

Iran after the Sanctions: the Marginalization of China

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According to most commentators, the removal of sanctions on Iran has presented China with great opportunities. Small wonder that Xi Jinping was the first foreign leader to visit Iran after the agreement had been signed. This is, however, a misinterpretation of Sino-Iranian relations. Although Beijing has all along supported and endorsed a peaceful and diplomatic settlement of Iran's nuclear plans, such a settlement is counter-productive as far as China's interests are concerned. While opposing sanctions in principle, Beijing has benefitted probably more than any other country from the sanctions imposed on Iran – and on other countries. In Sudan, evacuated by the West under US pressure, China has become the predominant player in the oil sector, not to mention North Korea, Myanmar or even Russia¹. However, while Iran's isolation served China's interests, their "friendly" relations have concealed mutual suspicion, criticism,

mistrust and reservations. All these by necessity affect Sino-Iranian relations after the sanctions were lifted, and their future course. It is essential to briefly review and analyze their relations before and during the sanctions to correctly appreciate their relations today and tomorrow.



China and Iran before Sanctions

Conventional wisdom has it that China and Iran have been good friends, if not allies, all along. This friendship started on the wrong foot when Hua Guofeng, "in charge" of the People's Republic of China (PRC) after Mao Zedong's death, was one of the last foreign leaders to visit the Shah of Iran, in late August 1978, just before his downfall in January 1979 (Foreign Minister Huang Hua preceded him in June). Soon, however, this mistake, that threatened to spoil post-Mao China's relations with revolutionary Iran, was undone when Beijing began to provide Tehran with arms for its war with Iraq, which lasted from 1980

1- Yitzhak Shichor, "Fundamentally Unacceptable yet Occasionally Unavoidable: China's Options on External Intervention in the Middle East," *China Report*, Vol. 49, No. 1 (2013), pp. 25-41. See also: Elizabeth Rosenberg and Zachary K. Goldman, "How China Benefits from Global Sanctions," *The Wall Street Journal*, November 26, 2015.

to 1988. Yet the growing friendship between the two countries could not conceal mutual suspicions and frictions. While most of these were related to Iran's nuclear plan, to be discussed below, there were additional reasons for Beijing to be concerned about Iran – and *vice versa*. On the one hand, Iranian Islamic figures have criticized Beijing's persecution and discrimination of its Muslim minorities – and especially the Uyghurs in Xinjiang. Following the July 2009 clashes in Urumqi, Iran's Foreign Minister Manoucher Mottaki phoned his Chinese counterpart to discuss the clashes and expressed 'concerns among Islamic countries'². Prominent Iranian clerics criticised their leaders for failing to condemn the killing of fellow Muslims in Xinjiang³, yet to no avail. On the other hand, Chinese leaders and academics have been unhappy about Tehran's sponsoring Islamic radicalism and terrorism that contributed to Middle Eastern instability (thereby harming China's economic interests) let alone about Iran's attempts to meddle in China's internal ethnic and religious affairs.

Much of China's implicit reservations about Iran's policy were related to the personality of Mahmoud Ahmadinejad who was elected as Iran's president for the first time in 2005 with a huge majority. Li Shaoxian, Middle East expert, deputy director of the prestigious China Institute of Contemporary International Relations (CICIR), and director of its Asia-Africa Institute, characterized Ahmadinejad as an irresponsible leader who made Iran a source of instability not only in the Middle East but also worldwide, jeopardizing China's fundamental interests. Li also claimed that Ahmadinejad's second election as president in 2009 was "undemocratic" since he won only a quarter of the vote and, therefore, did not represent the people's will⁴. Also, Beijing did not conceal its dissociation from Iran's holocaust denials; its justification of the persecution of Jews; and its reiterated threats to exterminate Israel. In response to Ahmadinejad's allegation that the holocaust had been a "myth" used as a "pretext" to establish Israel, PRC Foreign Ministry spokesman Qin Gang pointedly rejected Ahmadinejad's comments saying: "We are not in favor of any remarks detrimental to stability and peace," and added: "Israel is a sovereign state." When Chinese Foreign Minister Yang Jiechi visited Israel in April 2009, he insisted that, unlike Ahmadinejad, his nation is aware that "the Holocaust of the Jews is an undeniable and unassailable fact," and added that Jews and Chinese have historically helped each other⁵.

Beijing was also concerned about Tehran's threat to block the Hormuz Strait in case of a regional outbreak of hostilities: "if the country's interests are jeopardized [...] we will not

let a single vessel pass through the Strait⁶." Since much of China's Persian Gulf oil import is shipped through Hormuz, this created a potential risk for China's vital interests. Either connected or not, when Ahmadinejad visited China in early September 2008, his stay was cut short by half and a scheduled press conference was cancelled. No reason was given⁷. He sounded somewhat frustrated when he said before his departure that "good decisions" had been made; that the prospects of economic relations are "good"; and that bilateral relations have been "satisfactory"⁸. Aware that Washington is more important to China than Tehran, Iranian editorials and commentaries occasionally warned the government not to trust Beijing (and Moscow). Talking to *Agence France Presse*, Ji Kaiyun, an expert on Sino-Iran relations at Chongqing Southwest University, said in June 2006 that "China will not challenge, and China does not aim to transform, the US-led international order. Sino-American ties take precedence over Sino-Iranian ties. China will not clash with the United States over Iran."⁹ An April 2006 Majlis (Parliament) Research Center report said that the Chinese did not prefer Iran to the US and their support of Iran would not cross a point that would displease the US. An Iranian article questioned Beijing's and Moscow's decision to veto a UN Security Council resolution imposing sanctions on Zimbabwe, but approve sanctions on Iran¹⁰. Having no expectations of a US or Western lenience toward Iran, Tehran certainly expected Beijing – and Moscow – to stand by its side. Tehran has been disappointed.

China was disappointed too by Iran's attitude on the settlement of its nuclear program. While China has all along defended Iran's right to pursue a nuclear program for peaceful purposes (and insisted that this is what Iran was doing) – it has never approved of Iran's nuclear weapon program. Unofficially, the PRC – which in 1992 signed the Nuclear Non-Proliferation Treaty – rejected the introduction of nuclear weapons to the Middle East by Iran. Chinese scholars insisted: "The potential 'Persian bomb' worries not only Israel, the United States and Europe, but also Arab countries and even remote China," adding that "No matter how the Iranian nuclear crisis develops, a Persian bomb must not come into existence."¹¹ On July 31, 2006, Liu Zhenmin, China's deputy representative to the United Nations could barely conceal Beijing's disappointment in his statement. He said that China had urged Iran to practice restraint, earnestly implement earlier resolutions and make an early response to the package proposals, in short to create conditions for increased trust, dialogue and negotiation. "Regrettably", Liu added, "the Iranian side had yet to respond positively to the requests of the IAEA Board of Governors and the Council's calls."¹²

6- Iran's armed forces Chief of Staff Hassan Firouzabadi, as quoted by IRNA, July 5, 2008.

7- AFP, September 6, 2008.

8- IRNA, September 7, 2008. See also: Yitzhak Shichor, "Blocking the Hormuz Strait: China's Energy Dilemma," *China Brief* (Washington: The Jamestown Foundation), Vol. 8, Issue 18 (September 23, 2008), pp. 7-10. Reprinted in *Asia Times*, September 26, 2008.

9- Yitzhak Shichor, "Disillusionment: China and Iran's Nuclear Gamble," *Freeman Report*, July-August 2006 (Washington: Center for Strategic and International Studies, Georgetown University: July-August 2006), p. 2.

10- *Jomhuri-ye Eslami*, July 13, 2008.

11- Prof. Yin Gang (CASS), "China Has No Sympathy for a Persian Atomic Bomb," *Daily Star*, Beirut, February 7, 2006.

12- Shichor, "Disillusionment," p. 1.

2- IRNA news agency, quoted in "Muslim Countries Mostly Silent on China Unrest," *NBC News*, 13 July 2009. More details in: Yitzhak Shichor, "See No Evil, Hear No Evil, Speak No Evil: Middle Eastern Reactions to Rising China's Uyghur Crackdown," *Griffith Asia Quarterly*, Vol. 3, No. 1 (January 2015), pp. 62-85.

3- "Clerics Fault a Mute Iran as Muslims Die in China," *New York Times*, 14 July 2009. See also: Chris Zambelis, "Xinjiang Crackdown and Changing Perceptions of China in the Islamic World?," *China Brief*, Vol. IX, Issue 16 (5 August 2009), p. 6.

4- Lecture in Jerusalem, February 21, 2006.

5- "China Criticizes Iranian President's Holocaust Remarks," at: <http://pravdareport.com/news/world/15-12-2005/72838-0/#>; <http://www.israelnationalnews.com/News/News.aspx/131059#.Vs7I8ptf274>.

Finally, a word should be said about the way Iran has been treated by the SCO (Shanghai Cooperation Organization). Although Tehran had indicated its interest to join the SCO, it was repeatedly denied. On June 23, 2005, Iran was accorded an SCO observer status and on March 24, 2008, applied officially for full membership. Yet, because it was under UN sanctions at the time, it was blocked from admission as a new member. The SCO stated that any country under U.N. sanctions could not be admitted, although there had been no word about it in the SCO charter. It was only in June 2010 that the SCO approved the procedure of admitting new members¹³. All these indications of suspicions and mistrust had existed before the imposition of sanctions on Iran, only to be intensified afterward.



China and Iran under Sanctions

Apparently, China has backed Iran along the nearly one decade of sanctions. Allegedly, it not only continued to underline the need for a peaceful diplomatic settlement and tried, often successfully, to block or delay decisions (e.g. by the IAEA) harmful to Iran, but later on were said to play a constructive, even “pivotal” role in the negotiations that ended in July 2015. According to this view, Beijing presented itself as an arbiter between Iran and the US and played a “significant role” in the nuclear negotiations “by persuading Iranian leaders of the multiple benefits” – primarily substantial Chinese economic assistance – “that Iran would accrue by coming to terms with international concerns over its nuclear program.”¹⁴ True, Chinese academics, representing prestigious research institutes, have urged Beijing to play a more proactive role in settling Iran’s nuclear crisis. Unfortunately, there is no shred of evidence that their view were accepted by the leadership or acted upon. According to an official familiar with the negotiations, Beijing’s contribution was marginal, evasive and ambiguous – perhaps the least important among the six countries that participated. And it makes sense, not only because of China’s policy to avoid taking sides – or “mediating” – but, furthermore, in a retrospective view. Moscow must have overshadowed Beijing, given its greater activism in the Middle East, in the UN Security Council and its potential as an arms supplier, in “persuading” Iran to comply with the “international concerns”, if at all. There is something condescending in saying that the Iranians had to be “persuaded” as if they did not understand the situation. Again, in a retrospective view, Iran has excelled in the bargaining process with, and most probably without, external Chinese “persuasion”. Iran has been eager to see the sanctions lifted certainly *not* for the sake of Chinese arms or “economic assistance”, let alone Russian – but for the sake of Western technology and greater commitment.

13- Wu Jiao and Li Xiaokun, “SCO Agrees Deal to Expand,” *China Daily* (June 12, 2010).

14- John W. Garver, “China and Iran: An Emerging Partnership Post-Sanctions,” MEI (Middle East Institute) *Policy Focus* 2016-3 (February 2016), p. 1.

Actually, although hardly officially or publicly, Tehran must have felt betrayed by Beijing that voted for ALL the eight UN Security Council resolutions related to sanctions on Iran, without exception but with plenty of excuses. One could say that Beijing did not have a choice, but it always had. Ultimately, it has been – and still is – the US, not Iran, which explains China’s decisions. Tehran must have also been aware that China had been a major beneficiary of the sanctions, by increasing its investments and trade, not to mention its political and diplomatic profile – occasionally at Iran’s expense. One example is oil. While Iran was forbidden to sell its oil under the sanctions, a number of exceptions were made, one of them China. Tehran did not have a choice and China used Tehran’s predicament to force Iran’s oil prices down.

One of the major indications of Iran’s displeasure with China was the cancellation of the \$2.5 billion contract signed with China National Petroleum Corporation (CNPC). Beijing had stepped in after Western oil companies withdrew from Iran following the European prohibition on investing in Iran’s oil sector in 2010. As mentioned above, some Iranian officials blamed the Chinese for taking advantage of the sanctions imposed on Iran and of its international isolation. According to them, Beijing was delivering substandard low quality goods and overcharged Iran for drilling equipment and services, causing projects delays. China’s increased opportunities to get oil elsewhere (primarily from Saudi Arabia and Iraq), and its wish not to upset the US, reduced its incentives (and activities) in Iran, leading to Tehran’s protests. Consequently, the Iranians were waiting for the removal of the sanctions, following a settlement of the nuclear imbroglio, to facilitate Western oil companies to replace the Chinese¹⁵.

In addition China, that had been Revolutionary Iran’s predominant arms supplier by the mid-1990s, has been pushed to second place by Russia. Over the last twenty years, from 1996 to 2015, the value of Russian arms supplies to Iran was about twice (\$2.565 billion) that of China (\$1.321 billion)¹⁶. But, in compliance of the 2010 sanctions on Iran, Russia had to cancel (or postpone) the delivery of arms Iran requested, including S-300 missile systems, armored vehicles, warplanes, helicopters and ships. Beijing was no alternative.



China and Iran after Sanctions

As mentioned above, all commentaries on China’s relations with the Middle East since the agreement on Iran’s nuclear program – practically without exception – underlined the benefits for China that has “backed Iran all along”, exemplified in Xi Jinping’s visit. Soon after the agreement was signed, Michael Singh penned an article in *Foreign Affairs* (July 21, 2015), titled “The Sino-Iranian Tango: Why

15- Benoit Faucon, “Iran Cancels \$2.5 Billion Contract with Chinese Oil Company,” *The Wall Street Journal*, April 29, 2014; “Iran Cancels Oilfield Deal with China’s CNPC,” Reuters, April 30, 2014.

16- SIPRI data at: http://armstrade.sipri.org/armstrade/html/export_values.php.

the Nuclear Deal Is Good for China". Xu Xiujun, associate researcher at the Institute of World Economy and Politics of CASS (the Chinese Academy of Social Sciences) said that "the elevation of Sino-Iranian ties to a comprehensive strategic partnership has created a new starting point for bilateral friendly relations" and that "the Middle East media believe Xi's visit has opened a new chapter in Sino-Iranian relations"¹⁷. The BBC said that "Iran and China Agree [on] Closer Ties after Sanctions Ease"¹⁸ and *The New York Times* headline said that "China Deepens Its Footprint in Iran After Lifting of Sanctions"¹⁹. *Al-Jazeera* underlined that "West-Wary Iran Deepens China Ties as Sanctions End"²⁰, and James M. Dorsey wondered whether China was "tilting towards Iran"²¹. John W. Garver replied: "China and Iran: An Emerging Partnership Post-Sanctions"²². Similarly, as soon as the agreement was signed, *The Wall Street Journal* declared "Oil-Thirsty China a Winner in [the] Iran Deal"²³. Is it?

Notwithstanding the impression that has been created about Iran's growing share in the Chinese economy (and vice versa), the numbers tell a different story. In the last decade, from January 2005 to December 2015, Iran's share in China's global investment reached \$18.16 billion, 1.5 percent of a total investment of \$1,212.92 billion, or 10 per cent of all Chinese investment in West Asia (\$181.27 billion). Nearly 55 percent of this investment was in the energy sector (oil and gas). China's investment in Iraq was almost 90 percent (\$16.05 billion) of China's investment in Iran, but was 86 percent higher in Saudi Arabia. Tiny Israel attracted over 40 percent of China's investment in Iran²⁴. In 2015, China-Iran trade declined dramatically. Chinese exports fell by 26.9 percent to \$17.8 billion (about twice China's exports to Israel) while imports nosedived by 41.6 percent to \$16.1 billion, ending in a trade surplus for China²⁵. In 2015 Iran was not among China's five leading oil suppliers²⁶.

The notion that after the lifting of the sanctions in January 2016 Beijing would become a prominent or, as some predict, the predominant player in Iran's economy, is ludicrous. It may be the other way around – perhaps for a long time – as was demonstrated by Iran's President Rouhani's first visit abroad following the lifting of the sanctions – not to China but to Western Europe. When Chinese companies could, and did,

operate in sanctioned Iran, the doors were closed – from the outside rather than from the inside – to Western companies. Now, that the doors have been unlocked as of early 2016, one should expect a flood of Western companies into Iran. Iran's swift turn to Europe, and even to the US, reflects not only the need of their capital resources and technology but, much more so, Tehran's wish to tie the West to Iran so extensively to make a second round of sanctions impractical and inconceivable. Inevitably China, whose association with Iran is taken for granted, would be marginalized.

Indeed, less than two weeks after the sanctions were lifted, Rouhani visited France and Italy and was welcomed as a king. During the visit, Iran and France signed new economic agreements estimated at €15 billion. These cover a €400 million agreement to produce 200,000 Peugeot-Citroën cars per year in Iran and the export of 118 Airbus planes worth \$23 billion to Iran. Energy giant Total announced it would sign an agreement with Iran. Germany's automaker Daimler plan to quickly resume its truck business activities in Iran; Siemens signed a memorandum of understanding with Iran on improving infrastructure in the rail sector; Danish shipping giant Maersk is negotiating business in Iran; Drugs firm Novo Nordisk (Norway) said in September it would build a pharmaceuticals plant in Iran; Saipem, a subsidiary of Italy's energy giant Eni, has already signed an MOU with Iran to engage in engineering, construction and drilling in Iran²⁷. Italy's various agreements with Iran are valued at over €17 billion and Russia, suffering an economic downturn itself, is on its way back to Iran²⁸ – but all these are just drops in the bucket.

For obvious reasons the US is not (yet?) part of the Iranian campaign and US companies are not (yet?) rushing to Iran but,²⁹ as they are about to lose a lot of business to Europe, it is not a question of "if" but only a question of "when". Washington, whoever wins the forthcoming election, would be under corporate pressure to approve the resumption of business with Iran. Boeing and General Electric, that have applied for permission to sell Iran planes, engines and spare parts to Iran, manifest the initial signs. Both will have to compete with other customers in the Middle East as well as with European competitors – but China is not in the picture. During his visit Xi Jinping stressed that China had been "Iran's biggest trading partner for six years". He was right, but this was an achievement by default, caused not so much by any dramatic absolute increase in Sino-Iranian trade as by the withdrawal of Western trade partners. In fact, Iran's share in China's foreign trade has hardly changed over the last twenty years. Iran's share in China's export was around 0.6 percent in 2012 and 2013; its share in China's import was around 1.3 percent in those years; and its share in China's trade

27- Jim Boulden, "European Firms Already Making Iran Deal," *CNN Money International*, January 18, 2016; *Idem*, "Iranian President Does Big Business in Europe," *Ibid.*, January 26, 2016.

28- Andrew E. Kraner, "Russian Companies Rush to Return to Post-Sanction Iran," *The New York Times*, February 8, 2016.

29- Toluse Olorunnipa and Angela Greiling Keane, "Benefits of Iran Sanctions Relief to Bypass U.S. Firms," *Bloomberg Politics*, January 17, 2016; Vivienne Walt, "Europe to U.S. on Iran: You Snooze, You Lose," *Fortune*, January 29, 2016; Howard LaFranchi, "Why US Companies Aren't Rushing to Do Business with Iran," *Christian Science Monitor*, January 29, 2016.

17- *China Daily*, January 25, 2016.

18- January 23, 2016 at: <http://www.bbc.com/new/world-middle-east-35390779>.

19- January 24, 2016.

20- January 24, 2016 at: <http://www.aljazeera.com/news/2016/01/west-wary-iran-warms-china-sanctions-160124054336143.html>.

21- James M. Dorsey, "China & the Middle East: Tilting Towards Iran?," *RSIS Commentary*, No. 20 (Rajaratnam School of International Studies, January 28, 2016).

22- MEI (Middle East Institute) *Policy Focus* 2016-3 (February 2016).

23- Article by Brian Spegele, July 14, 2015.

24- Data adapted from "China Global Investment Tracker", American Enterprise Institute, the Heritage Foundation, at: <https://www.aei.org/china-global-investment-tracker>.

25- http://info.hktde.com/hktde_offices/mi/ccs/index_static_type/exportsbycountryoforiginfinaldestination.x.htm and http://info.hktde.com/hktde_offices/mi/ccs/index_static_type/exportsbycountryoforiginfinaldestination.x.htm.

26- http://info.hktde.com/hktde_offices/mi/ccs/index_static_type/20MajorProductsTop5Countriesimeng.htm.

turnover was less than 1 percent (around 0.95 percent).³⁰

However, the lifting of the sanctions on Iran is going to cost China not only economically but also, and perhaps more important, politically. Throughout the years before and after the sanctions, Iran was used as a card and leverage against the US. Whereas China could not respond directly to Washington's arms sales to Taiwan, Beijing could, and did, react indirectly by expanding its military exchanges with Iran and by deliberately delaying and blocking US-led initiatives for settling the conflict over Iran's nuclear program. Now, that a settlement has been reached and the sanctions have been lifted, Beijing's ability to use its "Iran card" has become extremely limited as much as its ability to sell arms to Iran.

As soon as the sanctions were lifted, Moscow announced its intention to renew its arms sale commitment to Iran. Yet, reportedly this commitment is still being delayed, though for unclear reasons. Russia may hold the deal as a bargaining chip to apply pressure on the West, or Iran has become reluctant to increase its military dependence too much on Russia, now that the sanctions have been lifted. Given that much of the Iranian military infrastructure is Western, there may be substitutes to the Russian arms³¹. Either way – and this is the relevant point here – Tehran does not consider China a substitute. With all due respect to Chinese weapons, Russian weapons are better and Western far more, not only technologically but also, and perhaps more important – politically.



Conclusion

Among the many conferences and workshops held on the "new Silk Road" initiative, The First Silk Road Dialogue and 2016 Annual Conference of Silk Road Think Tank Association took place on February 22-23, 2016, in Shenzhen. Organized by the Shenzhen Municipal Government and China Center for Contemporary World Studies, Fudan University, this was the first to be convened after the lifting of the sanctions on Iran. Titled "Building the Belt and Road: Connection, Innovation and Sustainable Development", the conference's participants included "some previous politically prominent figures in countries along the Belt and Road" and "leadership of and distinguished scholars from influential think tanks and research institutions [...] in countries along the Belt and Road". Of 80 participants in the conference, *not one represented Iran*. According to one of the participants, they had been invited but,

30- On the problems of Sino-Iranian bilateral trade, see: Yang Tao, "Zhongguo yu Yilang jinji maoyi fazhan de tedian yu zhiyue yin-su" [Analysis of the Characteristics and Constraints of China-Iran Economic Trade], *Xi'an Dianzi Keji Daxue Xuebao* (Shehui Kexue ban) [Journal of Xidian University (Social Science Edition)], Vol. 21, No. 2 (March 2011), pp. 55-58.

31- Ivan Nechepurenko, "Russia Says Stalled Arms Deal With Iran Is Signed and Active," *The New York Times*, November 9, 2015; Abbas Qaidaari, "Are Reported Iran-Russia Arms Deals Genuine?" *Al-Monitor* at: <http://www.al-monitor.com/pulse/originals/2015/01/russia-arms-sales-iran-psychological-warfare-ge-nuine.html>.

for whatever kinds of excuses, they failed to show up. This could have been a coincidence – or it may have reflected a problem in Sino-Iranian relations. While Beijing is very eager to resume and expand relations, especially in view of the Western stampede, Tehran is more cautious and reserved.

True, Xi Jinping was the first foreign leader to visit Iran after the lifting of the sanctions – however his first destination in his January 2016 Middle East tour was Saudi Arabia, the second was Egypt and Iran was *the last*. Travel arrangements of state leaders are usually governed by logistic considerations, but in the case of China, they may also reflect other agendas – symbolic and political. Under these circumstances, the main outcome of the lifting of the sanctions, a kind of consolation prize, would be Iran's admission to the SCO at long last...³²

32- Li Weijian [Director of the Institute for Foreign Policy Studies, Shanghai Institute for International Studies] "End of Sanctions Brings Iran Closer to Full Membership in SCO," *Global Times*, January 26, 2016. "China Supports Iran's Application for Full Membership of SCO," *Xinhuanet*, January 23, 2016.