

Iran Looks East: Building Ties with China

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KEY TAKEAWAYS

Iran and China, led by two authoritarian regimes hostile to the United States and Western values, have strengthened their partnership in recent months.

The Biden Administration should work to maximize the political, economic, and foreign policy costs and risks to Beijing of its support for Iran's hostile agenda.

The U.S. should escalate sanctions on Iran, enforce sanctions on China's imports of Iranian oil, and cooperate with allies to put public pressure on Beijing.

Iran's theocratic dictatorship, locked into a confrontation with the United States and many other states by its nuclear weapons ambitions and Islamist ideology, is drifting into China's orbit. The Iran–China Comprehensive Strategic Partnership agreement signed in Tehran in March 2021, and Iran's admission to the Shanghai Cooperation Organization (SCO)—the multilateral Eurasian diplomatic forum led by China and Russia—in September, underscore the expansion of political, economic, and strategic ties between Iran and China. These evolving ties have strengthened Iran's ability to resist sanctions, eased its isolation, and aided its efforts to achieve regional hegemony. Iran needs China more than China needs Iran. Washington should exploit this asymmetry by driving up the costs to Beijing of close ties to Iran, reducing its economic benefits, and curtailing the potential benefits to Tehran of close ties to China.

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Iran's Deepening Ties with China

Iran and China, led by two authoritarian regimes hostile to the United States and Western values, have elevated their partnership in recent months. The two signed a Comprehensive Strategic Partnership agreement on March 27, 2021, that marked a new phase of bilateral relations. Although the full text of the agreement remains secret, China is slated to expand its involvement in a wide range of Iran's economic sectors, including the oil and gas industries, banking, telecommunications, public transportation, and port infrastructure. China will secure Iran's participation in its ambitious Belt and Road Initiative, which seeks to establish contiguous land and maritime trade routes from China across Eurasia. Beijing will also reportedly receive heavy discounts on imported Iranian oil for 25 years. Although press reports based on a draft of the agreement leaked by Iranian officials project massive Chinese investment of \$400 billion over 25 years,¹ this unrealistic total is unlikely to be realized, even if U.S. sanctions are lifted. China's investment in Iran amounted to less than \$5 billion between 2005 and 2020.

A much stronger concern focuses on the potential military and strategic aspects of the agreement, which remain secret. But the leaked document proposed enhanced bilateral military cooperation, including joint training, military exercises, intelligence sharing, weapons research and development, and defense production. Although the economic dividends of the agreement boost the Tehran regime's short-term ability to withstand U.S. economic sanctions, maintain its power, and push its nuclear defiance to the limits, the potential long-term infusion of Chinese military arms and technology could greatly boost Iran's efforts to establish regional hegemony.

It therefore is not surprising that Iranian President Ebrahim Raisi proclaimed soon after he assumed office in August that promoting cooperation with China was one of his top foreign policy priorities. Notably, Raisi's first foreign trip was to the September SCO summit in Tajikistan, at which Iran was admitted as a member. Raisi underscored Iran's "look to the East" policy by choosing to attend that summit rather than the United Nations General Assembly opening.

Raisi hopes that SCO membership will help to shield Iran from U.S. sanctions, break Iran out of its isolation, and boost foreign trade. Although the SCO is the world's largest regional organization in terms of geographic scope and population, it is unlikely to offer Tehran much help in circumventing U.S. sanctions. Most SCO members harbor their own misgivings about Iran's nuclear ambitions and would be deterred by the threat of U.S. secondary sanctions.

While Iran seeks to cultivate China as a strategic ally to offset American power, China historically has avoided a formal alliance with Iran in part due to a fear of aggravating the United States and Arab states threatened by Iran. Beijing has signed several comprehensive strategic agreements with Arab states and does not want to be perceived as forcing those states to choose between China and the United States. Although Iran, endowed with the world's fourth-largest crude oil reserves, looms large as a potential source of Chinese oil imports, China currently imports more oil from Arab states than from Iran, and conducts more trade with them.

U.S. Policy: Constrain Iran to Deter China from Building Closer Strategic Ties

The Biden Administration must closely monitor the evolving Sino–Iranian ties and work with allies to mitigate the dangers of this geopolitical alignment. Close cooperation with U.S. allies is necessary to enhance U.S. leverage over both China and Iran and help to constrain, if not to preclude, a full-blown Sino–Iranian alliance.² In the past, Beijing has refrained from forming a close alliance with Iran due to its concern over provoking a backlash from the United States and the many countries threatened by Iran. Washington should discourage the formation of closer Sino–Iranian strategic ties by reinforcing Beijing's concerns on both fronts. The goal should be to maximize the political, economic, and foreign policy costs and risks to Beijing of its support for Iran's hostile agenda.

U.S. Policy Recommendations

In order to discourage deeper ties between Iran and China, the Biden Administration should:

- **Escalate sanctions on Iran.** The Biden Administration unwisely rejected the Trump Administration's maximum-pressure sanctions strategy and has relaxed its enforcement of many sanctions. This complacent and self-defeating policy has reduced U.S. diplomatic leverage over Iran, diminished the prospects for a satisfactory outcome in the nuclear negotiations, encouraged a surge in illicit Iranian oil exports to China, and lowered the barriers to greater Sino–Iranian cooperation. A return to the maximum-pressure sanctions policy would not only increase the prospects of a satisfactory nuclear agreement with Tehran, but would diminish the perceived benefits for China of trade

with Iran by reducing Iran's ability to pay for Chinese imports and increasing the risk that the current Iranian regime will be overthrown by Iran's long-suffering people. Ramping up sanctions would also undermine Tehran's capacity to fund its military buildup and finance its network of proxy militias and terrorist groups.

- **Press China to minimize its support for a rogue Iranian regime that sponsors regional instability that threatens China's national interests.** Beijing has been sensitive to American concerns about its ties with Iran in the past and has reduced its engagement with Iran under U.S. pressure. Washington should privately warn Beijing against trying to rescue an increasingly unpopular regime that may succumb to a domestic political backlash. Washington should stress that Iran's destabilizing influence in the region threatens Chinese economic and trade interests. Unless Beijing encourages Tehran to compromise on its nuclear program and end its proxy attacks against the U.S. and its regional allies, Iran will remain on a collision course with the U.S. that could undermine Chinese economic interests in the region and disrupt regional oil exports.
- **Warn Beijing that its energy security is being undermined by Iran's aggressive behavior.** China surpassed the United States as the world's largest oil importer in 2017 and imports more than 10 million barrels of oil per day, about 75 percent of its oil supplies. Approximately 52 percent of Chinese oil imports come from the Middle East, with more than 40 percent originating in the Gulf. China would be one of the biggest losers if Iran resumes its covert attacks on Saudi, or other Arab, oil infrastructure. In the event of a war or prolonged crisis, China would be one of the oil importers that sustains the most economic damage.
- **Enforce sanctions on China's imports of Iranian oil.** After President Joe Biden's election, Chinese imports of Iranian oil soared to as much as 1 million barrels per day in December 2020, before declining to 550,000 barrels per day from January through August 2021, and rising again to nearly 800,000 barrels per day from August through October. The Biden Administration may mistakenly see its non-enforcement of sanctions against these illicit imports of Iranian oil as a tacit gesture of goodwill to both Tehran and Beijing, but goodwill matters little to these regimes. Washington should apply fresh

sanctions targeting the shipping networks and Chinese companies that facilitate this oil trade. China's economic future depends much more on stable economic relations with the United States than on its much smaller trade with Iran. Washington should warn Beijing that its sanctions busting will be considered a hostile action that will harm its relationship with the United States.

- **Work with allies to undercut Chinese support for Iran.** The Biden Administration should boost the costs and risks to Beijing of closer ties with Tehran not only in terms of Sino–American relations but also in terms of China's relations with states threatened by Iran, particularly the Gulf Arab states and Israel, whose concerns about Iran were a factor in the forging of the 2020 Abraham Accords. The U.S. State Department should encourage key countries, such as Bahrain, Egypt, Israel, Jordan, Saudi Arabia, and the United Arab Emirates to make it clear to Beijing that if it bolsters its strategic ties with Iran, it will pay a high price in terms of relations with Iran's regional adversaries. China currently has a much bigger economic and trade relationship with these countries than with Iran, and that imbalance is likely to grow further due to U.S. Iran sanctions.

Time for a Pivot on U.S. Iran Policy

While Iran has trumpeted its growing ties with China as a game changer, it is clear that Beijing takes a much more cautious and realistic approach to this evolving relationship. Iran needs China more than China needs Iran. The United States should exploit this asymmetry by raising the costs and risks of Beijing's growing ties to the unpopular and corrupt rulers of Iran while reducing the potential benefits. Sanctions must be a key part of this strategy. The Biden Administration should end its self-defeating policy of eagerly seeking to revive the flawed 2015 nuclear deal by relaxing pressure on Iran and return to a maximum-pressure approach. Such a pivot on sanctions would not only enhance the chances for a satisfactory outcome of nuclear negotiations with Iran, but would reduce China's economic incentives for building closer ties with Iran.

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Endnotes

1. Farnaz Fassihi and Steven Lee Myers, "China, with \$400 Billion Iran Deal, Could Deepen Influence in Mideast," *The New York Times*, March 27, 2021, <https://www.nytimes.com/2021/03/27/world/middleeast/china-iran-deal.html> (accessed December 17, 2021).
2. James Phillips, "United States Should Derail Prospects for an Iran–China Alliance," Heritage Foundation *Backgrounder* No. 3541, October 6, 2020, <https://www.heritage.org/sites/default/files/2020-10/BG3541.pdf>.