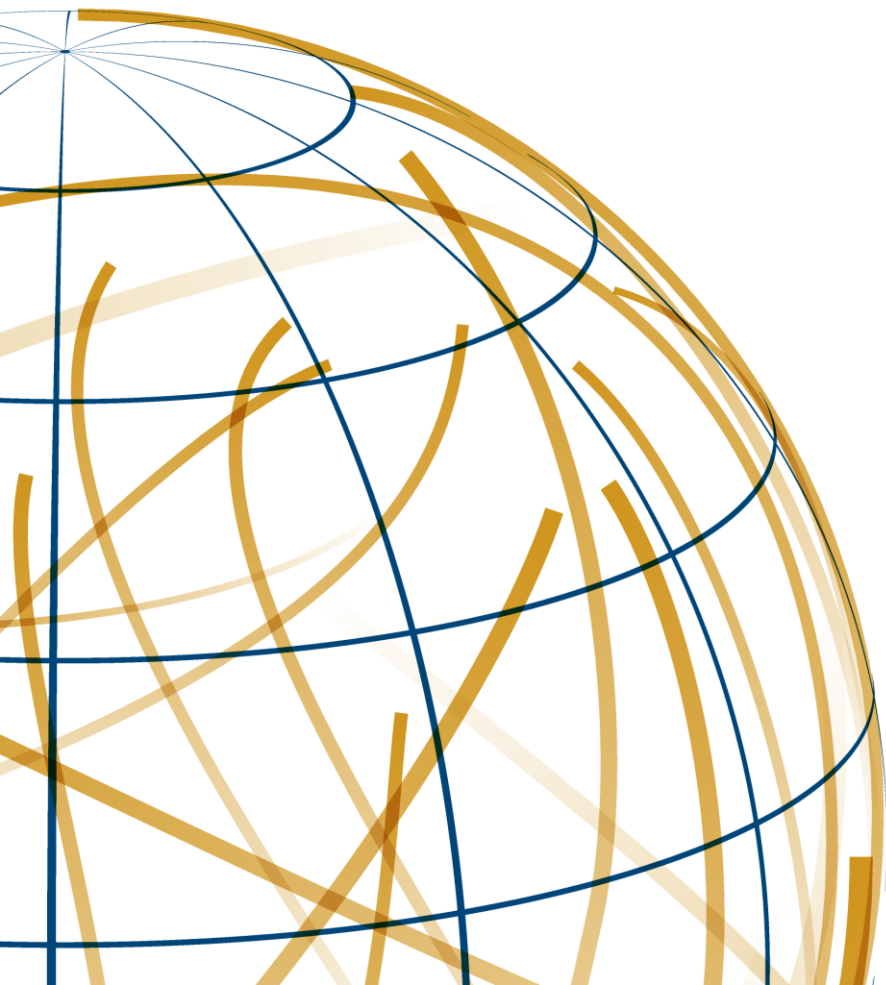


SWP Research Paper

Angela Stanzel

China's Path to Geopolitics

Case Study on China's Iran Policy at the Intersection of
Regional Interests and Global Power Rivalry



Stiftung Wissenschaft und Politik
German Institute for
International and Security Affairs

SWP Research Paper 5
February 2022, Berlin

- Chinese foreign policy is at the crossroads of regional interests and global power rivalry in the Middle East, especially in Iran.
- China's interests in the Middle East increasingly collide with those of the US, which has brought about a significant re-orientation of Chinese foreign policy on this region. Beijing is increasingly concerned with balancing US influence in the region. Relations with Iran offer China various possibilities for balancing US influence. A decisive factor for China's Iran policy are its regulatory ideas aiming to establish equality of influence between the major global powers in a given region, in this case the Middle East.
- Chinese discourse underpins the shifts in Chinese foreign policy in which hard or soft balancing is increasingly becoming a feature of a "geo-politicised" regional policy. This geostrategic regional policy with regard to Iran shows that China is gaining influence there at the expense of the United States.
- German and European actors need a deeper understanding of China's balancing policy. This would enable Germany and the EU to correctly assess and also question the rhetoric of the Chinese leadership.
- On this basis, Germany and the EU should adjust their engagement in Iran, especially with regard to the Iranian nuclear weapons issue. Moreover, the new German government should ensure that foreign policy actions in third countries are comprehensive and coordinated with the EU so as to meet the challenges posed by China. Such coordination must also be pursued within the transatlantic framework.

SWP Research Paper

Angela Stanzel

China's Path to Geopolitics

Case Study on China's Iran Policy at the Intersection of
Regional Interests and Global Power Rivalry

Stiftung Wissenschaft und Politik
German Institute for
International and Security Affairs

SWP Research Paper 5
February 2022, Berlin

All rights reserved.

© Stiftung Wissenschaft
und Politik, 2022

SWP Research Papers are
peer reviewed by senior
researchers and the execu-
tive board of the Institute.
They are also subject to fact-
checking and copy-editing.
For further information
on our quality control pro-
cedures, please visit the
SWP website: [https://
www.swp-berlin.org/en/
about-swp/quality-
management-for-swp-
publications/](https://www.swp-berlin.org/en/about-swp/quality-management-for-swp-publications/).
SWP Research Papers reflect
the views of the author(s).

SWP

Stiftung Wissenschaft und
Politik
German Institute
for International
and Security Affairs

Ludwigkirchplatz 3 – 4
10719 Berlin
Germany
Phone +49 30 880 07-0
Fax +49 30 880 07-200
www.swp-berlin.org
swp@swp-berlin.org

ISSN (Print) 2747-5123
ISSN (Online) 1863-1053
doi: 10.18449/2022RP05

Translation by Tom Genrich

(English version of
SWP-Studie 26/2021)

Table of Contents

5	Issues and Conclusions
7	The History and Interests of Chinese Foreign Policy in the Middle East
7	China's Key Interests in the Middle East
9	Iran as a Case Study for Chinese Geostrategic Regional Policy
10	Balance-of-Power Politics in China's Discourse and Foreign Policy
14	China's Discourse on the Balance of Power in the Middle East
14	The Discourse beyond Balancing
16	"Great Power Diplomacy" instead of Regional Balancing
17	The Schools of Thought on Balancing
19	Soft Balancing in Chinese Policy-making
19	China's Economic Engagement
21	China's Violations of US Sanctions
22	Signing of a 25-year Cooperation Agreement
24	Hard Balancing in Chinese Policy-making
24	Security Cooperation
26	Covert Military Cooperation
27	Final Assessment
29	China-Iran Relations: Outlook
29	The Potential of Security Policy Cooperation
30	The Potential for Cooperation in Cyberspace
30	The Potential of Connectivity
32	Recommendations for Germany and the EU
34	Abbreviations

*Dr Angela Stanzel is an Associate in the Asia Research
Division at SWP.*

China's Path to Geopolitics Case Study on China's Iran Policy at the Intersection of Regional Interests and Global Power Rivalry

The foreign policy of the People's Republic of China (PRC) traditionally presented itself as an interest-driven policy towards a country or region. Economic interests were prototypically in the foreground. This changed when Chinese leader Xi Jinping came to power in 2012; since then, Chinese interests have clearly gone beyond economic issues. In particular, Beijing is working to position China as a self-confident world power — and no longer just a regional power opposed to the US. Chinese foreign policy, which is intended to bring about China's rise to world power as prescribed by Xi Jinping, is steadily making its mark as part of the country's global political ambitions and systemic competition with the United States.

There are therefore growing suspicions that what Beijing claims is a “peaceful rise” in fact deliberately challenges the current world order and balance of power. Without doubt, China is emerging as the power with the greatest potential to change US primacy in the coming decades. The fact that China's rise poses new challenges to other countries and international organisations — just as it calls into question regionally and globally established power relations, and strengthens ideological alternatives to Western notions of order — is in itself nothing new. What is interesting, however, is that, even beyond the Asia-Pacific region, China's foreign policy now finds itself at the interface between regional interests and global power rivalry.

This is also the case in the Middle East, a region whose importance to China has increased in recent years economically, politically — and geostrategically. The question that this development throws up is how far the PRC's geostrategic regional policy actually goes. What instruments, means and strategies does China use in regions that traditionally lie outside its geopolitical sphere of influence, so as to push through its own goals vis-à-vis the US?

China's Iran policy stands out here. In Iran especially, China's interests are increasingly colliding with those of the US, simply because of the US's continued dominance in this region. As the following analysis

will show, China's Iran policy is based in particular on the geopolitical rivalry between Beijing and Washington.

Iran thus suggests itself as a case study for a "geopoliticised" Chinese regional policy. It demonstrates, first, that Chinese discourse has long since adopted Western research into "balance of power" theory and, more importantly, second, has transferred it to Chinese policy-making. The aim of Chinese foreign policy is to balance the geostrategic influence of the United States in the Middle East with both "soft" and "(limited) hard" means. By supporting Iran – for example through economic incentives or security cooperation – China has pre-empted the country's isolation by the US. China's policy thus derives from political ideas aiming to establish equality of influence between the major global powers in a given region, in this case the Middle East.

China's geostrategic regional policy in Iran has implications not least for the interests of Germany and the European Union (EU), in both the country and the region. The top priority for Germany and the EU in their relations with Iran is the preservation of (and compliance with!) the nuclear agreement signed in Vienna in July 2015: the Joint Comprehensive Plan of Action (JCPOA). In this respect, Sino-Iranian cooperation also has military relevance for Germany and the EU. Moreover, a better understanding of China's policy of balancing will enable Germany and the EU to correctly assess and question the Chinese leadership's rhetoric.

The History and Interests of Chinese Foreign Policy in the Middle East

Even though Chinese foreign policy still prioritises other regions, China is playing an increasingly active role in the Middle East. The fact that, for a long time, the Middle East was not a focus for China's foreign policy is due to its interest in the region being limited to securing its energy supplies. In the past, therefore, the Chinese leadership did not perceive the region from a strategic perspective. The Middle East was geostrategically left to the United States, which is why China was often referred to as a "free rider" (for example in Afghanistan). In the Persian Gulf, Beijing still relies on the existing security structure, which is based on a decades-old partnership between the Gulf Cooperation Council (GCC) states and the US, to protect its oil imports.

Meanwhile, the region has steadily grown in both economic and political importance for China. Increasingly, Chinese foreign policy in the Middle East has taken on strategic elements, such as security policy engagements. This is illustrated not least by the extensive visits of Foreign Minister Wang Yi to the region, including in 2021.¹ Beyond promoting Chinese economic interests in the region, the visits fit almost perfectly into China's changing foreign policy, or rather, into Chinese President Xi Jinping's foreign policy vision: positioning China as a self-confident world power.² Chinese engagement in the Middle East must also be seen in this light.

¹ At the end of March 2021, Wang Yi travelled to Saudi Arabia, Turkey, Iran, the United Arab Emirates (UAE), Bahrain and Oman; at the end of July 2021, to Syria, Egypt and Algeria.

² See Nadine Godehardt, *Wie China Weltpolitik formt. Die Logik von Pekings Außenpolitik unter Xi Jinping*, SWP-Studie 19/2020 (Berlin: Stiftung Wissenschaft und Politik, October 2020), doi: 10.18449/2020S19 (accessed 10 December 2021).

According to one of China's leading Middle Eastern experts, Sun Degang, a professor at Fudan University in Shanghai, the Middle East will be strategically even more important for Beijing than it is for Washington, because the region is "the core from which China can strategically cooperate and/or compete with other great powers".³ Beijing's leadership has grasped the role the Middle East could play in expanding its strategic goals.

China's Key Interests in the Middle East

In a keynote speech to the 2014 China-Arab Cooperation Forum (CASCF), Xi Jinping summarised China's key interests in the Middle East as a "1+2+3" cooperation framework (*hezuo geju*), which can be seen as a strategy to deepen cooperation with Middle East countries in three key areas ("1+2+3").⁴ In it, energy supply is given top priority for cooperation (1), followed by infrastructure, trade and finance (2), and new high-tech industries, nuclear technology, space and renewable energy (3). China's 2016 Arab Policy Paper, the most relevant official Chinese document

³ See Sun Degang and Yahia Zoubir, "China's Participation in Conflict Resolution in the Middle East and North Africa: A Case of Quasi-Mediation Diplomacy?" *Journal of Contemporary China*, 27, no. 110 (2018): 224–43.

⁴ "Xi Jinping: Zuo hao dingceng sheji, goujian '1+2+3' zhong a hezuo geju" [Xi Jinping: Does good job in top-level design and builds "1+2+3" pattern of China-Arab cooperation], *Xinhua*, 5 June 2014, http://www.xinhuanet.com/politics/2014-06/05/c_1111000667.htm (accessed 23 March 2021). The CASCF is so far the main formal institution through which China and the countries of the Middle East work together on issues concerning their relations.

to date setting out the guidelines for China's policy in the region, reiterates these three cooperation goals.⁵

China's first key interest in the region is therefore to secure its energy supply. The country's demand for oil is enormous and is substantially met with oil from the Middle East — up to half of the crude oil imported by China comes from there. In 2019, a total of 43 countries supplied crude oil to the PRC, including nine Middle Eastern countries that provided 44.8 per cent of China's crude oil imports.⁶ The second key interest is export markets for the Chinese economy. Accordingly, China has expanded trade with the Middle East and become a major economic partner and investor. According to the *Direction of Trade Statistics* (DOTS) of the International Monetary Fund (IMF), in 2020 China's largest trading partners (imports and exports) in the Middle East were Saudi Arabia with over US\$67 billion (equivalent to 1.4 per cent), the United Arab Emirates (UAE) with nearly US\$49.3 billion (1.1 per cent) and Iraq with over US\$30 billion (0.6 per cent). The trade balance with Iran amounted to just under US\$15 billion (see Chart 1, p. 9).

At the heart of China's growing economic presence in the region is the Chinese Belt and Road Initiative (BRI), which primarily aims to open local markets to Chinese trade actors and secure a diversified oil supply.⁷ To date, China has signed memoranda of understanding on BRI cooperation with 17 Middle Eastern countries. Since the establishment of the BRI in 2013, Beijing has allocated at least US\$123 billion to financing BRI-related projects in the Middle East — compared to the estimated US\$500 billion it had invested in 50 other states by 2018.⁸ Moreover, pursuing its third key interest, the country is increasingly investing in new industries, such as the Digital Silk Road

(DSR), which is part of the BRI.⁹ China has already signed 5G network agreements with the six countries of the Gulf Cooperation Council; its BeiDou satellite system provides navigation services to the Arab world; and its information and communication technology companies, such as Huawei Technologies, are becoming increasingly active in the renewable energies sector.

With all these activities, regional security and stability are becoming increasingly important for the Chinese leadership so as to safeguard the country's key interests in the future.¹⁰ The most prominent example of the Chinese interest in security in the region is the first Chinese military base abroad, in the port of Djibouti. Its main purpose is to enable the Chinese army to protect and, if necessary, evacuate China's citizens living in the region in the event of a crisis.¹¹ Today, China is clearly interested in deepening its political and security activities in the Middle East, which, although still modest compared to those of other powers such as the US and Russia, are growing rapidly. China's efforts to resolve the Iranian nuclear weapons issue, which resulted in the signing of the Iranian nuclear agreement (JCPOA) in 2015, should also be seen in this context: on the one hand, its participation in the negotiations within the framework of the E3+3 (Germany, France, Great Britain + US, Russia, China), and on the other hand, its support for the United Nations Security Council (UNSC) sanctions.

Such a security policy commitment corresponds to China's goal of positioning itself as a self-confident world power, more precisely as a world power that is (at least) on a par with the United States and even pursues a "better" policy. Beijing has articulated this claim through its concept of "Chinese-style great power diplomacy" (*zhongguo tese daguo waijiao*), launched in 2014, which strives to make "relations

5 Ministry of Foreign Affairs of the People's Republic of China (FMPRC), *China's Arab Policy Paper*, January 2016, https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/201601/t20160114_679437.html (accessed 25 January 2021).

6 See Daniel Workman, "Top 15 Crude Oil Suppliers to China", *World's Top Exports*, <https://www.worldstopexports.com/top-15-crude-oil-suppliers-to-china/> (accessed 7 August 2021).

7 Embassy of the People's Republic of China in Germany, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, 30 March 2015, <http://de.china-embassy.org/det/zt/yidaiyilude/t1250293.htm> (accessed 1 December 2021).

8 American Enterprise Institute (AEI), "China Global Investment Tracker", <https://www.aei.org/china-global-investment-tracker/> (accessed 25 January 2021).

9 The Digital Silk Road (DSR) was announced in 2015 and is intended to place China at the centre of global technological standards and norms, for example by building a physical digital infrastructure with centres for research and development, 5G networks and fibre optic cables.

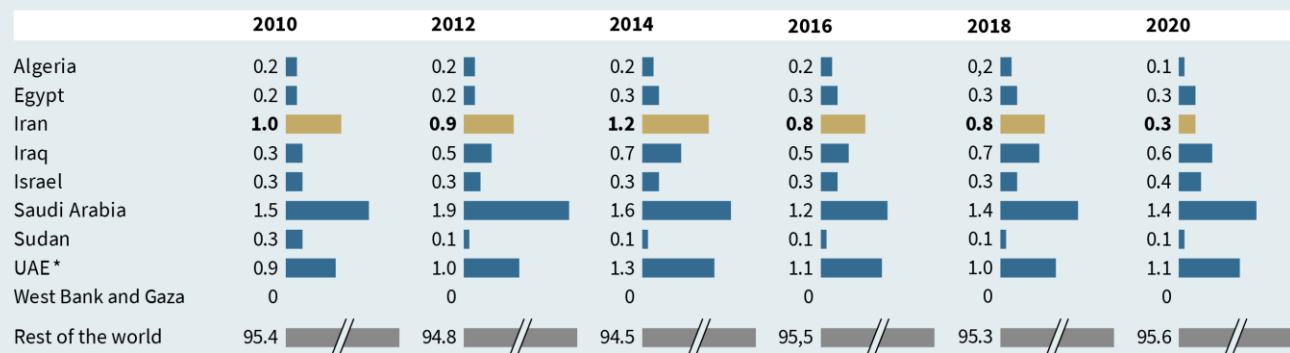
10 See Lu Jin and Song Jiangbo, "Yilang yu zhongguo zhan-lue hezuo de dongyin ji zuli" [Motivation and obstacles to strategic cooperation between Iran and China], *Guoji yanjiu can-kao* [International Research Reference], no. 12 (2020): 38–41.

11 Beijing likes to refer to the Libyan crisis in 2011, which also endangered the lives of tens of thousands of Chinese citizens in the country, as a "lesson".

Chart 1

China's economic relationship with Iran and other countries in the Middle East

Trade (imports and exports), shares in percentages



* United Arab Emirates

Source: International Monetary Fund (IMF), *Direction of Trade Statistics* (DOTS)

© 2021 Stiftung Wissenschaft und Politik (SWP)

Source: International Monetary Fund (IMF), *Direction of Trade Statistics* (DOTS),
<https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85> (accessed 3 June 2021).

among the great powers” more advantageous for China.

From the Chinese perspective, although Sino-American competition manifests itself mainly in the Indo-Pacific region, the US has increasingly sought to intensify competition with China in the Middle East.¹² The more China invests in infrastructure for (its own) energy supply, export markets and security in the Middle East, the more its interests collide with those of the US, simply because of the latter’s continued dominance in the region. In China’s view, for example, the US wants to dominate the Middle East in order to control the energy resources of the Gulf. Beijing’s foreign policy strategy, on the other hand, strives to achieve its goals in the region by aligning its own interests with those of the Middle Eastern countries with which it wants to establish a balanced relationship. At the same time, Beijing is seeking to balance US influence in the region.

¹² Such as Wu Bingbing in *Belt and Road Initiative: China-Middle East Cooperation in an Age of Geopolitical Turbulence*, Outline of Workshop Proceedings (Doha: Brookings Doha Center, 16/17 December 2019), <https://www.brookings.edu/events/the-belt-and-road-initiative-china-middle-east-cooperation-in-an-age-of-geopolitical-turbulence/> (accessed 13 June 2021).

Iran as a Case Study for Chinese Geostrategic Regional Policy

China’s economic relations with Iran are nowhere near as pronounced as those with other countries in the Middle East (see Chart 1, p. 9). Nevertheless, the relationship with Iran is of great political importance, as it has a decisive influence on regional stability. A conflict between Iran and one of its neighbours could jeopardise regional stability and thus also China’s investments in the region. For this reason alone, the PRC is unlikely to have any interest in Iran becoming a nuclear power, though it is probably even more important for the Chinese leadership that Iran does not develop into a competitor as a nuclear power. Iran also plays a major role in American foreign policy because of this potential threat to the region and the global security structure. From China’s perspective, this has helped distract the US from the Asia-Pacific region. China would probably like to see this situation continue – if necessary with Chinese support.

The sanctions regime imposed on Iran for its nuclear weapons programme illustrates this ambivalence. China supported the diplomatic efforts of the E3+3 to resolve the Iranian nuclear weapons issue, which led to the signing of the JCPOA in 2015, and subsequently supported the gradual easing of inter-

national sanctions against Iran. China's interests were thus aligned with those of the US and the EU. Its calculated decision to participate in the JCPOA negotiations was based on the very fact that it had to fulfil its obligations and status as a permanent member (P5) of the UNSC. As a P5 power, it was indispensable for China to play a role in such important negotiations in the then-new E3+3 format. Since then, it has used this contribution to underline that it acted as a responsible world power. Another motive in the negotiations may have been to avert possible damage to its economic interests in Iran.

Yet China simultaneously undermined the sanctions imposed by the US and its allies — as it undermines them today under different conditions (cf. p. 21 and pp. 26ff). The background to this is by no means only economic interests, but also geopolitical considerations. China seems to be pursuing a balancing act that is presumably intended to improve relations with Tehran without challenging the United States. At the same time, China wants to gain influence in Iran at the expense of the US.

First, it is worth taking a closer look at the discourse of Chinese regional experts and opinion leaders. Chinese regional experts are only rarely allowed to deviate from the official party line; for this reason alone, their statements are revealing. They show that the debate on the Western “balance of power” theory has found its way into the Chinese discourse, which in turn makes it clear that China is grappling with both the geostrategic consequences of its rapid rise and the American discourse in response to the changing world order.

What has particularly attracted China's interest is the expansion of the key concept of the balance of power (cf. pp. 10ff.) by distinguishing between hard balancing of power and soft balancing.¹³ This conceptual expansion has had an impact on ideas of how Chinese foreign policy could be shaped (cf. pp. 14ff.). Chinese discourse underpins the shifts in the country's foreign policy, in which hard or soft balancing is increasingly becoming a feature of a geostrategic regional policy.

Second, this discourse has already been transferred to Chinese policy-making (cf. pp. 19ff. and pp. 24ff.). Chinese balancing policy can be empirically proven by analysing China's Iran policy, because here these

very elements of soft and well-calibrated hard balancing are a constituent part of China's foreign policy strategy towards the US. This foreign policy strategy also indirectly affects the policy of European states in the Middle East.

Balance-of-Power Politics in China's Discourse and Foreign Policy

Until well into the 1980s, international relations theory in Chinese political science was guided by Mao Zedong's ideas, which were influenced by Leninist-Trotskyism and essentially orientated towards strategies of armed conflict.¹⁴ It was not until the country opened up economically, and subsequently also academically, in the mid-1980s that concepts from Western political science began to be taken seriously. With China's rapid political rise, Chinese political scientists have orientated themselves on the work of mainly American theorists.

The (Western) idea that hegemony-building is not possible in a multi-state system was, and is, highly attractive to Chinese theorists.

As long as China remained unsure of its new position in the world, classical balancing politics — in the sense of balance of power and balancing, which occupies a key position in the realist school of thought and theory — exerted the greatest attraction on Chinese theorists. This assumes that hegemony formation is unfeasible in a multi-state system since hegemony is perceived as a threat by other states, causing them to balance the power of a potential hegemon. According to Raymond Aron, balancing politics obeys “the prudence necessary for those states which wish to preserve their independence and not be subjected to the arbitrariness of another state with irresistible means at its disposal”.¹⁵ This idea also corresponded to the wishes of the People's Republic, which was

¹³ See Zhen Han and T. V. Paul, “China's Rise and Balance of Power Politics”, *The Chinese Journal of International Politics* 13, no. 1 (2020): 1–26 (4–6).

¹⁴ See “Völker der ganzen Welt, vereinigt euch, besiegt die US-Aggressoren und alle ihre Lakaien”, Mao Tse Tung, *Reden und Schriften*, vol. V (Hamburg: Verlag Arbeiterkampf, 1977), 161f; see also Sebastian Haffner, “Der neue Krieg. Einleitender Essay”, Mao Tse-tung, *Theorie des Guerillakrieges oder Strategie der Dritten Welt* (Reinbek: Rowohlt, 1966), 5–34.

¹⁵ Raymond Aron, *Frieden und Krieg. Eine Theorie der Staatenwelt* (Frankfurt: S. Fischer, 1986), 595.

gradually re-establishing itself on the international stage.

American advocates of the “primacy” strategy in the 1990s called for the greatest possible power advantage for the US over all potential rivals. This coincided with a situation in China in which the country was preparing to view the US as its direct counterpart, both peacefully and competitively. At this point, many representatives of the neo-realist school of theory assumed in any case that the US's supremacy would sooner or later be replaced by that of another actor.¹⁶

In Chinese literature, the terms “soft balancing” (*ruan zhiheng*) and “hard balancing” (*ying zhiheng*) can be found quite early. In his 2014 essay on concepts and theories of international relations, for example, the Chinese scholar Liu Feng discusses the role of “soft power” and “hard power” in balancing politics.¹⁷ At the heart of Liu Feng's analysis is his criticism that the concepts of soft and hard balancing as well as institutional balancing (*zhidu zhiheng*) have expanded the original meaning of balance-of-power politics. He argues that this is merely an ad hoc modification that does not do justice to the basic assumption, argumentation or logic of balancing. Soft balancing, according to Liu, does not balance the power of hegemony by strengthening one's own power position and accordingly changes neither the behaviour of the hegemon nor the existing power structure.

In 2011 the Chinese political scientist Qi Huaigao analysed the balance of power between China and the United States in the Asia-Pacific using institutional balancing.¹⁸ According to Qi, China and the US have introduced institutional checks and balances through the international system as their economic interdependence has deepened. The institutional power of

both countries has thus increased. Qi warns that China and the US may choose a hard balancing to control each other; and that China must be cautious about Sino-American confrontation and continue to implement and improve its balance-of-power strategy, but only within the framework of institutional balancing.

Xie Lichen and Qi Shujie note in a 2015 article that China began with a soft balancing policy towards the US. This was shown, for example, in the UNSC when China voted alongside Russia on the Syria issue against the preferences of the United States. The two authors could not identify a development towards hard balancing, but point out that whether or not China's foreign policy will develop in the direction of a hard balance depends on two factors: changes in the balance of power between countries such as China or Russia and the United States, and the legitimacy of US hegemony.¹⁹

Today, the PRC can be considered a great power that no longer fits into the category of soft balancing. Nevertheless, China has so far only rarely used its military might to directly challenge the military might of another state (such as in the border war with India in 1962). Rather, China definitely relies on soft balancing to balance the power of a more powerful country – and today the only such country is the US. Even if China has not yet challenged the US militarily, it is emerging as the power with the greatest potential in the coming decades to change the power structure determined by US primacy.

According to the English political scientist Stephan Gill, China is primarily pursuing a strategy of soft balancing vis-à-vis the US and has so far been successful in this in two ways. First, it has promoted multilateral institutions that exclude the US, such as the Shanghai Cooperation Organisation (SCO), a regional cooperation forum for China, Russia and Central Asia that now consists of nine members (other countries have observer, dialogue partner or guest status). Such an approach is described in the literature as “institutional balancing”; it means defending oneself against pressure or threat by creating, using and dominating multilateral institutions.²⁰ Second, China has strengthened

¹⁶ See, for example, Joseph S. Nye, Jr.: “Whether other countries will unite to balance American power will depend on how the United States behaves as well as the power resources of potential challengers.” Joseph S. Nye, Jr., *The Paradox of American Power. Why the World's Only Superpower Can't Go it Alone* (New York: Oxford University Press, 2002), 17.

¹⁷ Liu Feng, “Gainian shengcheng yu guoji guanxi lilun chuangxin liu feng” [Concept generation and theoretical innovation in international relations], *Guoji zhengzhi yanjiu* [The Journal of International Studies], no. 4 (2014): 26–39.

¹⁸ Qi Huaigao, “Lengzhan hou zhong mei zai dongya de zhidu junshi ji dui zhongguo de qishi qihuaigao” [The balance of power between China and the US in post-Cold War East Asia and implications for China], *Shijie Zhengzhi* [World Politics], no. 7 (2011): 94–110.

¹⁹ See Xie Lichen and Qi Shujie, “‘Ruan zhiheng’ lilun de neizai luoji yu shizheng fenxi” [The internal logic and empirical analysis of soft balancing theory], *Xiya Feizhou* [West Asia and Africa], no. 5 (2015): 81–97.

²⁰ See Kai He's theory of institutional balancing: Kai He, “Institutional Balancing and International Relations Theory: Economic Interdependence and Balance of Power Strategies

its bilateral relations with countries that either have weak relations with the US or, in China's perception, have the potential or desire to break away from US influence.²¹ Examples are the Philippines and Sri Lanka in Asia, Djibouti and Tanzania in Africa, and Brazil and Venezuela in Latin America.

Thus, from the Chinese perspective, it makes sense to deepen relations with Middle Eastern countries not only for economic reasons, but also for political ones, as the Chinese government's influence in the region could be expanded while the American influence would be reduced. If Chinese influence grows, so the calculation goes, it becomes less likely that Middle Eastern countries will cooperate with the United States, which would limit the US's ability to act unilaterally. This means that Chinese foreign policy in the Middle East is initially about pushing back US influence. It is not (yet) about balancing US influence by hard means, for example in the form of a military alliance or bloc formation.

However, the more powerful China becomes and the more it tries to position itself as a world power, the more hard balancing will become part of China's foreign policy. For example, China's strategic partnership with Pakistan contains some hard balancing components vis-à-vis India. Foremost among these is China's now half-century-long military support to Pakistan, including Pakistan's nuclear weapons programme.²² Hard balancing also involves China building up its own military capabilities — as evidenced by its navy's presence in the South China Sea. China's balancing policy in the Middle East also increasingly features hard elements, for example in the form of closer military relations with states such as Saudi Arabia, or Chinese arms sales to Iran, Saudi Arabia or Syria. From 2016 to 2020, for example, China increased its arms transfers to Saudi Arabia by 386 per cent and to the UAE by 169 per cent compared to the period 2011 to 2015 (see Chart 2, p. 13).²³

While China's share is still insignificant compared to that of other traditional arms exporters, these figures nevertheless signal China's systematic entry into the region.

Thus, China's balancing policy is continuously moving towards a hard balance, which is visible not least in its attempt to counter its rivals, first and foremost the US, by means of a "limited hard balancing". According to T.V. Paul, this "limited hard balancing" is based on informal alliances or strategic partnerships in which there is some military coordination, such as joint military exercises.²⁴

In this sense, it is not enough to differentiate between non-military and military measures in the case of the PRC; this analysis shows that China's key objective is to push back American influence and to counter it with its own ideas of the global order. Its regional balancing policy in the Middle East ultimately also focuses on the goal of creating or increasing a counterweight to the power of the US.

in Southeast Asia", *European Journal of International Relations* 14, no. 3 (2008): 489–518.

²¹ See Stephan Gill, "China's Soft Balancing Strategy and the Role of Resource Investment", *Yonsei Journal of International Studies* 2, no. 2 (2010): 247–58, <https://yonseijournal.files.wordpress.com/2012/08/china-soft-balancing.pdf> (accessed 11 June 2021).

²² See Rosemary Foot, "Chinese Strategies in a US-Hegemonic Global Order: Accommodating and Hedging", *International Affairs* 82, no. 1 (2006): 77–94 (93).

²³ See Bradley Bowman, Jared Thompson and Ryan Brobst, "China's Surprising Drone Sales in the Middle East", *Defense*

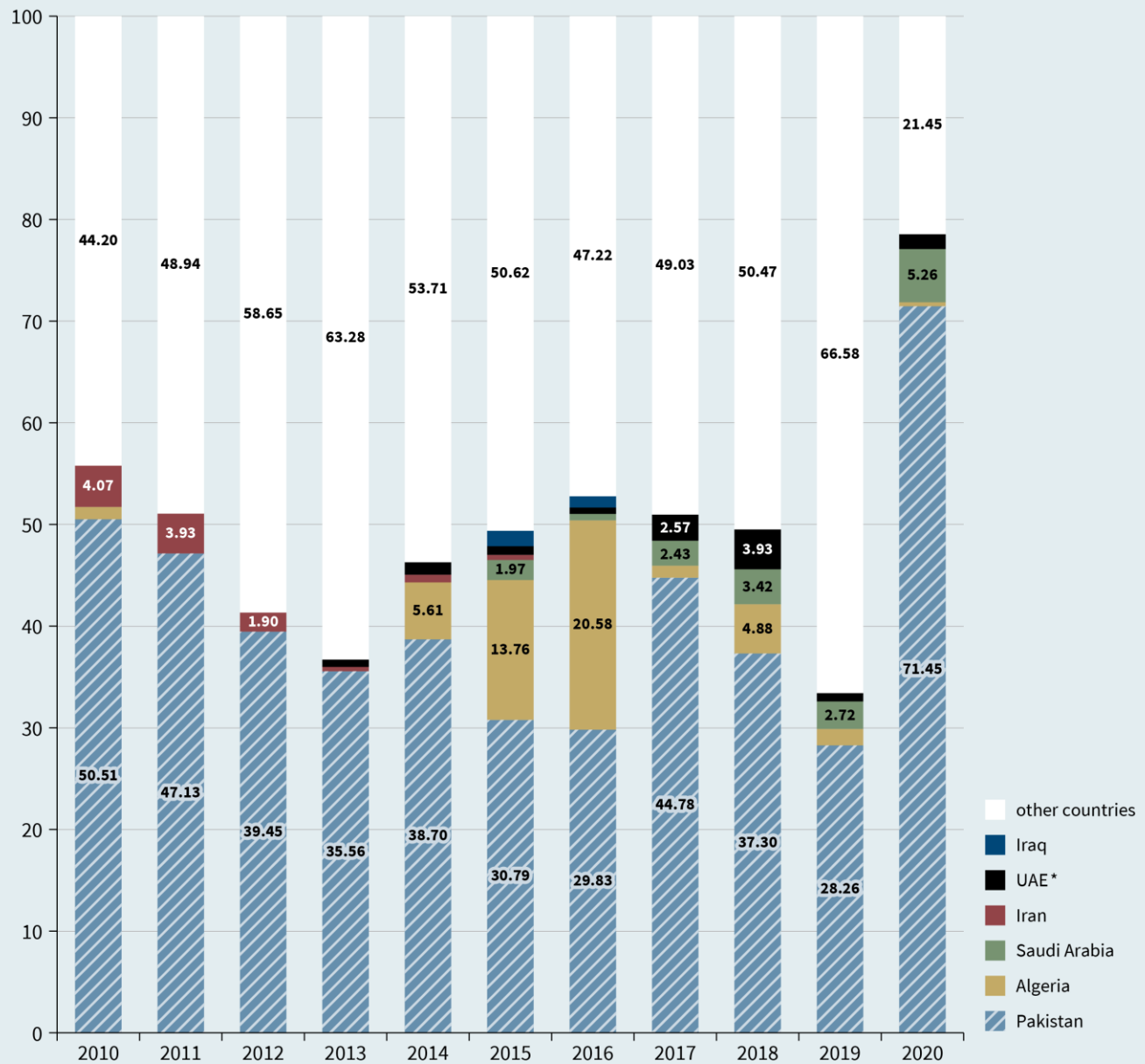
News, 23 April 2021, <https://www.defensenews.com/opinion/2021/04/23/chinas-surprising-drone-sales-in-the-middle-east/> (accessed 4 July 2021).

²⁴ See T. V. Paul, *Restraining Great Powers. Soft Balancing from Empires to the Global Era* (New Haven, CT: Yale University Press, 2018), 22; T. V. Paul, "Introduction: The Enduring Axioms of Balance of Power Theory and Their Contemporary Relevance", in *Balance of Power. Theory and Practice in the 21st Century*, ed. T. V. Paul, James J. Wirtz and Michel Fortmann (Stanford, CA: Stanford University Press, 2004), 1–29 (3).

Chart 2

Chinese arms exports to Iran and other Middle Eastern countries as well as Pakistan, 2010–2020

Shares in percentages



Source: SIPRI Arms Transfers Database (as of 15 March 2021).

In order to make the transfer of military resources comparable, SIPRI measures the export value using a standardised value (Trend Indicator Value, TIV). This is given in million US dollars at constant prices (1990), but in contrast to GDP, for example, is not to be understood as a financial value. Shares rounded.

* United Arab Emirates

© 2021 Stiftung Wissenschaft und Politik (SWP)

Source: author's calculation based on SIPRI Arms Transfers Database, Importer/Exporter TIV Tables (Solna: Stockholm International Peace Research Institute [SIPRI]), <http://armstrade.sipri.org/armstrade/page/values.php> (accessed 15 March 2021).

China's Discourse on the Balance of Power in the Middle East

It quickly becomes apparent that Chinese regional experts foreground China's economic interests and advocate avoiding competition in the relationship with the US. Here, the argument is mainly for a more active role for China in the Middle East (i.e. also in Iran), without any mention of a possible balancing policy vis-à-vis the US.

If China significantly expands its relations with Iran (and at the same time moves towards stronger balancing vis-à-vis the US), this will also mean for the Middle East that China must intensify its relations with Iran's neighbours so as to keep its relationships within the region balanced. Traditional narratives in Chinese foreign policy give an insight into this issue. Chinese officials and regional experts cite the principle of non-interference in particular when talking about the complexity of relations with Middle Eastern states — some of which are bitterly hostile to each other — and advocate cultivating friendly, multi-dimensional cooperation with all countries in the region.²⁵

The principle of non-interference, originally derived from the United Nations Charter,²⁶ is part of the “Five Principles of Peaceful Coexistence” within Chinese foreign policy: territorial integrity, mutual renunciation of aggression, mutual non-interference in internal affairs, equality and mutual benefit in peaceful coexistence. China has long promulgated the five principles as the general foundation for relations between states. Its foreign policy strategy is based on them, which means that China maintains a degree of neutrality and impartiality in conflicts between states

of the Middle East and does not engage in substantive mediation or interference.

From the Chinese point of view, it is in the Middle East that this is particularly relevant as most states in the region suffer from the bias of the former colonial powers or the US. This approach of China's, aiming for balanced relations with all of its partners in the region that are in conflict with Iran, as well as with Iran itself, is also referred to as a regional balancing (*pingheng*) policy, and forms a supporting element of Chinese foreign policy. Accordingly, the question of how China can reconcile a more active Iran policy with this multi-directional balancing policy is also being discussed in academic circles.

There is still no consensus among Chinese academics and opinion leaders on how strategically important Iran is (or could become) for China. However, the Chinese discourse on Iran shows that there are also voices calling not only for a soft but a hard balance, i.e. for China to use its relations with Iran to balance US influence with hard means. While one side argues that the best way for China to protect its interests in the region is not through political assertiveness, the other side argues that geopolitical assertiveness can better protect its interests.

The Discourse beyond Balancing

There is no reference in the official Chinese rhetoric to the balancing policy already in place in the Middle East, but it does reflect the language set by head of state and party leader Xi Jinping. It says, for example, that “cooperation with Middle East countries embodies China's diplomatic philosophy”, namely “a new type of international relations featuring win-win cooperation rather than a geopolitical game with a

²⁵ See Sun and Zoubir, “China's Participation in Conflict Resolution in the Middle East” (see note 3).

²⁶ *Charter of the United Nations*, Art. 2(7).

zero-sum mentality”.²⁷ The majority of Chinese regional experts argue along this official line, which mentions that China has a better foreign policy than the US, but does not speak of an actual front being formed.

Some representatives of this official line point out that the rivalry between China and the US in the Asia-Pacific is not likely to have a major impact on the Middle East or the two countries’ policies towards the region.²⁸ One expert said that the United States was and would remain the dominant country in the security structure of the Middle East. China, another expert stated, would have neither the strength nor the will to challenge America’s dominant position in the Middle East in the next 15 to 20 years.²⁹ However, the US could not solve all the problems in the region on its own: it would require China’s participation. Here, the PRC was ready to share responsibility and play a positive role in the resolution of the Iranian nuclear issue, the Syrian peace process, non-traditional security and the development of the Middle East.

Sun Degang also emphasises that China has no intention of competing geopolitically or ideologically with other major powers in the Middle East.³⁰ China, he claims, is engaged in “partnership diplomacy” (*huoban waijiao*) with the aim of “finding friends” (*jiao pengyou*), not in alliance diplomacy (*lianmeng waijiao*) to “find enemies” (*zhao diren*). In other words, for him Chinese partnership diplomacy differs from Western alliance diplomacy primarily in its approach to promoting peace and security.

Chinese officials as well as regional experts are calling for China to become involved as a mediator in regional conflicts in the Middle East.

Officials and regional experts alike are now calling for China to play a more active role in the region as

well as in Iran. China’s former ambassador to Riyadh, Wu Sike, told the *Shanghai Observer* that the goal of Wang Yi’s visit to the Middle East in March 2021 was to find ways for China to become more involved in regional affairs, including mediation between Iran and Saudi Arabia.³¹ Chinese experts believe that the best way for China to contribute is to act as a mediator in regional conflicts.

Sun Degang and Yahia Zoubir, for example, argue for more active mediation diplomacy to promote more stable, strategic cooperation in the region.³² So far, Chinese arbitration has been limited to quasi-mediation diplomacy, with China spending few diplomatic resources and only participating in mediation led by others — and this solely to demonstrate its presence. The authors argue for a stronger Chinese role in mediation, for example between Iran and Saudi Arabia, between Iran and the UAE, and between Israel and Palestine. They see this as an opportunity to give Chinese diplomacy greater weight, especially as the US and European powers are increasingly involved in their respective domestic affairs. China therefore should not limit itself to quasi-mediation diplomacy, they contend, if it wants to assert its growing global interests — that is, safeguard its national interests and simultaneously expand its political influence — and it should also engage in regional security and conflict issues.

China initiated such a security engagement in October 2020. At a UNSC meeting, Chinese Foreign Minister Wang Yi proposed a platform for multilateral dialogue in the Gulf region to discuss current regional security issues and manage crises. This dialogue, he suggested, should initially address less sensitive issues such as energy or trade, with the option of gradually expanding the agenda to include the more sensitive topic of regional security.³³ Although official language avoids giving the impression that China’s policy decisions are influenced by its

27 “Wang’s Mideast Visit Secures Vaccine Joint Production, Expands Philosophy of Win-win”, *Global Times*, 29 March 2021, <https://www.globaltimes.cn/page/202103/1219777.shtml> (accessed 2 June 2021).

28 Author’s email interview with a Chinese Middle East expert, 1 February 2021.

29 See *ibid.*

30 See Sun Degang, “Lun 21 shiji zhongguo dui zhongdong guojia de huoban waijiao” [On China’s partner diplomacy towards Middle Eastern countries in the 21st century], *Shijie jingji yu zhengzhi* [World Economics and Politics], no. 7 (2019): 106–30.

31 See Shi Jiangtao, “China’s 25-year Deal with Iran Marks ‘Momentous’ Change as Ties with US Sour, Says Former Ambassador”, *South China Morning Post*, 28 March 2021, <https://www.scmp.com/news/china/diplomacy/article/3127346/china-s-25-year-deal-iran-marks-momentous-change-ties-us-sour> (accessed 1 April 2021).

32 See Sun and Zoubir, “China’s Participation in Conflict Resolution in the Middle East” (see note 3).

33 “China Proposes Gulf Region Multilateral Dialogue Platform for Easing Tensions”, *Xinhua*, 21 October 2020, http://www.xinhuanet.com/english/2020-10/21/c_139454932.htm (accessed 4 December 2021).

pursuit of a balancing policy towards the US, its increased engagement has the potential to reduce US influence in the Middle East region in the long run, or at least make it more difficult to enforce.

“Great Power Diplomacy” instead of Regional Balancing

The question arises as to whether a more pronounced Chinese foreign and security policy engagement is at odds with China's balancing policy in the Middle East. While the PRC is in favour of Iran playing a role in the security architecture of the Middle East, regardless of how the latter is shaped, its approach contrasts with the Iran policy pursued by countries such as Saudi Arabia or the United Arab Emirates. China's balancing policy continues to be a challenge for its diplomats, because any decision the leadership makes regarding relations with Iran must also take into account the reactions of other Middle Eastern states.

While China's foreign policy in the Middle East and Iran continues to be restrained and takes no real risks regarding the regional balance, Beijing nevertheless seems to consider itself less and less bound by the traditional policy of restraint in the region. One of the most prominent Chinese experts on Iran, Fan Hongda, for example, argues that China's restraint does not serve its own interests in the Middle East.³⁴

So far, China has managed to balance a steadily more active foreign policy in the Middle East by gradually expanding relations with Iran as well as its neighbours economically and increasingly also in the security sphere (with both Iran and Saudi Arabia). Recent reports have revealed, for example, China's role in developing nuclear facilities for Saudi Arabia, Tehran's arch-rival. This marks a departure from the traditional Chinese policy of not becoming involved in security issues in certain regions, including the Middle East — at least not in cases where doing so could entail risks that are difficult to assess.

Here the difference between the principle of non-interference and a policy of balancing becomes apparent: balancing is technically also possible when China does interfere, as long as it still balances its relations

with *all* states in the Middle East in the process. The term of non-interference, which used to be applied very frequently, is now only used when it serves Chinese interests — and they have moved away from that principle. In a speech on the occasion of the 100th anniversary of the Chinese Communist Party in 2021, Xi Jinping did not mention the “Five Principles of Peaceful Coexistence” even once. He thus deviated from a decades-old tradition of emphasising this foreign policy concept at length.³⁵

Domestic Chinese discourse also increasingly broaches the fact that the greatest risk for China's balancing policy in the Middle East could indeed come from the US.³⁶ After all, Sun Degang and Wu Sike call the Middle East a “key region in Chinese-style great power diplomacy in this new era”.³⁷ Keeping to the official line, some academics argue that a more active role for China in the Middle East may also be necessary because neither China nor the Middle Eastern states could rely on the United States to maintain regional security and thus secure the energy supply and goods flow in the long term.³⁸ Accordingly, China's growing presence in the region would have to include a greater role in security issues.

Other experts, who also advocate hard balancing, suspect that the US might ask allied states in the region to choose sides, and that the Middle East could thus become the setting or battleground for a new Cold War between China and the US. In this case, China would probably also feel compelled to demand that its partners in the region take a clear position.

China's rivalry with the United States has long found a stage in US-dominated regions outside Asia as well, as here on the periphery of Europe. Thus, Chinese foreign policy in the Middle East and especially in Iran is likely to be less and less about regional

34 Fan Hongda, “Jiji yingdui zhongdong weilai xin tujing” [Actively responds to the new vision of the future of the Middle East], *Global Times*, 21 October 2020, <https://opinion.huanqiu.com/article/40MwcQxtu6E> (accessed 11 August 2021).

35 See The PRC State Council, *Xi Jinping: Zai qingzhu zhongguo gongchandang chengli 100 zhounian dahui shang de jianghua* [Xi Jinping's speech at the celebration of the 100th anniversary of the founding of the Communist Party of China], 1 July 2021, http://www.gov.cn/xinwen/2021-07/01/content_5621847.htm (accessed 4 December 2021).

36 Author's email interview with a Chinese expert, 21 February 2021.

37 See Sun Degang and Wu Sike, “Xin shidai zhongguo canyu zhongdong anquan shiwu linian zhuzhang yu shijian tansuo” [China's involvement in Middle East security affairs in the new era], *Guoji wenti yanjiu* [International Issues], no. 4 (2020): 1–19.

38 Author's interview via video conference with a Chinese expert, 25 May 2021.

balancing policy as such, and instead more and more about geostrategic regional policy vis-à-vis the US.

The Schools of Thought on Balancing

A majority of Chinese academics and think tank members still represent the economically orientated school of thought on China's Iran policy. This sees Iran as a significant player, but only in the regional context, and therefore not as China's most important partner. In particular, it considers the sanctions against Iran a burden that makes the country less attractive than others in the Middle East. Representatives of soft balancing, who advocate a certain counterweight to American influence in Iran, also do not seek a conflict with the US, as in their opinion such a conflict would primarily endanger China's economic interests.³⁹ The aim of this school of thought is therefore also to find ways to cooperate, rather than compete, with the US. At the same time, the PRC seeks to expand its political influence. From China's point of view, it is a sign of its political influence if it can win the support of the Middle Eastern countries for its key interests in international forums, for example regarding the human rights issue in Xinjiang or its claims in the South China Sea.⁴⁰

In its rivalry with the United States, China presents itself as a respected world power that can now also assert itself geopolitically in the Middle East vis-à-vis Europe, Russia and the US. In fact, the hard balance school of thought now considers Iran to be an extremely important component of US-China rivalry. For its representatives, a confrontation between Iran and the US, for example, would give China more leverage in the Asia-Pacific. Consequently, they see relations with Iran as a strategically significant lever that could lend itself to manipulative approaches; the better China succeeds in comprehensively strengthening Iran, the more closely the US will have to deal with the Iran issue, which will in turn distract it from geostrategic developments in the Indo-Pacific.⁴¹ As a result, Beijing has (or would have) more opportunities

to expand its influence in the Indo-Pacific. According to a Chinese expert, however, China will not play the "Iran card", since this would be strategically tantamount to a confrontation with other countries. China has so far avoided forming a military alliance or bloc with one or more partners in the Middle East.⁴²

For China, the extent of the US presence in the Middle East has direct implications for the capacity of the US government to increase its engagement in the Indo-Pacific. The Biden administration's announcement that it would withdraw the US from the Middle East is therefore highly relevant for Beijing. Chinese Middle East expert Jin Liangxiang, however, assumes that the US will not withdraw completely, but use the Middle East to try to contain Chinese influence.⁴³ The US has recognised that the Asia-Pacific and the Middle East cannot be considered independently of each other, geo-strategically speaking. The biggest challenge to China's Middle East strategy could therefore be any attempt by the US to develop a strategy that integrates the Asia-Pacific and the Middle East. The US could then continue to obstruct China's energy supply and its economic and trade cooperation with the countries of the Middle East.

There is a growing view in Chinese discourse that relations with Iran should be expanded regardless of the US response.

There is also a growing desire in Chinese discourse to pay less attention to the US presence. Fan Hongda rejects the view common among some Chinese academics that China should not develop closer relations with Iran because of potential US pressure.⁴⁴ He argues that China-Iran developments will have no impact on US hostility towards China because the US sees China as a greater threat than Iran in any

³⁹ Author's interview via video conference with a Chinese expert, 22 January 2021.

⁴⁰ In July 2019, Iran became one of 50 states to sign a letter to the UN Human Rights Council supporting Beijing's policy in Xinjiang.

⁴¹ Author's interview via video conference with a Chinese expert, 22 January 2021.

⁴² Ibid.

⁴³ See Jin Liangxiang, "Cong pingheng dao zhenghe: Bai deng zhengfu jiang yatai he zhongdong de zhanlue zhanwang" [From balance to integration: the Biden administration's strategic outlook for the Asia-Pacific and the Middle East], *Xiya Feizhou* [West Asia and Africa], no. 2 (2021): 26–46.

⁴⁴ See Chinese Middle East Scholar Fan Hongda: *Iran Should Understand that Cooperation with China Is a 'Win-Win' for Both Countries*, Special Dispatch no. 9037 (Washington D.C.: Middle East Media Research Institute, 17 November 2020), <https://www.memri.org/reports/chinese-middle-east-scholar-fan-hongda-iran-should-understand-cooperation-china-win-win-both> (accessed 3 August 2021).

case. Regardless of how China-Iran relations evolve, he claims, US hostility towards China will remain unchanged.

In view of the deteriorating relations between the US — “the first world power” — and China — “the second world power” — China should seek to expand political and economic cooperation with Iran, according to Fan Hongda.⁴⁵ Such an approach to Iran would be tantamount to open defiance of US sanctions against Iran, another Chinese expert says.⁴⁶ Fan recently acknowledged that there may come a point in the downward spiral of US-China relations when China would no longer consider the potential cost of violating US sanctions too high,⁴⁷ and suggested that China appeared to be taking the US into consideration less and less in its diplomacy with Iran.

⁴⁵ Ibid.

⁴⁶ Author's interview via video conference with a Chinese expert, 20 May 2021: “China no longer feels obliged to abide by US sanctions on Iran.”

⁴⁷ See Fan Hongda, “Yilang xuanbu yu hua 25 nian quanmian hezuo jihua, zhong yi guanxi neng fou jinyibu zou jin?” [Iran announces a 25-year comprehensive cooperation plan with China. Can China-Iran relations grow closer?], *Shanghai Observer*, 30 June 2021, <https://www.shobserver.com/news/detail?id=264494> (accessed 1 July 2021).

Soft Balancing in Chinese Policy-making

Iran is a striking example of how regulatory ideas on how to equalise the influence of the major world powers increasingly determine the thinking of the PRC's political elite. As China pushes to counter the US as a world power, geo-strategy plays an increasingly important role. China seeks both political and economic influence in Iran, but its discourse also unanimously points the finger at the US as the country that hinders the deepening of strategic cooperation between China and Iran.⁴⁸ Even if Iran and China's relations with the US were to improve under the Biden administration, they would remain constrained by US-determined factors.

From this perspective, it is understandable that China should engage in measures that counter the US's influence at least to some extent. That China's Iran policy has become "geo-politicised" is already evidenced by activities that initially took place within the framework of soft balancing vis-à-vis the US. China's economic relations with Iran, for example, primarily undermine American efforts to isolate Iran in the world community. In doing so, Beijing directly and indirectly violates US sanctions. The recently agreed 25-year partnership between China and Iran should also be seen in the context of the China-Iran-US relationship triangle. The consequences of this Chinese policy are no less relevant for Germany and the EU.

China's Economic Engagement

The PRC initially benefited from the UN Security Council's far-reaching economic sanctions (2006) and tightened sanctions (2009) against Iran. European companies had an economic foothold in the country before withdrawing from the Iranian market; by 2008

China had displaced Europe as Iran's largest supplier of industrial components and manufacturing machinery.⁴⁹ Annual trade between China and Iran increased more than ninefold between 2003 and 2014, from US\$5.6 billion to a record high of US\$51.8 billion.⁵⁰ In the same period, trade between Iran and the EU fell by 55 percent.⁵¹

However, with the conclusion of the nuclear deal in 2015 and the subsequent lifting of sanctions, trade between Iran and China decreased as European companies once again entered the Iranian market. Until the US withdrawal from the JCPOA under President Donald Trump in May 2018 led to the re-imposition of US sanctions, the PRC's annual trade figures (exports and imports) roughly ranged from US\$30 to US\$36 billion. This was not in line with Chinese expectations, as Beijing had significantly increased its diplomatic engagement with Iran since 2015. During the Chinese president's visit in 2016, China-Iran relations were upgraded to a "comprehensive strategic

⁴⁹ See Lucille Greer and Esfandiyar Batmanghelidj, *Last among Equals: The China-Iran Partnership in a Regional Context*, Occasional Paper Series no. 38 (Washington, D.C.: Wilson Center, September 2020), <https://www.wilsoncenter.org/publication/last-among-equals-china-iran-partnership-regional-context> (accessed 4 July 2021).

⁵⁰ See Borzou Daragahi, "China Goes beyond Oil in Forging Ties to Persian Gulf", *The New York Times* (online), 13 January 2005, <https://www.nytimes.com/2005/01/13/business/world-business/china-goes-beyond-oil-in-forging-ties-to-persian.html> (accessed 5 July 2021); China General Administration of Customs via *CEIC Database*, <https://www.ceicdata.com/en/china/usd-trade-by-country/import-asia-iran> (accessed 8 December 2021).

⁵¹ European Commission, *European Union, Trade in Goods with Iran*, 2 June 2021, https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_iran_en.pdf (accessed 8 December 2021).

⁴⁸ See for example Lu and Song, "Yilang yu zhongguo zhanlue hezuo de dongyin ji zuli" (see note 10).

partnership”,⁵² and China pledged to increase bilateral trade with Iran more than tenfold, to US\$600 billion, by 2026.⁵³

However, the gradual escalation of US sanctions against Iran under the Trump administration led to significant disruption to economic exchanges between Iran and China. With the re-imposition of sanctions by the Trump administration’s Executive Order 13846 of August 2018, trade between China and Iran continued to decline as companies operating in Iran feared punitive measures by the US. In 2019 the total value of China-Iran trade was around US\$23 billion and in 2020 just under US\$14.9 billion (see Chart 1, p. 9). The trend of Chinese investments in Iran was quite different: at least until 2020, they increased, from US\$468 million in 2004 to US\$3 billion in 2019 (mainly in the energy and raw materials sectors) to about US\$3.5 billion in 2020. Nevertheless, Iran accounts for only 0.14 percent of total Chinese investment holdings abroad.⁵⁴

Prominent Chinese companies have also been prompted by the sanctions to reduce or halt their business with Iran. In 2019, for instance, the state-owned China National Petroleum Corporation (CNPC) pulled out of the US\$5 billion South Pars natural gas development project, which would have been the largest Chinese investment project in Iran to date.⁵⁵ Another example is Chinese technology companies leaving Iran, such as computer maker Lenovo Group,

which banned its distributors from selling in the Iranian market in 2019, or Huawei, which in March of the same year, reportedly withdrew most of its 250 employees from Iran.⁵⁶ In other words, while the sanctions initially benefited China, this is no longer the case due to the tense US-Iranian relationship as well as the intensifying conflicts between the US and China since 2018.

Beijing has nevertheless been trying to establish influence over the US through economic, i.e. soft, means. China has become an essential economic partner of Iran despite the US sanctions and the Trump-initiated campaign of pressure on Tehran. This is all the more true at present, since the Iranian economy has been severely affected by the Covid-19 pandemic. China is already Tehran’s largest trading partner; one third of Iranian exports go to China (see Chart 3, p. 21). To a not insignificant extent, Beijing has directly or indirectly circumvented or put up with the sanctions, both to cultivate its economic interests in Iran (keyword: oil supplies) and to form at least a symbolic front with Iran against the US.

The BRI can also be seen as an instrument of soft balancing. Even if China’s investment in Iran under the BRI has made slow progress, Beijing is nonetheless supporting infrastructure development in the country by helping to finance and build national railway lines that integrate Iran’s hinterland into larger regional networks. In 2018, for example, the China National Machinery Industry Corporation signed a US\$845 million contract to build a railway linking the cities of Hamedan and Sanandaj in western Iran with Tehran, to be completed in 2022. In addition, China has reportedly provided a loan of US\$1.9 billion for the construction of a high-speed railway from Tehran to Iran’s Isfahan province, through China Railway Group.⁵⁷ Iran benefits from such much-needed infrastructure projects. According to a 2019 World Bank model that assesses the Gross Domestic Product (GDP) and welfare benefits of BRI transport infrastructure,

52 Official Website of the President of the Islamic Republic of Iran, *Full Text of Joint Statement on Comprehensive Strategic Partnership between I. R. Iran, P. R. China*, 2016, <https://www.president.ir/EN/91435> (accessed 1 December 2021).

53 China has five comprehensive strategic partnerships in the Middle East: with Algeria, Egypt, Iran, Saudi Arabia and the United Arab Emirates.

54 “Last among Equals: Iran-China Relations”, *The Iran Primer* (Washington D.C.: United States Institute of Peace, 6 October 2020), <https://iranprimer.usip.org/blog/2020/oct/06/last-among-equals-iran-china-relations> (accessed 14 December 2021); author’s calculation based on Ministry of Commerce of the People’s Republic of China, *Statistical Bulletin of China’s Outward Foreign Direct Investment 2020* (Beijing: September 2021), Annex Table 2, p. 153, <http://images.mofcom.gov.cn/hzs/202110/20211014083913502.pdf> (accessed 13 December 2021).

55 See Arsalan Shahla and Verity Ratcliffe, “CNPC Quits Flagship Iran Gas Project as Sanctions Bite”, *Bloomberg*, 9 October 2019, <https://www.bloomberg.com/news/articles/2019-10-06/iran-says-china-s-cnpc-is-no-longer-part-of-giant-gas-project> (accessed 13 April 2021); AEI, “China Global Investment Tracker” (see note 8).

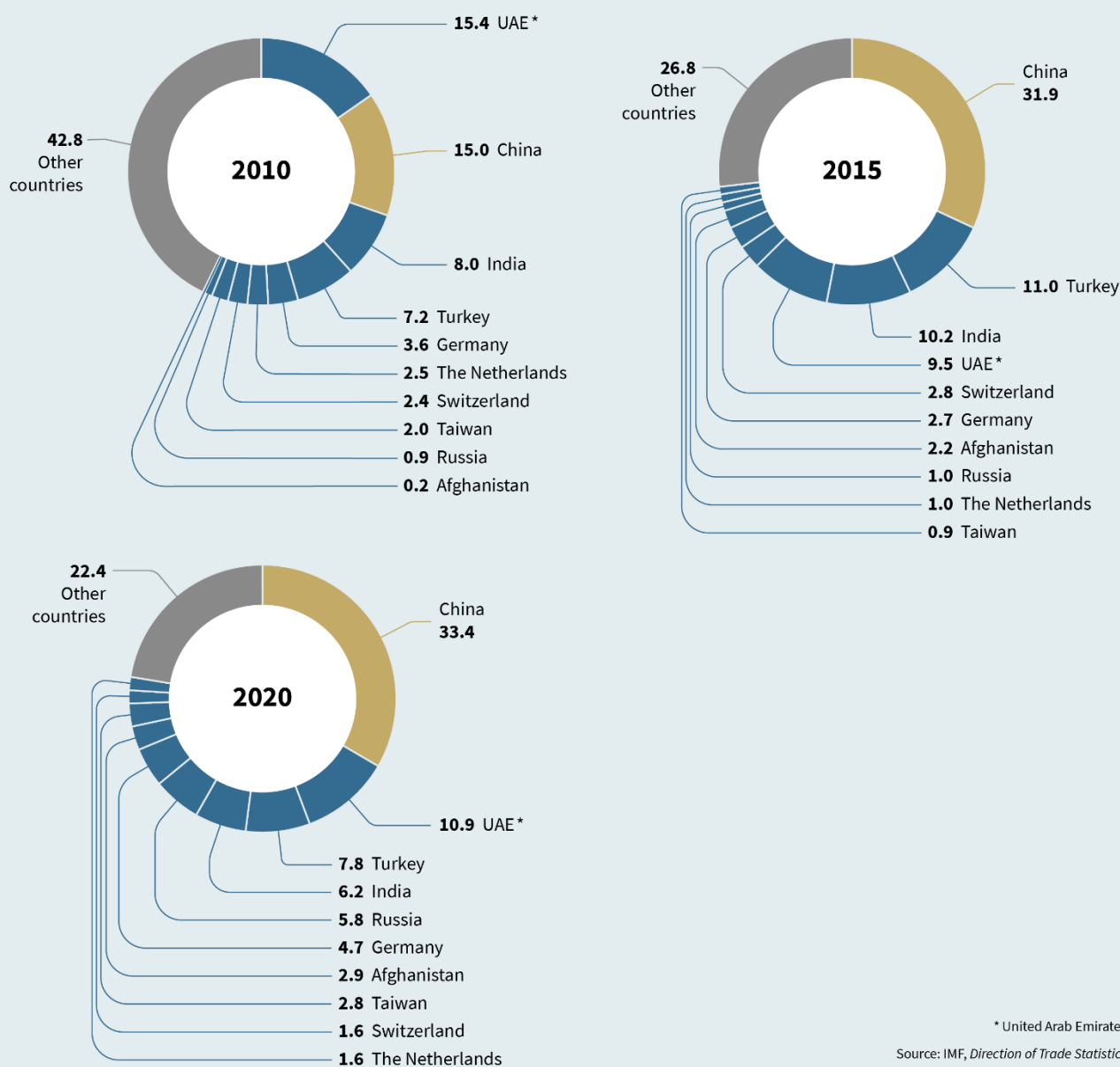
56 See Benoit Faucon and Sune Engel Rasmussen, “Asian Companies Pull Back from Iran amid U.S. Pressure”, *Wall Street Journal* (online), 24 April 2019, <https://www.wsj.com/articles/asian-companies-pull-back-from-iran-amid-u-s-pressure-11556133979> (accessed 8 July 2021).

57 See “China Reopens \$1.9b L/C [letter of credit] for Tehran-Qom-Isfahan Railroad Project”, *Financial Tribune*, 18 December 2019, <https://financialtribune.com/articles/domestic-economy/101287/china-reopens-19b-lc-for-tehran-qom-isfahan-railroad-project> (accessed 13 June 2021).

Chart 3

China as an economic partner of Iran compared to other countries

Trade (imports and exports), shares in percentages



Source: IMF, *DOTS*, <https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85> (accessed 3 June 2021).

such investments can increase Iran's GDP and welfare by up to 6.18 and 5.34 percent, respectively.⁵⁸

⁵⁸ See François de Soyres, Alen Mulabdic and Michele Ruta, *Common Transport Infrastructure. A Quantitative Model and*

Estimates from the Belt and Road Initiative, Policy Research Working Paper 8801 (Washington, D.C.: World Bank Group, April 2019), <http://documents1.worldbank.org/curated/en/879031554144957551/pdf/Common-Transport-Infrastructure-A-Quantitative-Model-and-Estimates-from-the-Belt-and-Road-Initiative.pdf> (accessed 6 August 2021).

China's Violations of US Sanctions

The US sanctions re-imposed by the Trump administration in 2018 include measures to dry up the Iranian government's revenues from oil exports. Notwithstanding this, China is said to have continued to import significant amounts of Iranian oil through various cover-ups and other methods to evade the sanctions.⁵⁹ According to media reports, based on published data from Refinitiv Oil Research, China's "unofficial" purchases of Iranian oil with fake identification from countries such as Malaysia, the UAE and Oman have increased significantly since the end of 2020, probably in anticipation of an easing of sanctions by the new US administration under Biden.⁶⁰

Chinese import data, however, paint a different picture. According to official data, Chinese purchases of Iranian oil fell significantly in 2019 and in the following year as well. In 2020 China's official imports of Iranian oil allegedly averaged just US\$118 million per month, down from US\$589 million per month in 2019 – a decline of 82 per cent.⁶¹ Chinese data also suggest that Beijing has reduced its imports to avoid penalties from the US for violating sanctions, such as losing access to its US bank accounts. Nevertheless, China is likely at the very least to have imported more Iranian oil than the official figures reflect. By continuing to buy oil from Iran, Chinese companies are knowingly violating US sanctions against the country and supporting the regime there.

Another prominent example of China's attempts to circumvent sanctions is the case of Huawei. Its chief financial officer Meng Wanzhou, daughter of the company's founder Ren Zhengfei, is under indictment by the US judiciary for allegedly violating US sanctions against Iran with intent to defraud. According to US authorities, she used an unofficial subsidi-

ary, Skycom Tech Company, to conduct business with Iran despite international sanctions and channelled the proceeds through the global banking system. In early December 2018, Meng was detained in the western Canadian city of Vancouver at the instigation of the US authorities; Canada released her to China in late September 2021 following an agreement with the US.

Signing of a 25-year Cooperation Agreement

China-Iran relations have received a political boost from a strategic memorandum of understanding signed at the end of March 2021. In it, the PRC and Iran agree to deepen their cooperation, especially economic cooperation, over a period of 25 years. However, details have not yet been officially made public.

In July 2020 the *New York Times* published details of the agreement from an 18-page document in its possession.⁶² The agreement allegedly provides for investment in Iran's oil and financial sectors, as well as infrastructure projects, worth US\$400 billion over the next 25 years. It also supposedly includes closer cooperation on nuclear energy, the development of the 5G telecommunications network and the military sector. However, the US\$400 billion figure cited in the *New York Times* and another report seems unrealistically high compared to other BRI investments. Pakistan, the only country in the BRI to build its own economic corridor (CPEC) with China, has been promised US\$46 billion (now probably at least US\$62 billion) from China for this purpose.⁶³

⁵⁹ See Sascha Lohmann and Kirsten Westphal, *Unilaterale US-Sanktionen gegen Petrostaaten. Die Geopolitisierung des internationalen Ölmarkts*, SWP-Studie 28/2019 (Berlin: Stiftung Wissenschaft und Politik, December 2019), doi: 10.18449/2019S28 (accessed 3 December 2021).

⁶⁰ See Nidhi Verma and Shu Zhang, "Iran Slips Record Volume of Oil into China, Reaches out to Asian Clients for Trade Resumption", *Reuters*, 8 March 2021, <https://www.reuters.com/article/us-oil-iran-asia-analysis/analysis-iran-slips-record-volume-of-oil-into-china-reaches-out-to-asian-clients-for-trade-resumption-idUSKBN2B000L> (accessed 7 August 2021).

⁶¹ China General Administration of Customs via *CEIC Database*.

⁶² See Farnaz Fassihi and Steven Lee Myers, "Defying U.S., China and Iran Near Trade and Military Partnership", *The New York Times* (online), 11 July 2020, <https://www.nytimes.com/2020/07/11/world/asia/china-iran-trade-military-deal.html> (accessed 23 June 2021).

⁶³ In September 2019, *The Petroleum Economist* for the first time published what it claimed was information on the China-Iran agreement, which, in addition to US\$400 billion in investments, supposedly also provides for 5,000 Chinese security personnel on Iranian soil. This information was dismissed or rejected as false by both Iranian officials and experts.

Beijing is well aware of the explosive nature of the cooperation agreement it signed with Tehran in 2021.

The plan to conclude such an agreement dates back to Xi Jinping's visit to Iran in 2016, i.e. to the beginning of deepening Chinese relations with the Middle East as a whole. According to Fan Hongda, this announcement was not implemented earlier mainly because Iran's attitude towards China was not positive enough even after President Xi's visit.⁶⁴ In his opinion, this meant that Beijing initially preferred to intensify relations with other states in the region, especially Saudi Arabia and Egypt; it was not until relations with the US deteriorated, on the part of both Iran (in May 2018) and China (trade war), that both sides were prompted to refocus on building a comprehensive strategic partnership.

The Iranian side is said to have leaked the draft agreement to Western media so as to put pressure on Beijing to finalise the agreement or commit to concrete investments. This would explain why Chinese officials and media did not comment on the draft. As further reasons, Fan Hongda cites the criticism within Iran (for example, former President Mahmoud Ahmadi-najad's criticism of the Rouhani government for "secretly signing an agreement with a foreign state") as well as the "coldness" of the Chinese government, which is also said to have made the Iranian side think twice.⁶⁵ Other Chinese Iran experts assessed Beijing's reluctance as a result of the bad press on the agreement both inside Iran and abroad, namely in the US. In other words, even within China, there seems to have been no consensus on the deal to begin with.⁶⁶

The main reason why the agreement was finally signed was probably the timing. For Tehran, this partnership offers above all a rhetorical and political victory at a crucial moment: nuclear negotiations were being resumed in Vienna at the same time. Tehran could now demonstrate that it has alternatives. It must also have been an opportune moment for Bei-

jing, probably determined in reference to the United States, especially the election of Biden as president and the associated option of the US returning to the nuclear agreement — i.e. a renewed strong US presence in Iran. China thus sent a signal to the United States that it is capable of working with US opponents to counter American influence in the region.

Chinese experts, however, play down the actual significance of the agreement for China-Iran relations. They emphasise that it is a mere declaration of intent without details.⁶⁷ China has indeed concluded a "strategic partnership agreement" with a number of other countries; this resembles a written intention of rapprochement more than an alliance. The strategic goals are not binding and contain no specific details. The caution China is exercising indicates that Beijing is aware of the explosive nature of the agreement and its implications. It should therefore be seen above all as a symbolic act that enables Iran to counter US pressure in the renewed attempt to negotiate a nuclear agreement and also helps China to show the US administration the consequences of a continued confrontation with China. Beijing can thus signal to Washington that a confrontational stance will cause China to strengthen its balancing policy towards the US, and to Teheran that China has — at least symbolically — made a clearer commitment to its relations with Iran than ever before.

Even if the agreement has a rather political and symbolic character at the moment, China-Iran relations could reach new heights in the future, which would have geostrategic effects. According to a Chinese expert, joint projects, investments or other forms of cooperation could well be deepened as soon as the sanctions against Iran are lifted.⁶⁸

⁶⁴ See Fan Hongda, "Zhongguo he yilang: Xin cun gehe de zhanlue huoban" [China and Iran: separate strategic partners], *Beijing yuyan daxue guo bie he quyu yanjiu jianbao* [Briefing on national and regional studies at Beijing University of Language and Culture], no. 17 (2020), https://www.guancha.cn/FanHongDa/2020_12_04_573499.shtml (accessed 7 December 2021).

⁶⁵ See *ibid.*

⁶⁶ Author's interviews via video conference with Chinese experts, 19 and 22 January 2021.

⁶⁷ Author's interview via video conference with a Chinese expert, 25 May 2021.

⁶⁸ Author's interview via video conference with a Chinese expert, 10 April 2021.

Hard Balancing in Chinese Policy-making

China's policy on Iran increasingly reveals elements of hard balancing, for example in the form of "lower-level security cooperation"⁶⁹ or what T. V. Paul calls "limited hard balancing".⁷⁰ In the case of Iran, this is accomplished through security cooperation, which is also intended to send a symbolic signal to the US that China and Iran are standing shoulder to shoulder, for example when they conduct joint maritime exercises. Reports from the US Treasury indicate that Chinese companies also continue their covert support for Iran's missile programme. There is currently no indication of a linear development in China-Iran relations that would suggest the formation of an alliance against the US. Nevertheless, Beijing has at least expressed its intention to move closer to Iran in geo-strategic terms if necessary.

Security Cooperation

Defence cooperation between China and Iran began in the early 1980s during the Iran-Iraq War, when China became one of Iran's main arms suppliers and a contributor to its nuclear programme. In the 1990s, Chinese arms exports to Iran gradually declined, as did cooperation between the two countries on nuclear and ballistic missile technology. Especially after revelations about Iran's illegal nuclear programme in 2003, China further restricted its arms sales to Iran to avoid US sanctions. Moreover, (open) support for Iranian nuclear and ballistic missile technologies was no longer compatible with China's membership, since 2004, in the Nuclear Suppliers Group (NSG). Although China is not part of the

Missile Technology Control Regime (MTCR), it recognises its guidelines.

In 2010, as a member of the E3+3, the PRC initiated the UN Security Council's resolution on far-reaching sanctions against Iran, which also limited the sale of most conventional arms to the country. These sanctions led to a further decrease in China's arms exports, which in turn was in line with China's avoidance of open support for "rogue regimes" such as Iran, Sudan and North Korea.⁷¹ An additional constraint was China's desire not to strain its relationship with other regional powers through its relations with Iran.

A turning point came with the JCPOA. The agreement opened up the possibility for foreign companies to operate legally in Iran again. Nevertheless, China continued to refrain from supplying arms directly to Iran, as arms sales to the country were subject to UNSC approval for a further five years after ratification of the agreement (8 October 2015), and the sale of ballistic missile technology for a further eight years. This effectively granted the US, UK and France a veto over (mostly Chinese and Russian) arms sales.

Accordingly, over the past decade, China's arms exports to Iran have declined dramatically, especially when compared to those of other states in the region, particularly Iran's neighbour Pakistan (see Chart 2, p. 13).⁷² In 2020 the United Nations lifted its 2010 embargo on the export of most types of large arms to Iran. The US in particular fears that Russia and China could now sell modern weapons to Iran. As far as

69 See Sun Degang, "Lun 'zhun lianmeng' zhanlüe" [On the "quasi-alliance" strategy], *Shijie jingji yu zhengzhi* [World Economics and Politics], no. 2 (2011): 75–80.

70 See Paul, *Restraining Great Powers* (see note 24).

71 China has repeatedly been accused of non-official support, based on evidence of its assistance for Pakistani and North Korean nuclear and missile programmes.

72 From 2016 to 2020, Iran's arms imports accounted for 0.3 per cent of the global total. See Pieter D. Wezeman, Alexandra Kuimova and Siemon T. Wezeman, *Trends in International Arms Transfers, 2020*, SIPRI Fact Sheet (Solna: Stockholm International Peace Research Institute [SIPRI], March 2021), 8, https://sipri.org/sites/default/files/2021-03/fs_2103_at_2020.pdf (accessed 3 December 2021).

China is concerned, however, there is so far no sign of such a move.⁷³

Experts quoted by the Chinese party newspaper *Renmin Ribao* cite Iran's financial situation as the first difficulty that arms exporters continue to face. US sanctions have damaged the Iranian economy so badly, they say, that Iran does not have the means to purchase large quantities of high-quality weapons; the threat of US sanctions against their countries also discourages potential exporters. Ultimately, for the Chinese experts, Iran's military strategy is not based on purchased weapons and equipment, but on home-made ballistic missiles and some pro-Iranian militias in the Middle East.⁷⁴

Sun Degang states in an interview with *Renmin Ribao* that despite the lifting of the UN arms embargo on Iran, the United States could sanction foreign companies that cooperate with Iran in military projects.⁷⁵ Sun is referring here to US Executive Order 13949 of September 2020, which prohibits any company from selling weapons to Iran and penalises offending companies by denying them access to their property in the US as well as freezing their assets.⁷⁶ US sanctions against Iran's banking system present an additional obstacle to Chinese arms sales to Iran because the Chinese banks affected would likely be denied access to the US banking system. This means Beijing must continue to take Washington's reaction to arms sales to Iran into account. Nevertheless, as American research shows, some technical-military cooperation has taken place – China is thus continuing its “limited hard balancing” (cf. pp. 26ff.).

⁷³ See *ibid.*

⁷⁴ “Lianheguo jiechu wuqi jin yun dui yilang yingxiang jihe” [How the UN arms embargo is affecting Iran], *Renmin wang* [online edition of the *Renmin Ribao* (People's Daily)], 19 October 2020, <http://military.people.com.cn/n1/2020/1019/c1011-31897121.html> (accessed 4 July 2021).

⁷⁵ See “Zhe ci jiejin dui yilang yiweizhe shenme?” [What does the lifting of the embargo mean for Iran?], *Renmin wang* [online edition of the *Renmin Ribao* (People's Daily)], 25 October 2020, <http://world.people.com.cn/n1/2020/1025/c1002-31904868.html> (accessed 6 July 2021).

⁷⁶ Federal Register, *Executive Order 13949: Blocking Property of Certain Persons with Respect to the Conventional Arms Activities of Iran*, 21 September 2020, <https://www.federalregister.gov/documents/2020/09/23/2020-21160/blocking-property-of-certain-persons-with-respect-to-the-conventional-arms-activities-of-iran> (accessed 3 December 2021).

The Xi Jinping era marks a new chapter in defence cooperation between China and Iran.

Although the current level of security cooperation between China and Iran is modest, the Xi Jinping era marks a new chapter in defence cooperation between the two countries, which has been indicated to the public by official visits and joint exercises. After ratifying the JCPOA, China and Iran signed an agreement during Xi's 2016 visit to improve military cooperation in training, counter-terrorism, and equipment and technology. They also agreed to establish a joint commission between the general staffs to enable closer coordination in all areas of military relations.⁷⁷

In March 2013 Iranian ships made their first port visit to China, and in September 2014 Chinese warships visited Iran for the first time to conduct joint naval exercises in the Persian Gulf. In June 2017 Iran and China launched another joint exercise involving two Chinese ships and an Iranian destroyer. According to a database from the National Defense University in Washington, there were 12 military interactions between China and Iran from 2014 to 2018, including seaport visits, bilateral exercises and high-level dialogues.⁷⁸ In December 2019 a trilateral naval exercise with Russia took place in the Indian Ocean and the Gulf of Oman. Shortly after, China also conducted naval exercises with Saudi Arabia, probably to balance relations with Iran. The joint China-Iran exercises are likely to be above all a signal to the US that the two countries are standing together despite pressure from Washington.

China's joint naval exercises with Iran and other states were staged as symbolic events to feed the Chinese narrative, as were two other moments: the end of the UN arms embargo on Iran and China's support for Iran in creating a common front against the US. In mid-August 2020, two months before the arms em-

⁷⁷ “Iran, China to Form Joint Commission for Military Cooperation”, *Tasnim News Agency*, 14 November 2016, <https://www.tasnimnews.com/en/news/2016/11/14/1240601/iran-china-to-form-joint-commission-for-military-cooperation> (accessed 25 June 2021).

⁷⁸ See “Executive Summary”, in Kenneth Allen, Phillip C. Saunders and John Chen, *Chinese Military Diplomacy, 2003–2016: Trends and Implications*, China Strategic Perspectives no. 11 (Washington, D.C.: National Defense University Press, July 2017), <https://ndupress.ndu.edu/Portals/68/Documents/stratperspective/china/ChinaPerspectives-11.pdf?ver=2017-07-17-153301-093> (accessed 3 December 2021).

bargo expired, the US had introduced a draft resolution in the UN Security Council to extend it. Russia and China vetoed the US motion. China described it as a victory for “preserving multilateralism”.⁷⁹ This is also reflected in opinion pieces by Chinese experts. Jin Liangxiang sees the lifting of sanctions against Iran as strengthening multilateralism in the fight against unilateralism, i.e. as a victory of the international community over the US.⁸⁰ By joining forces with China, Russia and other developing countries, Iran had temporarily emerged from diplomatic isolation and in turn isolated the United States internationally.⁸¹

Germany, as a non-permanent member of the UNSC in 2019–2020, abstained from the vote for the reason that the resolution sought would not have enabled the UN to effectively address the significant risks posed by Iran to the region. Moreover, the EU arms embargo against Iran remains in force until 2023.

Covert Military Cooperation

Besides official visits, joint exercises and China’s advocacy for ending the UN arms embargo on Iran, there is another form of security cooperation between the two countries: China has arguably provided covert military support to Iran. The PRC was an early participant in Iran’s nuclear programme; after this support officially ceased in the 1990s, Chinese state-owned enterprises continued to sell technology to Iran that the latter used to improve the accuracy and range of its ballistic missiles.⁸²

The Chinese government tolerated this ongoing illicit trade in weapons and missile technology, particularly through the notorious Chinese missile technology trafficker and fugitive from justice Li Fangwei (aka Karl Lee), according to a 2019 report by the US Department of Justice. The US accuses Li of supplying Iran with graphite and other materials for its missile

programme through a network of front companies.⁸³ The equipment and components Li is alleged to have provided to Iran have, according to the US, helped Iran to continue developing more advanced missiles with improved accuracy, range and lethality. Despite an arrest warrant and the sanctions imposed on Li, the Chinese government has so far taken no action to put an end to his activities.

In recent years, the US has imposed sanctions on Chinese companies, individuals and organisations for supporting Iranian proliferation activities.

According to US data, Chinese front companies continue to play an important role in Iran’s proliferation and defence modernisation programmes. In April 2014 the US Treasury imposed sanctions on eight China-based companies that covertly supported Iran’s missile proliferation activities; in 2017, it targeted the Chinese state-owned Wuhan Sanjiang Import and Export Company for selling technology to an entity reporting to Iran’s Ministry of Defence and Armed Forces Logistics.⁸⁴ In November 2020 the US State Department imposed further sanctions on Chinese companies Chengdu Best New Materials Company and Zibo Elim Trade Company for failing to disclose their support for Iran’s missile programme.⁸⁵

Such proliferation activities have strengthened Iran’s missile capabilities and increased the risk to nearby US military bases. This was most recently illustrated in 2020 when Iran launched a proxy missile attack on the US in Iraq in response to the targeted killing of General Qasem Soleimani by a US drone. At least one of the missile systems Tehran allegedly employed in the attack is believed to have been developed using Chinese ballistic missile technology.⁸⁶

⁷⁹ The State’s Council of the PRC, “Press Conference with Zhao Lijian”, 19 October 2020, http://www.gov.cn/xinwen/2020-10/19/content_5552547.htm (accessed 6 July 2021).

⁸⁰ See “Zhe ci jiejin dui yilang yiweizhe shenme?” [What does the lifting of the embargo mean for Iran?] (see note 75).

⁸¹ See *ibid.*

⁸² See Valerie Lincy, *Written Testimony before the U.S.-China Economic and Security Review Commission, Hearing on “China’s Nuclear Forces”* (Washington D.C.: U.S.-China Economic and Security Review Commission [USCC], 10 June 2021), <https://www.uscc.gov/hearings/chinas-nuclear-forces> (accessed 28 June 2021).

⁸³ In 2006 and 2009, the US had already imposed sanctions on Li Fangwei. In 2014, the US offered a US\$5 million reward for information leading to Li’s conviction.

⁸⁴ See Valerie Lincy, *Written Testimony* (see note 82).

⁸⁵ Michael R. Pompeo, US Embassy in Georgia, “New Sanctions under the Iran, North Korea, and Syria Nonproliferation Act (INKSNA)”, 27 November 2020, <https://ge.usembassy.gov/new-sanctions-under-the-iran-north-korea-and-syria-nonproliferation-act-inksna/> (accessed 28 June 2021).

⁸⁶ See Sebastien Roblin, “Meet the Qiam Missile Iran Used to Blast a U.S. Airbase”, *The National Interest*, 11 January 2020, <https://nationalinterest.org/blog/buzz/meet-qiam-missile-iran-used-blast-us-airbase-112911> (accessed 22 June 2021).

Over the past twenty years, the US government has also imposed sanctions on Chinese individuals and organisations for pursuing the transfer of sensitive dual-use technologies to Iran, primarily to support Iran's ballistic missile programme.⁸⁷ Chinese companies have also invested in Iran's aluminium, steel, gold and copper industries, promoting these critical industries that are useful to Iran's missile programme – whether China was aware of this is a matter for speculation. The Foreign Engineering and Construction Company (NFC) of the state-owned China Non-ferrous Metal Industry has been actively involved in the development of Iran's aluminium mining industry, providing equipment worth approximately US\$45.7 million, or 40 percent of the total sum needed to build the Jajarm refinery in north-eastern Iran.⁸⁸ A *Reuters* report refers to documents related to the project that cite Iranian officials suggesting that the Islamic Revolutionary Guard Corps is using the refinery to produce aluminium powder to support its missile programme.⁸⁹

Finally, China and Iran are accused of working closely together on intelligence matters, which is said to have decimated the capacity of the US intelligence agency, the CIA, according to a report by US political consultancy USCC. This cites investigative reporting by Yahoo News & Foreign Policy reporters Zach Dorfman and Jenna McLaughlin, who exposed years of CIA failures in 2018.⁹⁰ Anonymous interviews with former US intelligence and government officials had revealed that in the period 2010 to 2012, both Iran and China had virtually penetrated the CIA's secret

communications system and had begun dismantling the CIA spy network in their own countries. The interviews do not rule out that China and Iran may have joined forces to identify CIA informants.

China's covert military support to Iran thus seems to have become a crucial element of at least a "limited hard balance" vis-à-vis the US. It simultaneously offers the PRC a possibility to gain a long-term foothold in the Middle East, including through nuclear and other dual-use technologies.

Final Assessment

China has so far not officially opposed the American policy of "maximum pressure" in Iran and has always avoided direct confrontation with the US in its relations with Iran; Beijing has steered clear of openly questioning the sanctions regime, for example. A formal, even military, alliance between China and Iran seems unlikely in the near future, as China's primary concern is to expand its influence and presence in the Indo-Pacific, i.e. to promote an intensive hard balance vis-à-vis the US in the Asia-Pacific. The "Iran card" would ultimately require China to invest more resources in the Middle East, which can currently be better deployed in the Indo-Pacific.

Simultaneously, however, China's Iran policy is decisively determined by the US presence in the Middle East; this analysis of Chinese discourse and policy-making backs up this point. Chinese foreign policy makers orientate themselves on the thrust of the Biden administration and weigh every foreign policy decision against the background of the Sino-American conflict in the Indo-Pacific. This also applies to the announced US withdrawal from the Middle East and Afghanistan. China's future Iran policy, whether it develops in the direction of hard balancing or retains soft or "limited hard balancing", thus also depends on how the relationship between the great powers develops elsewhere. A *Global Times* article published in August on the occasion of the US withdrawal from Afghanistan sums up the Chinese view: "whether China will cooperate with the US in the region [Middle East], and whether Beijing will collaborate with Washington in the spheres where the latter needs the help of China, depends on how the US acts around China."⁹¹

⁸⁷ U.S. Virtual Embassy Iran, *Iran, North Korea, and Syria Nonproliferation Act Sanctions*, 24 March 2017, <https://ir.us.embassy.gov/iran-nonproliferation-sanctions/> (accessed 7 December 2021).

⁸⁸ See Wali Miller, "Trade Data Reveals Iran's Aluminum Supply-Chain from China, India, Guinea", *Sayari*, 16 July 2020, <https://sayari.com/resources/trade-data-reveals-irans-aluminum-supply-chain/> (accessed 7 December 2021).

⁸⁹ See Bozorgmehr Sharafedin and Pratima Desai, "Special Report: Inside Iran's Secret Project to Produce Aluminum Powder for Missiles", *Reuters*, 24 June 2020, <https://www.reuters.com/article/us-iran-missiles-programme-specialreport-idUSKBN23V1K1> (accessed 19 June 2021).

⁹⁰ See Zach Dorfman and Jenna McLaughlin, "The CIA's Communications Suffered a Catastrophic Compromise. It Started in Iran", *Yahoo News & Foreign Policy*, 2 November 2018, <https://news.yahoo.com/cias-communications-suffered-catastrophic-compromise-started-iran-090018710.html> (accessed 20 June 2021).

⁹¹ See "China-US Cooperation in Afghanistan Depends on US' China Policy", *Global Times*, 17 August 2021, <https://>

One result of China's geostrategic regional policy may have been the recent decision of the Shanghai Cooperation Organisation to admit Iran to its ranks as a permanent member. Iran had been applying for observer status since 2005 and asked for full membership in 2015. Its membership in the SCO had long been considered unlikely, partly because of opposition from other members and US sanctions against the country, and partly because of China's reluctant position. During its summit in Dushanbe on 16 and 17 September 2021, the SCO finally gave the green light for Iran to become a permanent member. The SCO members, above all China and Russia, have thus signalled their intention to strengthen their engagement with Iran even against the will of the US. Three more countries — Egypt, Saudi Arabia and Qatar — have also become dialogue partners of the organisation. The SCO has thus laid the foundation for a closer exchange with the Middle East in the future. This decision is in line with the demand of hard balancing representatives in China that Beijing should form a coalition with other powers such as Russia and Iran, for example within the SCO.⁹²

This also demonstrates how Beijing is increasingly conducting its regional policy towards Iran with geopolitical rivalry with Washington in mind.

www.globaltimes.cn/page/202108/1231747.shtml (accessed 18 August 2021).

⁹² Author's interview via video conference with a Chinese expert, 22 January 2021.

China-Iran Relations: Outlook

Relations with Iran are not the most important in Chinese foreign policy, but they offer China opportunities to balance US influence. The PRC could thus demand concessions from Washington on issues it considers more significant in exchange, for example, for a promise to reduce cooperation with Iran. On the other hand, if the rivalry between China and the US continues to escalate, military alliances that have begun to form could potentially become key elements of competition in the long run. This competition also includes the development of dual-use capabilities in the fields of cyber and artificial intelligence (AI).

If China were to add a military component to the BRI, it could become an instrument of hard balancing. The construction of the port of Gwadar in Pakistan, for example, can be seen as such an element of the BRI, because the deep-sea port gives China economic and military access to the Indian Ocean. Similarly, China's acquisition of the naval base in Djibouti is of concern to the US because this first Chinese military base abroad is seen as a model for future bases as well as a sign that China is expanding its military capabilities. In short, Beijing has ways and means of shifting its Iran policy towards a "tougher balance".

The Potential of Security Policy Cooperation

If China and Iran ever cut themselves off from the international community, the two countries may well intensify their entire military-security cooperation, including arms trading. Asked in October 2020, whether China was ready or willing to sell arms to Iran, Chinese Foreign Ministry spokesperson Zhao Lijian said, "China [will] continue to prudently handle matters of trade in military goods in accordance with its own export policy for military products and the international commitments it has made".⁹³

Defence cooperation between China and Iran offers opportunities for further deepening; the increase in

joint exercises and military visits and the March 2021 strategic agreement are clear indications. While the contents of the 25-year agreement have not been officially released, the draft published by the *New York Times* includes security policy issues that suggest potential cooperation on security and technology, for example joint military training and exercises, joint research and weapons development, and information exchange.

In August 2015 *China Daily* published an article highlighting the usefulness of the Chinese J10 fighter jet for Iran, although the rumoured imminent sale did not materialise.⁹⁴ In early 2021 reports circulated about Tehran's interest in buying the J10C fighter jet, which is marketed by the Aviation Industry Corporation of China (AVIC).⁹⁵ American military expert Joel Wuthnow sees an opportunity for China to profit from Iran's need for conventional weapons.⁹⁶ Above all, Chinese arms manufacturers, seven of whom are among the twenty largest in the world, could open up a new market. As a supplier, however, China would have to compete with Russia. Nevertheless, by strengthening its defence ties with Iran, China could increase pressure on the United States in a carefully calibrated way and thus successfully expand its balancing policy.

⁹⁴ See Zhao Lei, "Experts Say J10s Would Benefit Iran", *China Daily* (online), 17 August 2015, https://www.chinadaily.com.cn/china/2015-08/17/content_21617827.htm (accessed 1 August 2021).

⁹⁵ See Minnie Chan, "China Hesitant over J10C Barter Deal with Cash-strapped Iran: Experts", *South China Morning Post*, 15 April 2021, <https://www.scmp.com/news/china/military/article/3129539/china-hesitant-over-j-10c-barter-deal-cash-strapped-iran> (accessed 18 July 2021).

⁹⁶ See Joel Wuthnow, "Will China Strengthen Iran's Military Machine in 2020?" *The National Interest*, 16 January 2020, <https://nationalinterest.org/blog/middle-east-watch/will-china-strengthen-iran%E2%80%99s-military-machine-2020-114681> (accessed 18 July 2021).

⁹³ "Press conference with Zhao Lijian" (see note 79).

The Potential for Cooperation in Cyberspace

Further potential for Chinese-Iranian cooperation lies in the area of cyberspace, specifically the sale of the Chinese satellite navigation system BeiDou or the construction of 5G infrastructures in Iran. With its 75 million inhabitants, about 40 million of whom regularly use the internet, Iran would be an attractive market for China. Huawei could build in digital backdoors that would give Chinese security services access to various communications networks. These fears are reinforced by a law passed in China in 2017 that requires Chinese telecommunications companies to assist the government in national security investigations.

The development of new technologies could also lead to closer cooperation between China and Iran on financial technology. Attempts by various countries to circumvent the US financial sanctions restricting the Iranian banking system by means of their own instruments, and to maintain trade with Iran, have not been effective so far. For instance, the Instrument to Support Trade Exchanges (INSTEX) initiated by the EU in 2019 has so far been merely symbolic.⁹⁷ The PRC could succeed in such an attempt with the help of its now advanced e-commerce technologies and online payment systems (such as WeChat Pay and Alipay). By integrating Iran into the Chinese FinTech system, Beijing could also come a big step closer to its dream of making the Chinese currency (renminbi) a reserve currency. At the end of 2020, Iran's central bank announced that it would introduce the Renminbi as its main foreign exchange reserve currency – instead of the US dollar.

Both China and Iran have an interest in circumventing the US-dominated financial system – for example with cryptocurrencies.

China is already working on the introduction of virtual currencies as well as new international

payment systems.⁹⁸ A digital currency could be a vehicle to ensure financial security and reduce China's dependence on the US dollar. Cryptocurrencies are also flourishing in Iran, a development accelerated by economic sanctions and which allows the country to circumvent them. According to *Foreign Policy* magazine, the Iranian government has long had an interest in using cryptocurrencies outside the traditional banking system to support its international trade, and to circumvent and undermine the US-dominated financial architecture.⁹⁹ This is where China's and Iran's interests complement each other, which could pave the way for cooperation. For the US, cryptocurrency initiatives in Russia, China or Iran pose a threat both to its sanctions and to the banking world as a whole. Blockchains are outside the sphere of influence of the current US global financial architecture. The incorporation of Iran into China's alternative financial system would therefore be a direct attack on Washington's hegemonic power over the world's financial system – and also directly affect European interests.

The Potential of Connectivity

From a Chinese perspective, Iran offers great opportunities for both domestic and international connectivity due to its strategic location and economic potential, which makes it attractive for the implementation of the BRI. The China-Central Asia-West Asia Economic Corridor, a section of the BRI, passes through Iran on its way to Europe, connecting the country to China via Central Asia. The fact that Iran effectively manages the Strait of Hormuz, the most important channel for controlling the transport of oil in the Middle East, is a strategic – and sensitive – point in the transport routes within Asia and to Europe. Pakistan was previously considered China's lead partner within the BRI: this de facto alliance included not only inland and maritime transport

⁹⁷ So far, the trade permitted via INSTEX for non-Iranian companies is limited to goods that are not covered by the secondary sanctions of the US. There are plans for trade in goods beyond this, but implementation is not foreseeable at present.

⁹⁸ “Chinese Banks Urged to Switch Away from SWIFT as U.S. Sanctions Loom”, *Reuters*, 29 July 2020, <https://www.reuters.com/article/us-china-banks-usa-sanctions/chinese-banks-urged-to-switch-away-from-swift-as-u-s-sanctions-loom-idUSKCN24U0SN> (accessed 19 July 2021).

⁹⁹ See Tanvi Ratna, “Iran Has a Bitcoin Strategy to Beat Trump”, *Foreign Policy*, 24 January 2020, <https://foreignpolicy.com/2020/01/24/iran-bitcoin-strategy-cryptocurrency-block-chain-sanctions/> (accessed 18 August 2021).

infrastructure, but also economic and military co-operation.

Iran, however, has opened up a new geopolitical dimension by bringing energy into play. This new dimension could unfold through the China-Pakistan-Iran-Turkey energy pipeline, which was originally planned for 2015 since it was expected that the US and UN sanctions against Iran would be lifted or eased. It was to be built by a subsidiary of the state-owned China National Petroleum Corporation. However, the re-imposition of US sanctions in 2018 led to the pipeline project being put on hold for the time being. Yet a 2019 analysis by Chinese experts again points to the importance of the oil pipeline as “China urgently needs to open up a new energy corridor to reduce its reliance on the Malacca Strait”, which could become a stranglehold in the event of a confrontation with the US.¹⁰⁰ According to the authors, the energy corridor could reduce transport costs and the distance China’s imported energy has to travel, as well as supply energy to the markets of South Asia, Southeast Asia, East Asia and Europe.

Another major project is the planned transnational railway line between Istanbul, Tehran and Islamabad (ITI): the governments of Turkey, Iran and Pakistan announced in early 2021 that they would resume planning.¹⁰¹ The railway line is intended to improve connectivity with the Chinese BRI by providing a rail link between China and Turkey. The ITI could also help Iran get round future US sanctions. The financing of the project has not yet been clarified; moreover, its implementation is likely to depend on how the security situation in and around Afghanistan develops.

Finally, the signing of the 25-year agreement between China and Iran has fuelled rumours that China could become involved in the development of the port of Chabahar in Iran. The port was to be part of a transport and transit corridor connecting Central Asia with the Arabian Sea, bypassing Pakistan and the Gwadar port built there by China, according to a 2016 agreement between India and Iran. However con-

struction is currently stalled due to financial difficulties. Should Tehran open the project to Chinese participation, China could gain another direct access route to the Indian Ocean. This would be a new cause for friction in Sino-Indian relations, the weight of which the People’s Republic would have to consider before making a decision.

These possibilities show that China has now created enough space for itself to develop relations with Iran in such a way that it is able to balance the US presence in the Middle East using a “limited hard balancing” – but, if necessary, also an increasingly hard balancing. During his visit to Tehran in March last year, Foreign Minister Wang Yi said that Iran-China relations are “durable and strategic”, regardless of the regional and international situation, a remark also aimed at the US.¹⁰² In other words, China now has stakes in Iran that are of long-term strategic importance. They concern not only the region itself, but also the role of the US, Germany and the EU.

100 See Fei-fei Guo, Cheng-feng Huang and Xiao-ling Wua, “Strategic Analysis on the Construction of New Energy Corridor China-Pakistan-Iran-Turkey”, *Energy Reports* 5 (2019): 828 – 41, <https://www.sciencedirect.com/science/article/pii/S2352484719300034> (accessed 19 July 2021).

101 See Haroon Janjua, “Is the Pakistan-Iran-Turkey Rail Link Economically Viable?” *Deutsche Welle*, 14 January 2021, <https://www.dw.com/en/is-the-pakistan-iran-turkey-rail-link-economically-viable/a-56225236> (accessed 1 September 2021).

102 FMPRC, “Wang Yi Meets with Iranian Supreme Leader’s Advisor Ali Larijani”, 28 March 2021, https://www.fmprc.gov.cn/mfa_eng/wjb_663304/wjbz_663308/activities_663312/202103/t20210329_9168131.html (accessed 4 December 2021).

Recommendations for Germany and the EU

China's Iran policy illustrates how Chinese discourse has adopted the "balance of power" theory and, following the realist school of Western political science, has applied it to its own policy-making. China uses instruments of soft balancing, "limited hard balancing" and – at least to some extent – hard balancing. This analysis of which instruments China uses, as well as how and why, should help to provide observers in Europe with an adequate understanding of Chinese foreign policy in the Xi Jinping era, and thus enable them to devise appropriate strategies for dealing with this new world power.

China's geostrategic regional policy has (potential) implications for European interests concerning both economic and political exchanges with Iran and the stability of the Middle East. The overriding goal of Germany and the EU in relations with Iran is to preserve the Joint Comprehensive Plan of Action signed in 2015. Only an agreement with Iran can ultimately counter its development of nuclear weapons, and, as a permanent member of the UN Security Council China is needed in the negotiations. The EU, the US (under Biden) and China agree in principle that negotiations should continue on a new version of the international nuclear agreement.

For the EU, the US is the most important partner for the political coordination of its Iran policy, especially on the nuclear weapons issue. It is important for Europe to constructively accompany the Biden administration's approach in negotiating a new version of the JCPOA. Germany and the EU, in coordination with the US, should remind the Chinese leadership of the obligations of such an agreement. China's rhetoric about its commitment to regional stability and the protection of multilateralism should be followed by action. This includes not violating or undermining existing UN and US sanctions. Germany and the EU, for their part, should increase pressure on China in their dialogues with Beijing to (actually) act responsibly.

US President Joe Biden has also made it clear that the US wants to reach follow-up agreements with Iran, for example on its ballistic missile programme. This is in German and European interests as well, especially since the EU arms embargo (including the restrictions on goods for the production of nuclear weapons) is still in force. For dual-use goods that can be exploited for the ballistic missile programme and are listed accordingly, the export ban to Iran remains in place. In this respect, China-Iran cooperation in the area of dual-use and China's covert support for the Iranian ballistic missile programme are equally worrying for Germany and the EU. China should be reminded of its obligations not to support Iran's nuclear weapons programme, even indirectly. Germany and the EU should also work to ensure that China agrees to the follow-up agreements proposed by the US.

Iran-China cooperation in cybersecurity is likely to be equally relevant. The importance of Huawei in the expansion of the global 5G network is unmatched. This is especially true for the Middle East's high-tech industries and will remain a point of contention between China and the United States. The possibility of Huawei building digital backdoors into its networks that give Chinese security services access to communication networks affects the presence of Germany and other European countries in the Middle East.

Apart from the negotiations on the nuclear agreement, Iran currently plays only a minor role in the foreign policies of Germany and the EU. However, Iran, along with Saudi Arabia, is one of the key players in the region. Against the backdrop of increasing Chinese influence in Iran and the election of a significantly more conservative Iranian president in June 2021, the chances of success for a rapprochement with the West are becoming increasingly slim. Germany and the EU should therefore open up alternative perspectives for remaining moderate forces in

Iran, for example through trade agreements or offers of cooperation, such as in infrastructure development.

For Germany in particular, the existing economic exchange would be suitable. Germany is one of Iran's most important European trading partners (see Chart 3, p. 21), but economic cooperation has suffered enormously under the sanctions regime.¹⁰³ An informal economic dialogue or a stronger presence of German trade representatives in Iran, as well as the Chamber of Commerce, could pave the way for a renewed intensification of economic cooperation if the sanctions are lifted under a new edition of the JCPOA.

Another European approach could be to follow up on the EU's INSTEX programme, i.e. the attempt to maintain trade with Iran through its own financial instrument. In coordination with Washington, Europe should reach out to Iran again, at least economically, with a serious re-launch of the programme. Given that the Covid-19 pandemic has plunged the Iranian economy into a deep crisis, INSTEX should be called upon. The first INSTEX trade in March 2020 (to supply medical material from the EU to Iran) was a good start.

The secondary position of Iran in Germany's and the EU's foreign policy no longer does justice to Europe's claim that it aims to gain more strategic autonomy and assume a stronger geopolitical role in the world. Germany and the EU must therefore examine options, or even develop new ones, as to how they could (more) effectively represent their interests in Iran. With their recent strategies for the Indo-Pacific, Europe and Germany have created a basis for intensifying political and economic cooperation with Asian countries. Countries in other parts of the world must not be left out. The goal pursued in the Indo-Pacific of strengthening democracy, the rule of law and resilience should also apply elsewhere. The global connectivity initiative "Global Gateway", announced by the EU in September 2021, lends itself to such an emphatically values-based engagement of the EU in Iran, as well as in the region as a whole. Successful implementation of the envisaged Global Gateway partnerships can bind Iran and the whole

region more closely to the EU, both politically and economically, and provide a credible alternative policy for financing infrastructure development.

Overall, this analysis of China's balancing approaches makes it clear that the shift in Chinese foreign policy towards geo-strategy is also taking place in regions where China has barely been perceived as a geopolitical actor so far. For Germany and Europe, this means that China now also appears as a geo-strategic actor on the periphery of Europe — and this presence can restrict the room for manoeuvre of EU policy. For the newly elected German government, the challenge of finding a way to deal with China as a partner *and* system competitor is thus growing. This makes it all the more important for Germany to avoid going it alone within the EU. Foreign policy action in third countries must be comprehensive and coordinated within the EU so as to meet the challenges posed by China.

A stronger value orientation of Germany's China policy will be unavoidable, which is why the German government must emphasise in any dialogue with Beijing that the systemic competition is not between China and the US, but between China and the transatlantic community. Only on the basis of a value-oriented and well-coordinated German China policy can we succeed in overcoming the current challenges posed by China. In concrete terms, this concerns first and foremost the Taiwan issue, Chinese influence on politics and the economy in Europe, and finally Beijing's attempts to build up a geostrategic front against the US and thus also the Western community of values as a whole.

103 In 2019, German-Iranian foreign trade fell to €1,722 million, down 45 per cent on the previous year. Germany delivered goods worth €1,516 million (-44 per cent), Iranian supplies to Germany totalled €206 million (-45 per cent). See German Foreign Office, "Germany and the Islamic Republic of Iran: Bilateral Relations", 14 September 2021, <https://www.auswaertiges-amt.de/en/aussenpolitik/iran/218250> (accessed 19 January 2022).

Abbreviations

5G	5 th generation technology standard for broadband cellular networks
AEI	American Enterprise Institute
AI	Artificial Intelligence
AVIC	Aviation Industry Corporation of China
BRI	Belt and Road Initiative
CASCF	China-Arab States Cooperation Forum
CIA	Central Intelligence Agency
CNPC	China National Petroleum Corporation
CPEC	China-Pakistan Economic Corridor
DOTS	Directorate of Trade Statistics
DSR	Digital Silk Road
E3+3	France, Germany, United Kingdom + US, Russia, China
EU	European Union
FMPRC	Ministry of Foreign Affairs of the People's Republic of China
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IMF	International Monetary Fund
INKSNA	Iran, North Korea, and Syria Nonproliferation Act
INSTEX	Instrument in Support of Trade Exchanges
IR	Islamic Republic
ITI	Istanbul – Tehran – Islamabad Railway
JCPOA	Joint Comprehensive Plan of Action
MTCR	Missile Technology Control Regime
NFC	Foreign Engineering and Construction Company
NSG	Nuclear Suppliers Group
P.R.	People's Republic
P5	Permanent Five
PRC	People's Republic of China
SCO	Shanghai Cooperation Organisation
SIPRI	Stockholm International Peace Research Institute
UAE	United Arab Emirates
UN	United Nations
UNSC	United Nations Security Council
USCC	US-China Economic and Security Review Commission

