacit goal is to become a superpower and, preferably, the global hegemon, while Iran aspires to be the predominant player in the Middle East.

The US has placed economic sanctions on Iran since 2001 for allegedly sponsoring acts of terrorism. It placed further [sanctions](#) on Iran, together with the other permanent members of the United Nations Security Council and Germany, from 2005 for its alleged involvement in nuclear proliferation, ballistic missile development, support for terrorist groups and

human rights abuses. The so-called P5+1 sought to isolate Iran from the global economy. China used the situation, however, to secure primary positions in both the oil and non-oil sectors of the Iranian economy. When the Obama Administration partially lifted the economic sanctions and entered into the Joint Comprehensive Plan of Action (JCPOA) together with the other Security Council members and Germany in 2015, China found itself well-placed to deepen its relationship with the Islamic Republic, not only on economic issues, but also in the cyber and military domains.

Chinese-Iranian cyber collusion was not unheard of in 2015. In 2012, [Reuters reported](#) that the China-based telecommunications company ZTE Corporation had signed a US\$130 million networking equipment contract in 2010 with the Telecommunication Company of Iran – which controls most of Iran’s landline services – to [help Iran monitor](#) Internet, text and voice communications. The ZTE Corp. Chairman [stated](#) that a US criminal investigation into the claim forced the company to scale back its business in Iran but accused the company’s rival, Huawei Technologies, of continued dealings in Iran. Tehran, which relied on Beijing for technology and know-how, [called for](#) joint co-operation in research and investment, Information and Communications Technology, airspace and telecommunications. Iran no doubt sought to improve its domestic cyber-surveillance while simultaneously retaining the capacity to wage cyberwarfare, if required.

There is a body of evidence to suggest that the two countries have had a military relationship since the 1980s, when [China provided Iran](#) with arms, tactical ballistic missiles and anti-ship cruise missiles in its fight against Iraq. China has facilitated Iran’s military modernisation, even being [suspected](#) of transferring technology and equipment to Iran via North Korea. China repeatedly insisted during the JCPOA negotiations on lifting the UN arms embargo against Iran and, although the JCPOA retained the UN arms and missiles embargoes for five and eight years respectively, Russian Foreign Minister Sergey Lavrov [suggested](#) that both Russia and China would continue making weapons deals with Iran according to UN Security Council procedures. Beijing’s traditionally commercial role in the Middle East appeared to have been expanded to providing military support to the Islamic Republic. That could give it, in turn, a stronger foothold in the Gulf region and more influence in the greater Middle East.

The election of President Trump to the presidency in the US has had a major impact on the Sino-Iranian relationship. Mr Trump, who made plain his antipathy towards both Iran and China in the run-up to the elections, surprised most observers when he continued with his anti-China and anti-Iran rhetoric after he took office, most having believed that he would, like his predecessors, tone down the rhetoric once elected. More surprisingly, he went against the stated wishes of the US’s European allies and, on 8 May, after weeks of negotiations with European leaders, withdrew the US from the JCPOA, citing concerns that it had failed to restrict Iran’s progress in nuclear weapons development. The Europeans, who were against the re-imposition of sanctions on Iran, failed to persuade Mr Trump not to re-impose those or to grant European firms that were already in Iran a waiver. Many of Germany’s biggest businesses had established operations in Iran, as did hundreds of the country’s medium-sized firms. Germany was Iran’s biggest trading partner, moreover. In 2015, when the JCPOA was agreed upon, German exports to Iran grew by 27 per cent. In

2017, those exports were worth an estimated €3.5 billion (\$5.6 billion). Many of those firms, reluctantly, decided to terminate their operations in Iran. Among those firms were Volkswagen, Daimler, Deutsche Bank, Commerzbank, DZ Bank, Airbus, Siemens, BASF, Lufthansa, Deutsche Telekom and Deutsche Bahn.

Not so China which, two days after the US announced its withdrawal from the JCPOA, [inaugurated](#) a railway line connecting Bayannur, in Inner Mongolia, to Tehran. The railway had been planned previously and its construction initiated several years before, but the timing of the inauguration was not coincidental; it was meant to convey a message of partnership to the Iranian people. A few days later, Chinese Foreign Minister Wang Yi hosted his Iranian counterpart, Javad Zarif, for the first [meeting](#) in a series that was meant to save the JCPOA. China also invited Iranian President Hassan Rouhani to the Shanghai Co-operation Organisation summit on 9-10 June in order to express its support and to discuss with the other members of the conference the best ways to maintain stability. It is likely that Beijing felt that it could take the place of the US which, in its perception, was losing interest in the Middle East. It was a shock, then, to discover that Washington planned to [confront China](#) on several fronts, trade being only one of those.

Recognising that one of the major strengths of the US are the alliances and treaties that it has with many developed and regional countries, Beijing knows that it could be isolated in any confrontation with Washington. To that end, it needs to quickly develop its relationships. Iran, like Pakistan, would be a prime example of a country that would be willing to work with it to reduce the influence of the US in the western Pacific region and the Middle East. The exodus of European businesses from Iran has given China a major opportunity to demonstrate its willingness to let Chinese business organisations replace them and, in so doing, strengthen its ties with Iran. In May of this year, [Sinopec](#), the Chinese oil giant, signed a US\$3 billion deal to develop the Yadavaran oil field in south-west Iran, replacing the British-Dutch oil giant, Royal Dutch Shell, while China National Petroleum Corporation sought to acquire the French oil company Total's share in the development of the South Pars gas field.

China's support of Iran extends beyond trade and commerce, however. During a press briefing on 9 May, for instance, Chinese Foreign Ministry spokesman Geng Shuang [said](#) that Iran and China would 'maintain normal economic ties and trade', adding in a clear reference to the US, 'I want to stress that the Chinese Government is opposed to the imposition of unilateral sanctions and the so-called long-arm jurisprudence by any country in accordance with its domestic laws.'

While China has its reasons for wishing to cultivate its relationship with Iran, the theocrats in Tehran have their own reasons for wishing to maintain their relationship with Beijing. The first is to retain a major energy market. It would be disastrous for the Ayatollahs and their hold on power if they lost their Chinese market due to mismanagement. The violent [public demonstrations](#) that occurred across the country between December last year and January 2018 served to remind them of that fact. Ordinary Iranian citizens called for a referendum during those demonstrations to decide if they wished to continue to live in a theocracy. Those calls would have had the same impact on the regime in Tehran as the student and

worker uprising had on the one in Beijing just before the massacre at Tiananmen Square took place.

Another reason for Tehran to cultivate its relationship with Beijing is the latter's ability to provide Tehran with a degree of protection from punitive measures brought to the table by other members of the United Nations Security Council through its power of veto. Finally, by accepting China's invitation to become a member of the Shanghai Co-operation Organisation, Tehran hopes to obtain new trading partners and possible friends, perhaps even allies.

In conclusion, the Iranian and Chinese regimes appear to have been brought together by their survival instincts, each recognising that the other offers the hope of quelling dissident domestic voices, even if only to a limited extent. China offers Iran a market for its energy exports and Iran enables China to diversify its energy sources, so as not to be overly-reliant on, for instance, Saudi Arabia or Russia. In the final analysis, however, it is essentially a matter of convenience and remains far from constituting a true meeting of minds, let alone an alliance.

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