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Last Among Equals: The China-Iran Partnership in a Regional Context

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INTRODUCTION

In early June 2020, a scan of an 18-page document began circulating on Iranian social media. Titled “Final Draft of Iran-China Strategic Partnership Deal,” the document, which appeared to have been leaked from the Iranian Ministry of Foreign Affairs, immediately caused a firestorm among the general public and politicians alike. Soon, the international media picked up the document and headlines blared that Iran and China were forging a new “alliance”

to reorient the balance of power in the Middle East in defiance of the United States, even though China’s policy is not to make alliances in the region.

While that the leaked document included no financial targets, many news reports stated that the deal would see China invest \$400 billion in Iran, a completely fictitious number that can be traced back to a dubious article published in the spring of 2019.¹ Such errors reflect the long-running overestimation of China’s economic

engagement not just in Iran, but also in the wider Middle East. Reporting on potential or promised financing or investment is rarely balanced by the actual amount of capital committed and how it is applied across the region.

Understandably, given the rising tensions between the United States and China, and given the continued sanctions pressure exerted by the Trump administration on Iran's economy, the prospect of a China-Iran deal has been widely perceived as a new gambit to challenge Washington. But the leaked document, attributed to the Secretariat of the Supreme Council for the Mechanism of the Iran-China Comprehensive Strategic Partnership, indicates a fact obvious to close observers of China-Iran relations. Rather than herald a new alliance, the document reflects a renewed effort on the part of the Rouhani administration to restart negotiations around the Comprehensive Strategic Partnership (CSP) agreement signed upon Xi Jinping's visit to Tehran in January 2016, shortly after the implementation of the Joint Comprehensive Plan of Action (JCPOA), and four days after Xi signed a CSP agreement with Saudi Arabia in Riyadh.

Iranian authorities had hoped that the CSP, which is an off-the-shelf framework China routinely uses to structure its bilateral political and economic relations, would help build a deeper partnership between the two countries. Iran's renewed efforts to further articulate and implement the CSP do not reflect a grandiose ploy to resist U.S. sanctions. Rather, the leaked document speaks to Iranian frustrations regarding the relative weakness of its bilateral relations with China when compared to the political, economic, and military ties that its neighbors enjoy with Beijing. It also speaks to

China's measured approach to building relationships with several countries despite the mutual antagonism in the region.

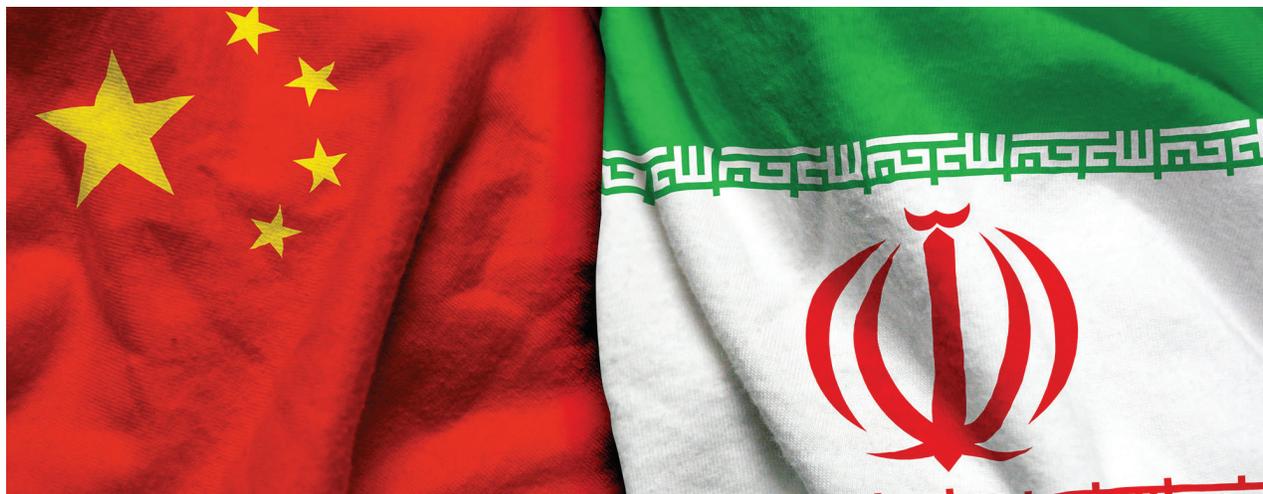
This is the crucial context that is absent in most recent analysis of this deal and its ramifications. In order to better understand these ramifications, this paper presents a comparative study of economic and security relationship between the two countries. Published alongside this paper is the first full translation of the 18-page document from the Iranian Ministry of Foreign Affairs, which is presented in an appendix. The paper also quantifies the scale of Chinese economic engagement

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across the Middle East. Time series data on trade, investment, external finance, and contracted labor are analyzed to understand the development of the bilateral economic relationship between China and Iran.² Data on arms sales and joint military exercises are analyzed to examine the depth of military and security cooperation.³ All of this data is then contextualized by drawing comparisons between Iran, Iraq, Pakistan, the United Arab Emirates, Saudi Arabia, and Turkey – the most significant economies in the wider Middle East.

The conventional wisdom is that Iran is dependent on China. But the scale and scope of that dependency are far more limited than believed. The analysis of this paper makes clear that Iran is, in





relative terms, no more dependent on China than the other major economies in the Middle East. The authors also make clear that this dependency does not reflect a significant magnitude of Chinese trade and investment. On the contrary, relative to the size of its economy, Iran appears to be lagging behind other Middle Eastern states as a trade partner and investment destination for China. Iran's level of economic dependence on China is not a function of Chinese strategic interests in Iran, but rather the result of the West's initial abandonment of the Iranian market beginning with the imposition of multilateral sanctions in 2008. The Trump administration's imposition of "maximum pressure" sanctions in November 2018 subsequently derailed a short period of renewed European trade and investment in Iran following JCPOA-related sanctions relief.

Given that Iranian dependence on China is, so far, primarily the result of Western strategy, rather than Chinese strategy, the analysis that follows is an important correction for policymakers who are concerned about the political and security

implications of the much-hyped China-Iran alliance. It remains to be seen whether China will seek to convert the CSP framework into a relationship that can be called an alliance, but any movement in this direction would reflect a significant break with the long-standing pattern of Chinese foreign policy in the Middle East, particularly with regards to China's ongoing need to balance its ties with Iran and its adversaries. After all, as this paper makes clear, China is as at least as committed to Iraq, Pakistan, the United Arab Emirates, Saudi Arabia, and Turkey as it is to Iran.

CHINESE ECONOMIC ENGAGEMENT IN IRAN

As Western firms largely withdrew from the Iranian market following the imposition of financial sanctions in 2012, reporting on Iran increasingly focused on the presence of Chinese firms, drawing a connection between their persistence and the rhetoric of Iranian policymakers – including the Supreme Leader – who were calling for Iran to "turn East" and increase trade with China as part of

These reports, in turn, gave rise to a perception among the majority of analysts that Iran was becoming more economically dependent on China as a result of Western sanctions...

efforts to resist Western economic pressure. These reports, in turn, gave rise to a perception among the majority of analysts that Iran was becoming more economically dependent on China as a result of Western sanctions, and that it also fell in line with the policy of Iranian leadership.

Contemporary analysis rarely sought to substantiate the matter of Iran's dependence on China by looking to the relevant economic data. This is both a reflection of the journalistic nature of reports of increased Chinese presence in Iran, which inherently rely on anecdotal accounts, and also the fact that quantitative assessments of Iran's economy rarely appear in think tank analysis of Iran. Moreover, when quantitative data was cited – for instance, to highlight the fast growth in bilateral trade – it was rarely examined in comparison with China's economic engagement elsewhere in the region.

As a result, although most journalistic and analytical reports on the China-Iran relationship have accurately described the growth of economic ties between these two countries in absolute terms, most of this analysis has overstated the matter of Iran's economic dependence on China, and by extension the depth of China's economic commitment to Iran. Looking at economic data in four key areas – bilateral trade, foreign direct investment, external finance, and dispatched labor – it becomes clear that Iran

has largely lagged other Middle Eastern countries with regards to economic engagement with China. Moreover, when data in these four areas are viewed in time series formats, it becomes clear that the China-Iran economic relationship has stagnated, if not deteriorated over the last five years or more.

Deterioration in Bilateral Trade

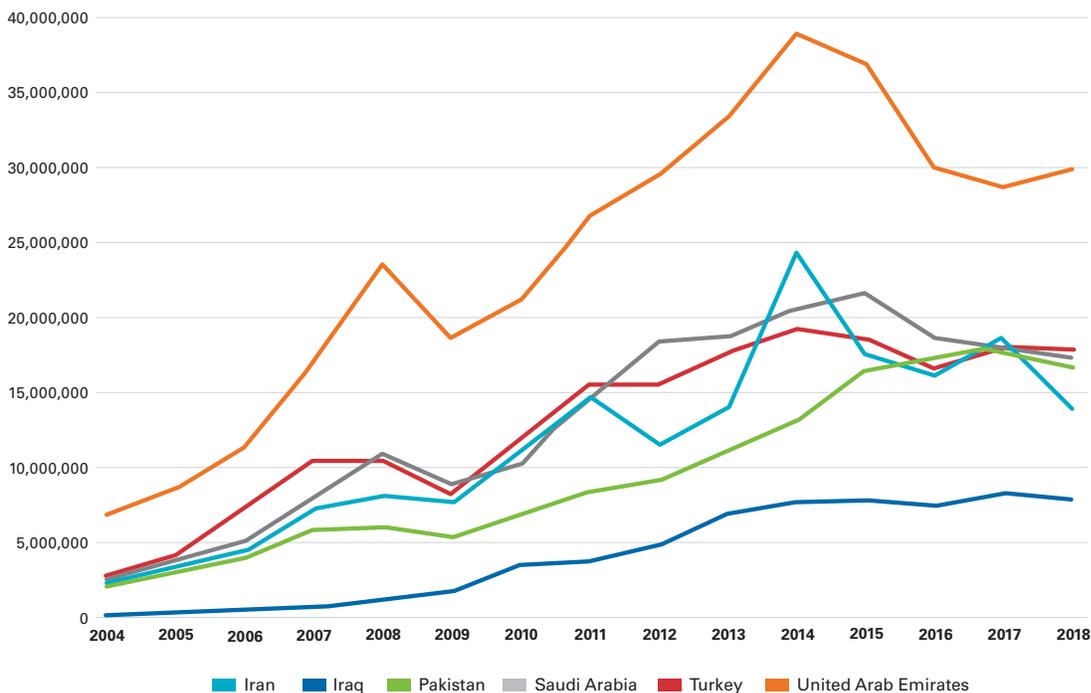
Over the last two decades, China has emerged as Iran's leading trade partner. China has been Iran's largest oil customer and today remains the only country purchasing Iranian oil in defiance of U.S. sanctions. China is also a major industrial supplier to Iran, having displaced Europe in 2008 as the largest supplier of industrial parts and machinery that are used by Iran's growing manufacturing sector. In this regard, Iran's trade partnership with China resembles the partnership enjoyed with Europe prior to the imposition of multilateral sanctions in 2008. Foreign exchange revenues earned through the sale of oil are spent on high-value industrial inputs as well as finished goods such as consumer products.

Chinese exports to Iran rose from \$2.5 billion in 2004 to \$14 billion in 2018, a significant increase in total magnitude. But in relative terms, this growth, equivalent to an annual rate of 16.9 percent, reflects the regional norm. The average annual growth rate of Chinese exports to Pakistan (15.6 percent), Saudi Arabia (16.1 percent), and Turkey (16.8 percent) are comparable to the growth seen in Iran. Growth in Pakistan (15.6 percent) and the UAE (12.9 percent) are slightly lower given greater penetration of Chinese goods at the beginning of the period. Growth of Chinese exports to Iraq measures a staggering 39.0 percent, reflecting growth from a very low level of exports.



Figure 1: Chinese Exports (Total Value)

USD Thousands



Source: UN COMTRADE

Between 2010 and 2014, Chinese exports to Iran grew at an annual rate of 29 percent, even as the international community sought to tighten sanctions on Iran. The perception of China's steadfast and strategic commitment to Iran's economy is largely left over from this period. Exports to Iran peaked in 2014 at \$24 billion, making Iran the region's second largest destination for Chinese exports after the UAE. Since 2014 however, the trade relationship between China and Iran has deteriorated. Exports fell by an annual average of 11.5 percent in the subsequent four years, despite Iran benefiting from increased sanctions relief in this period. By comparison, China's trade with the other states included in this study has remained relatively constant.

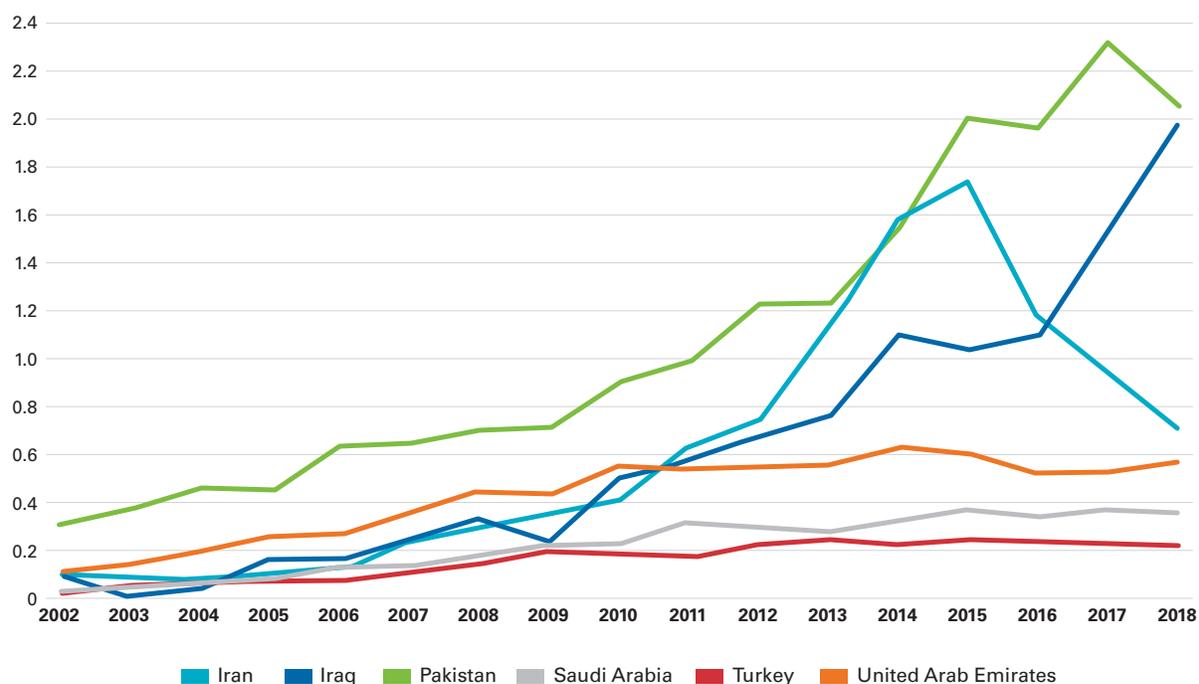
On one hand, the fall reflects how many Iranian importers, especially manufacturing enterprises, resumed their business with European suppliers when conditions allowed, a move that irritated their Chinese suppliers. This is an indication that the rhetorical "turn East" policy had not reversed the underlying dependence of Iran's manufacturing sector on European technology. The preferences of Iranian consumers for European goods also led to reduced demand for Chinese exports when Europe regained access to the market. This is illustrated by the change in the ratio of Chinese to European Union exports to Iran over time.

In 2015, the ratio of Chinese to EU exports of industrial machinery to Iran peaked at 1.74, a level more than seven times the ratio observed in Turkey, which boasts an industrial base highly integrated with that of Europe. But the broad sanctions relief enjoyed by Iran in 2016 had an immediate impact on this ratio, which dropped to 0.70 by 2018. An even more dramatic correction can be seen in data of Chinese vehicle exports to Iran. In 2014, the value of Chinese vehicle exports to Iran was six times the value of exports from the European Union. But European vehicle exports rebounded following the implementation of sanctions relief in 2016, leading the ratio of Chinese to EU exports to fall to less than half the 2014 total in 2017.

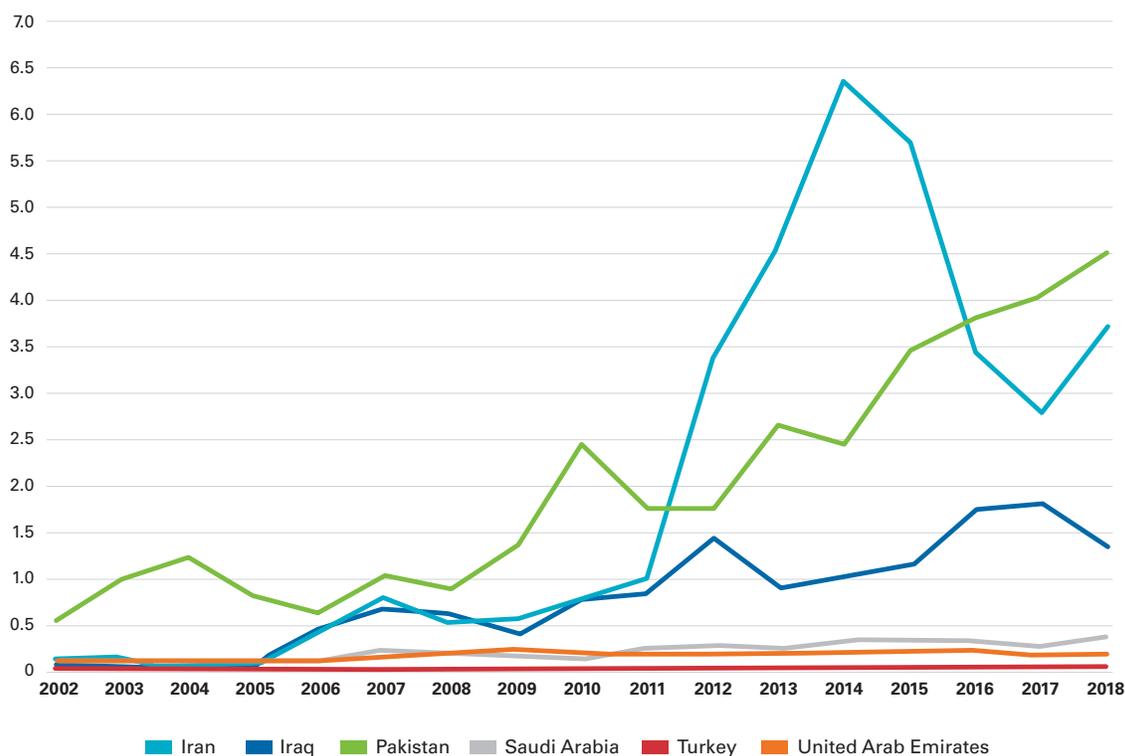
The deterioration of China-Iran trade also extends to China's imports of Iranian oil. July 2020 marked the first month in which China's declared imports of Iranian oil were effectively zero, with a total value of just \$212,000. China's imports of it began their downward trend in May 2019, following the Trump administration's decision to revoke waivers permitting certain countries to purchase Iranian oil. While Iran does continue to sell a significant volume of oil to China via Malaysia, the intermediation of Iranian oil sales to China in this manner indicates that even in the most strategic area of the bilateral trade agreement, the impact of U.S. sanctions can still be felt.

Figure 2: Ratio of Chinese to EU Machinery Exports

HS Code Chapter 84



Source: UN COMTRADE

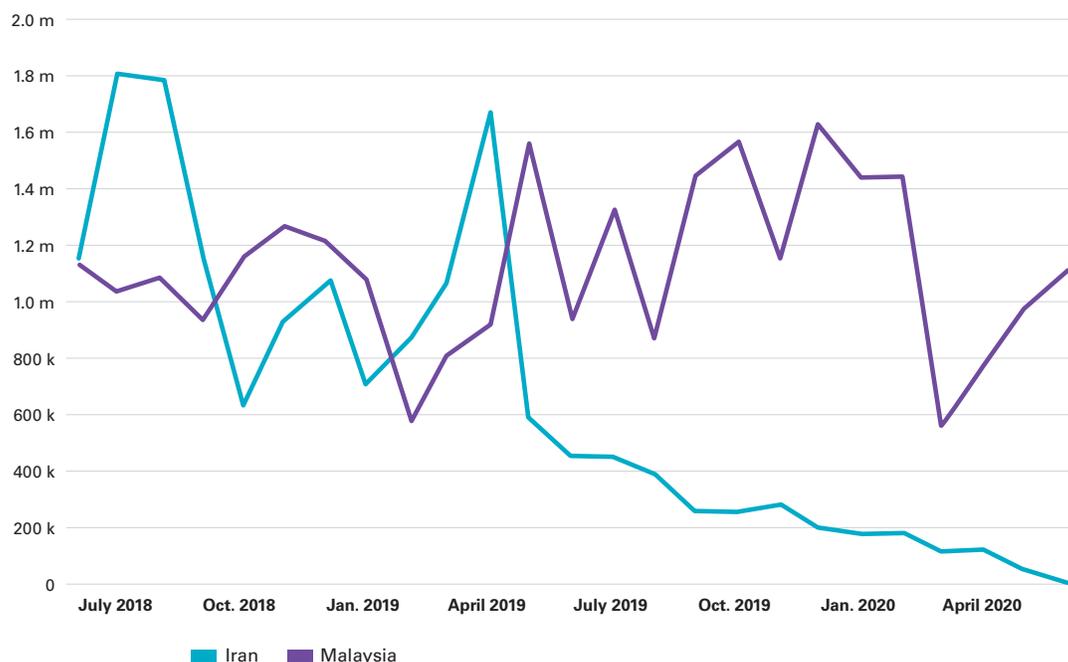
Figure 3: Ratio of Chinese to EU Vehicle Exports*HS Code Chapter 87*

Source: UN COMTRADE

The decline in Iranian oil sales to China has also created a ceiling for the overall trade relationship, with Iran unable to effectively finance the resulting trade deficit due to deteriorated banking ties and limited access to foreign currency reserves. This financial limitation is among the factors that explain why Chinese exports to Iran have fallen over the last year, adding to the malaise in China-Iran trade.

Moreover, it is likely that Chinese exporters were increasingly focused on more lucrative markets than Iran. The global profile of Chinese trade changed considerably between the first and second decades of the new millennium.

Today, Chinese firms are increasingly exporting technologically-advanced equipment, vehicles, and electronics, targeting sales beyond emerging markets. The case of Huawei, China's leading telecommunications company, offers a cautionary tale for Chinese multinationals. The arrest of Meng Wanzhou (widely viewed in China as U.S. bullying) on charges of fraud related to Huawei's Iran business is indicative of the ways in which the risks endemic to the Iranian market are increasingly seen as a liability by major Chinese enterprises. The Huawei case has inspired a culture of paranoia in the Chinese government and major enterprises when it comes to Iran.⁴

Figure 4: Chinese Oil Imports from Iran and Malaysia*Oil imports based on HS Chapter 27 in USD Thousands*

January and February 2020 data released as one total. Total has been divided by two to give monthly figures.
 Chart: Bourse & Bazaar, Source: General Administration of Customs of the People's Republic of China

This deterioration in China-Iran trade explains Iran's recent push to fully implement the CSP with China. Given the weakness of bilateral trade, the implementation of the CSP would not represent the consolidation of a robust economic relationship strategically intended to challenge U.S. regional influence and security advantages. Rather, Iran is seeking to stop the decline of its bilateral trade with China and close the gap in export levels that China has maintained between Iran and its neighbors.

Stagnation in Foreign Direct Investment

Given the malaise in the China-Iran trade relationship, it should be no surprise that Chinese investments in Iran have languished. Like trade, Chinese foreign direct investment (FDI) grew considerably between 2004 and 2018. Although total FDI stock is far below the levels that have made headlines in recent years, a reflection of the fact that Chinese investment commitments only rarely result in actual flows. Chinese FDI stock in Iran rose from \$468 million in 2004 to \$3.23 billion in 2018. In absolute terms, this

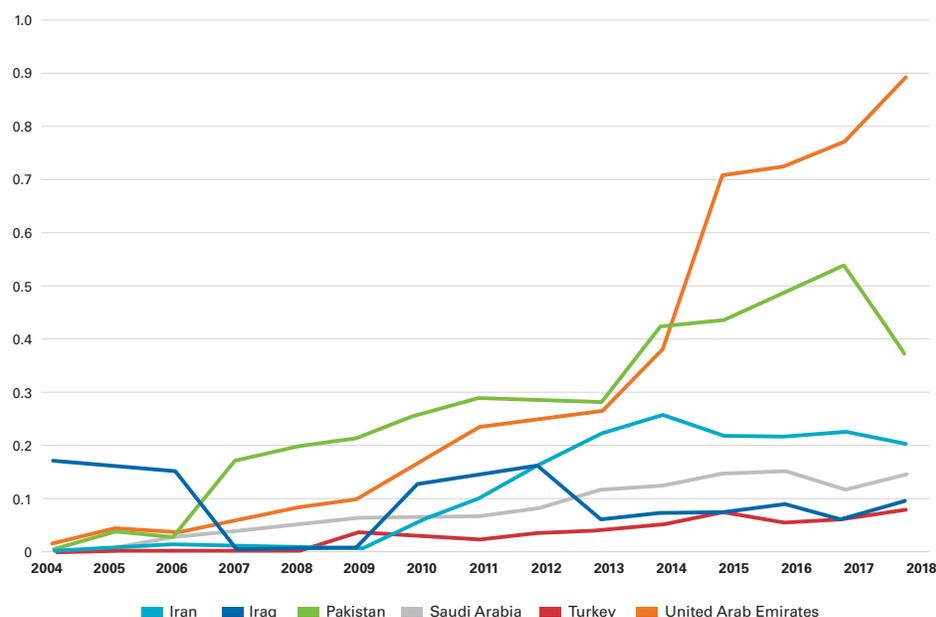
growth may appear to support the perception of Iran's economic dependence on China. But the total makes Iran just the third largest recipient of Chinese FDI among the countries included in this study, after the UAE (\$6.23 billion) and Pakistan (\$4.24 billion), a ranking consistent with its position as the third largest economy in the same group.

Perception of Chinese investment in Iran was distorted by the absence of other FDI flows. Between 2004 and 2018, the average ratio of Chinese FDI stock to GDP (PPP) in Iran was 0.11 percent, comparable to the level in Iraq of 0.90 percent. Nonetheless, Iraq is rarely considered a potential Chinese client state. Looking to data for 2018, the proportion of Chinese FDI stock in relation to the size of the economy is

significantly lower in Iran (0.20 percent) than in Pakistan (0.37 percent) and the United Arab Emirates (0.88 percent), where China appears to be investing more than expected given the size of the economy. By comparison, the proportions of Chinese FDI stock relative to the size of the economy in Turkey (0.07 percent) and Saudi Arabia (0.14 percent) are lower than expected given their status as the two largest economies in the region. Turkey is not a major importer of Chinese goods.⁵ While Saudi Arabia has tried to court foreign investment from China, it has less acute need for foreign capital.

Given the long timeline of many energy and infrastructure projects, it can be difficult to track China's economic engagements from the announcement of a new contract through to its

Figure 5: Total Chinese FDI Stock vs. GDP (PPP)



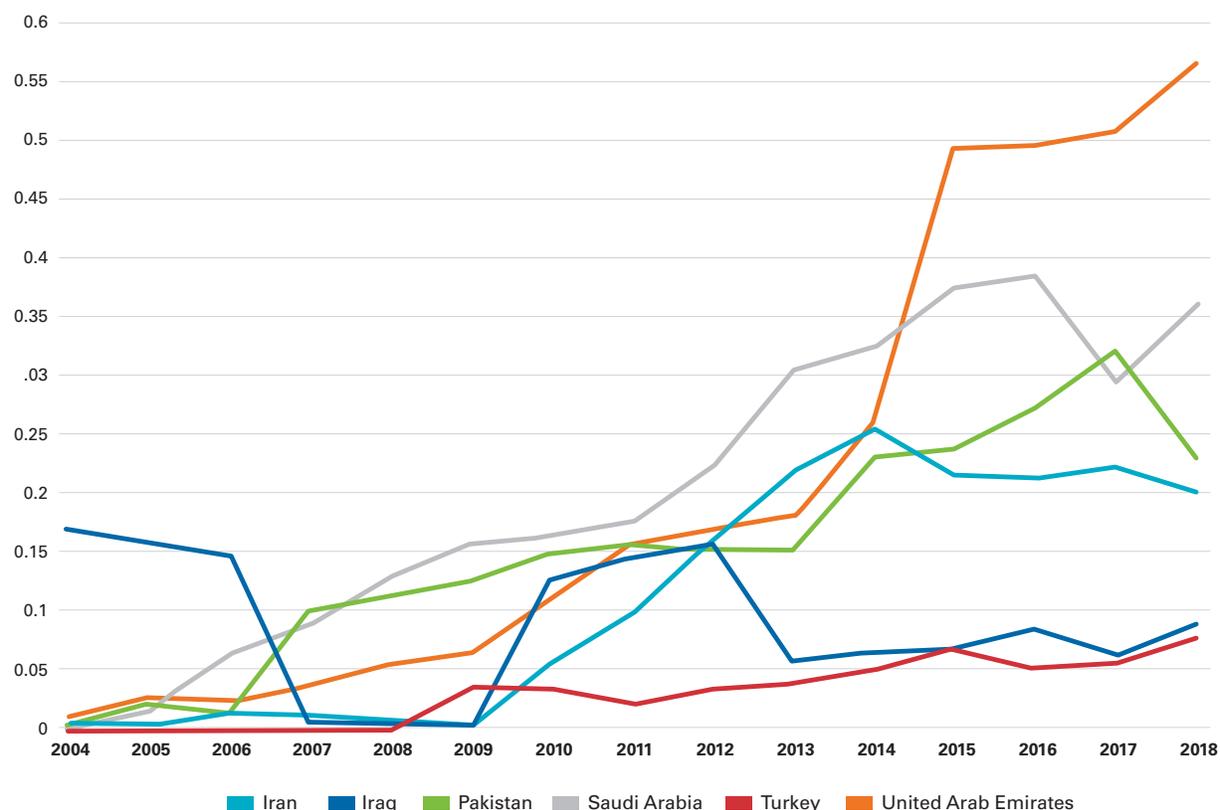
Source: The Statistical Bulletin of China's Outward Foreign Direct Investment

implementation. The China Global Investment Tracker Project, a joint initiative of the American Enterprise Institute and the Heritage Foundation, compiles data on Chinese investment and construction contracts since 2005 (including those projects that are confirmed in public communication of one of the contracting parties, whether in the form of a press release, annual report, or regulatory disclosure). While the tracker’s data diverges somewhat from the official data, it is still clear that China is absolutely and relatively underinvested in Iran, with Iran

having received the least direct investment among all of the major economies in the Middle East.

Chinese underinvestment in Iran is largely a reflection of the messy experience of Chinese state-owned enterprises (SOEs) in the Iranian oil sector. Until the introduction of the Iran Petroleum Contract (IPC) framework in 2017, Iran was a uniquely challenging environment for joint energy ventures due to the use of buy-back contracts. Foreign investors would invest

Figure 6: Chinese FDI Stock to GDP Ratio All Countries (PPP)



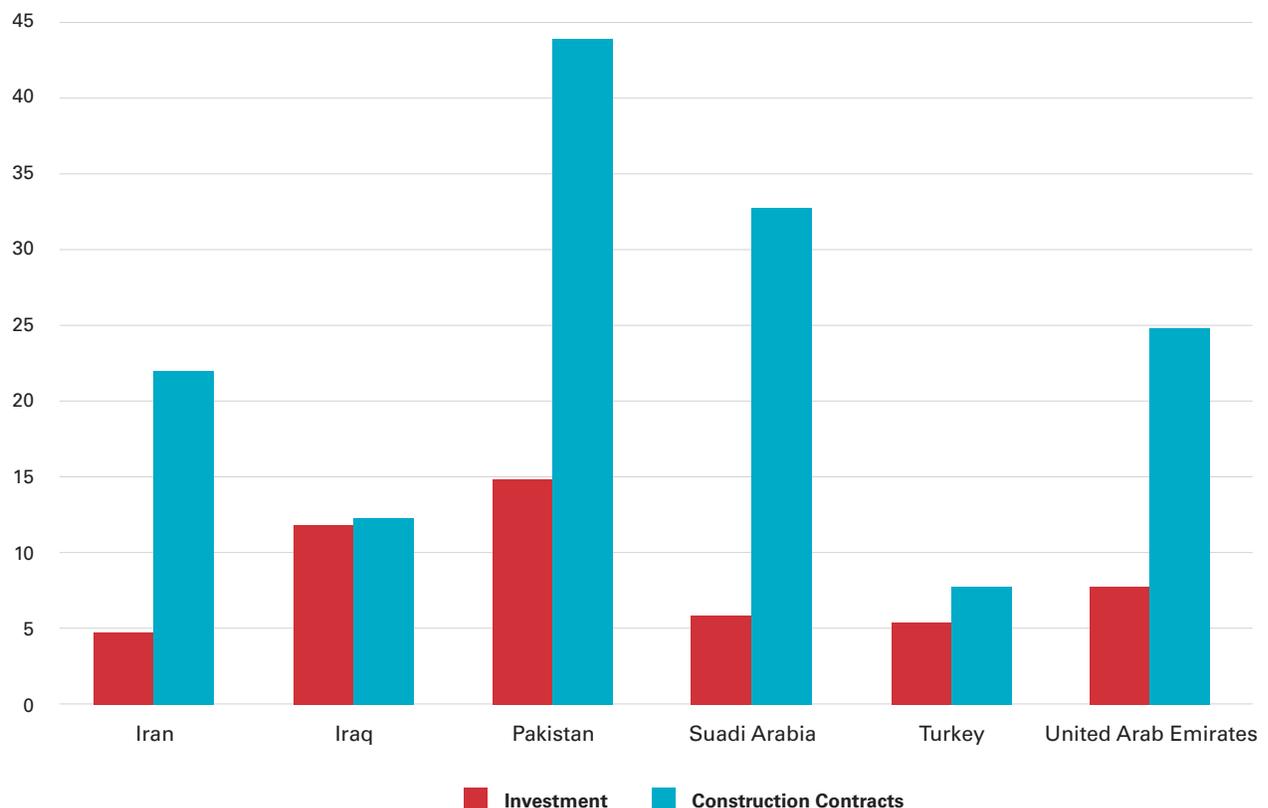
Source: The Statistical Bulletin of China’s Outward Foreign Direct Investment, International Monetary Fund



in oil exploration and production in Iran, but be compelled to sell back the rights to the National Iranian Oil Company (NIOC) at a predetermined price once production began. Buy-back contracts are not very appealing to international oil companies (IOCs) because they require a great deal of up-front investment without delivering long-term profits or even the guarantee of recouping the initial cost. Although some efforts were made by the Rouhani administration to

introduce other kinds of contracts in 2015, they were delayed by complaints from the conservative political camps as being too welcoming to foreigners.⁶ This practice originates from the Persian colonial experience in which deeply unpopular natural resource concessions were granted to Great Britain and Russia.⁷ Buy-back contracts make Chinese companies more reluctant to invest in Iran compared to the other oil-producing countries in the region. This chronic

Figure 7: Chinese Economic Engagement



Source: China Global Investment Tracker, The American Enterprise Institute and The Heritage Foundation

issue is referenced in the 18-page draft CSP in Appendix 1: “China will be expecting Iran to be mindful of Chinese concerns regarding its return on investment in the Iranian oil sector. In exchange, the Chinese side will be mindful of optimizing the financial gains generated in oil deals with Iran.”

China’s ventures into Iranian oil and gas have been restrained to the Azadegan Field (CNPC) and Yadavaran Field (Sinopec). The most disastrous of China’s forays in Iranian oil and gas is the South Pars Phase 11 project. The South Pars is the Iranian portion of the world’s largest natural gas field that straddles Iranian and Qatari territory in the Persian Gulf. NIOC has been in talks over the years with French Total to develop the South Pars Field, but to no avail. In 2009, Total balked in following through on promised collaboration with NIOC due to the threat of U.S. sanctions. NIOC turned to China National Petroleum Corporation (CNPC), a Chinese SOE, as an alternative and signed a deal worth approximately \$5 billion.⁸ That deal fell through in 2012 when NIOC ejected CNPC from the deal, citing lack of progress.⁹ After the advent of the JCPOA, Total and CNPC looked forward to business with Iran without the looming shadow of U.S. sanctions and signed another contract in 2016. Total would operate the project with a 50.1 percent stake, CNPC would have a 30 percent stake, and Petropars, a NIOC subsidiary, would own a 19.9 percent stake.¹⁰ But that optimism was dashed by the results of the 2016 U.S. presidential election, which occurred the same day the contract was signed. With the Trump administration’s re-imposition of sanctions on Iran and Total’s failure to obtain a waiver, Total

withdrew from the project in 2018.¹¹ After some initial confusion, CNPC took over Total’s share.¹² CNPC was not technically equipped for the challenge ahead, and it irritated its beleaguered partners at NIOC by trying to negotiate even more favorable terms.¹³ CNPC was kicked out of the deal for a second time in 2019.¹⁴

No Belt, No Road

One of the visible signs of increased Chinese economic presence in Iran was the influx of Chinese executives and laborers, particularly during the peak of China’s economic engagement of Iran between 2008 and 2014. The presence of Chinese nationals was taken to confirm that major investments were proceeding and that Iran, given the gift of its geography, was taking a central place in China’s Belt and Road Initiative. But the number of Chinese laborers dispatched to work on infrastructure projects in Iran averaged just 1,300 between 2011 and 2018, the lowest level among the six countries included in this study. By comparison, Saudi Arabia hosted 19,000 Chinese laborers on average in the same period.

Iran has a large domestic labor force and capable construction firms, reducing the need for migrant labor. This is the principle reason why Iran has hosted fewer Chinese laborers than other countries in the region is because, as with FDI, China has not in fact provided significant amounts of external finance to Iran. It is difficult to quantify Chinese lending in the Middle East with specificity.¹⁵ Most claims of significant Chinese lending to Iran rely upon loan commitments and not actual data on



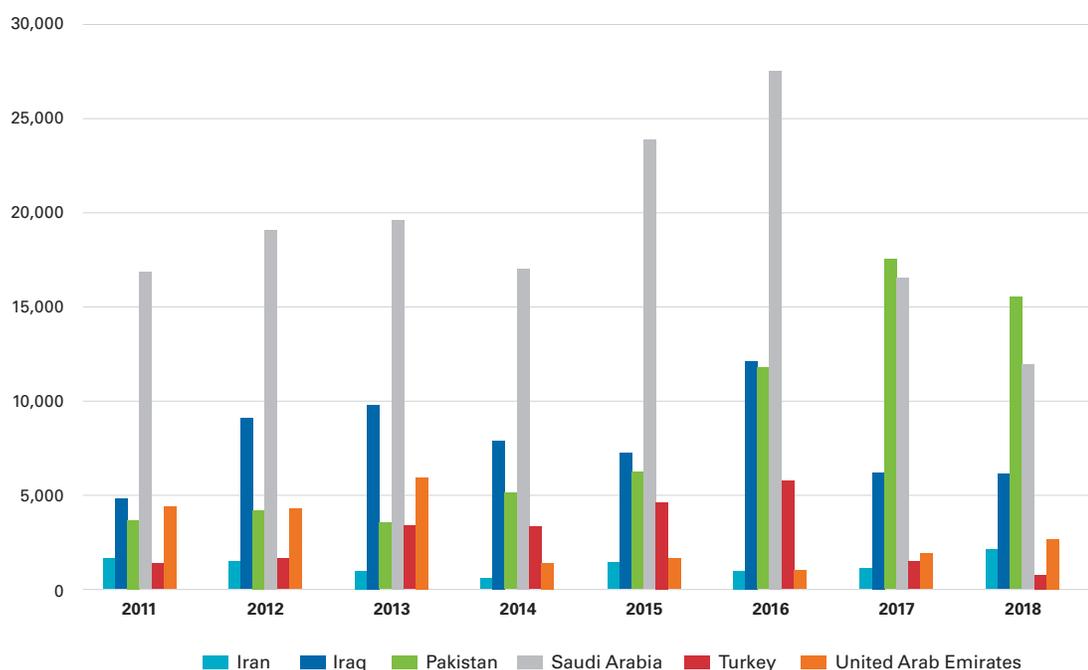
disbursement. As with trade and foreign direct investment, Chinese loans to Iran, if committed, have often been stymied by sanctions pressures. This was the case with the \$1.5 billion credit line committed in 2017 to enable the electrification of a major rail line.¹⁶

Given China's propensity to require Chinese contracting firms to work on the infrastructure projects it finances, it is possible to gauge China's track record in disbursing loans across the region by tabulating declared revenues earned by Chinese contractors in each country.

Looking to these figures, it is clear that the limited availability of Chinese financing has prevented Iran from breaking ground on numerous infrastructure projects. While Chinese firms have been engaged in infrastructure projects in the Middle East since the 1990s, the Belt and Road Initiative was formally launched by Xi Jinping in 2013. In the period between 2013 and 2018, Chinese contracting firms in Iran earned an average of USD 210 million per year, less than one-third of the average in Saudi Arabia in the same period. Chinese contracting turnover in Iran grew at a rate of 10 percent in this period,

Figure 8: Chinese Contracted Labor All Countries

Total Number of Laborers



Source: The China Statistical Yearbook

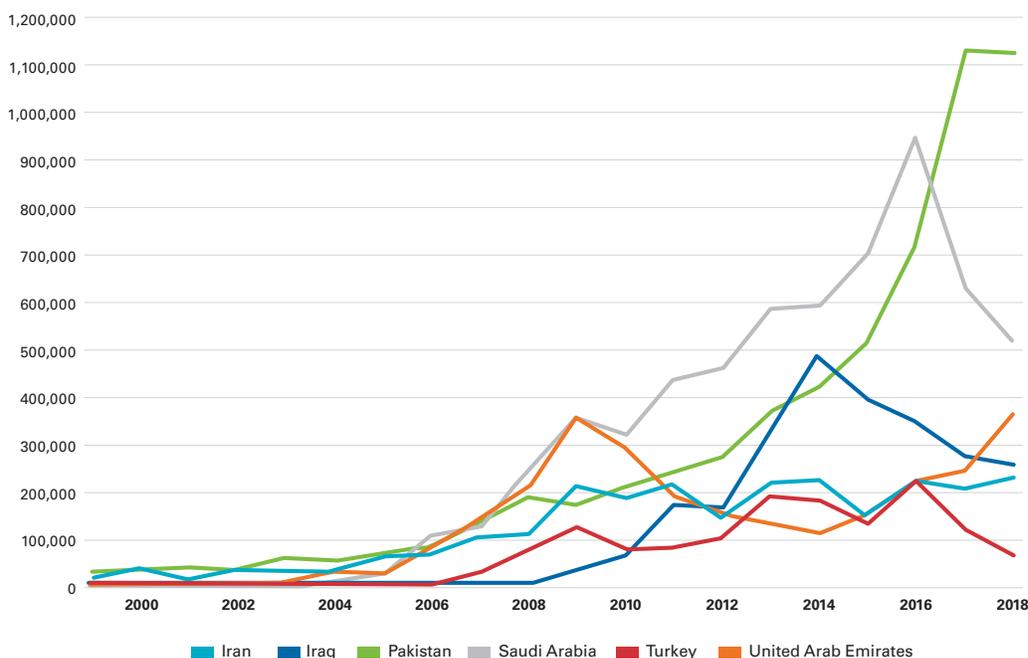
considerably lower than the rates in the UAE (17 percent) and Pakistan (27 percent) which have emerged as the countries at the heart of China's BRI rollout in the Middle East.

Looking across trade, foreign direct investment, financing, and labor, it is clear that Iran is neither a Chinese priority nor dependency. China has sought to expand its economic footprint across the Middle East, and it has proven reluctant to deepen its economic commitment to Iran given the constraints of the domestic market, U.S. sanctions, and regional tensions which introduce steeper tradeoffs for any Chinese investments. Iranian policymakers are also aware of the limitations facing the partnership, including concerns over economic dependence and the inability of Chinese investment to fully compensate for reduced trade and investment

from the West. But what they are seeking now is a reset in the economic relationship, furnished by a fuller implementation of the CSP that would see Chinese trade and investment restored to levels in line with the size of the Iranian economy and therefore bring it into balance with China's economic commitments elsewhere in the region. Given the continued tensions between Iran and Saudi Arabia, any failure to strike such a balance could threaten the viability of China's wider economic plan in the Middle East and the continued flow of cheap energy to the Chinese economy. In this regard, the economic anxieties plaguing the China-Iran relationship, reflected in the new push around the CSP, are directly linked to questions of regional security.

Figure 9: Annual Turnover of Chinese Contractors All Countries

USD Thousands



Source: The China Statistical Yearbook

CHINESE SECURITY COOPERATION WITH IRAN

If China is careful and calculated with its multifaceted economic interactions in the Middle East, it is highly risk averse when it comes to the security dimension. China has many geopolitical fronts where security is a priority – Taiwan, Hong Kong, the South China Sea, North Korea, to name a few – but they all fall within its East Asian sphere of influence. None of these fronts are located in the Middle East. Militarization has been part of the Chinese agenda under Xi Jinping, and the People's Liberation Army (PLA) and the People's Liberation Army Navy (PLAN) have made long strides with the launch of China's first and second aircraft carriers, the Liaoning and the Shandong.¹⁷ China's first foreign military base located in Obock, Djibouti sits on the strategic Bab el-Mandeb Strait between the Red Sea and the Gulf of Aden, and is only a short sail away from the Gulf of Oman and the Strait of Hormuz.¹⁸ But this logistical base is insignificant compared to the military presence of other countries, particularly the United States.

China consistently claims that it has learned from the missteps of the United States in the Middle East. With every news-worthy incident in the region, Chinese state-owned media tout the misadventures of the U.S. as a reminder of China's more prudent foreign commitments.¹⁹ Yet despite its preening, China is a direct beneficiary of the American security architecture in the Middle East that is devoted to the protection of oil trade and countering violent extremism. This is made more significant by the high hopes that China has placed in the region for the BRI, the high volume of Middle Eastern oil China imports, and China's deep insecurity about the

importation of violent extremism in Xinjiang. While China can and does present itself as an alternative to the West in the Middle East, it cannot stoke anti-Western sentiment to the degree that it would concretely endanger the U.S. security. This consideration is at the heart of China's security engagement with Iran and its balanced relationships with other countries in the region.

Despite news reports that suggest otherwise, the leaked draft of the expanded China-Iran CSP deals sparingly with defense cooperation. One of the core missions of the CSP is to "strengthen enforcement of the laws of bilateral security cooperation, including the fight against terrorism."²⁰ The draft agreement promises to promote defense cooperation at the regional and international level in both strategic affairs and combating violent extremism.²¹ In short-term executive steps, it calls for financial support for regular summits of their respective national defense industries and further negotiations on commercial military trade. Cooperation between the two in defense technology will be expanded with a focus on investment, design, development, joint production, and equipment provision. Additionally, it promises to boost cooperation in training and research amongst military, defense, and security organizations specifically in the fields of asymmetric warfare, counterterrorism, international crime, human trafficking, and narcotics. Regular joint naval, ground, and aerial drills will be conducted. None of the draft agreement's medium- or long-term executive steps include defense cooperation.²² While limited in scope, the draft CSP, if implemented, would represent the deepening of Beijing's military commitment to Tehran in terms of joint military exercises and industrial defense cooperation.



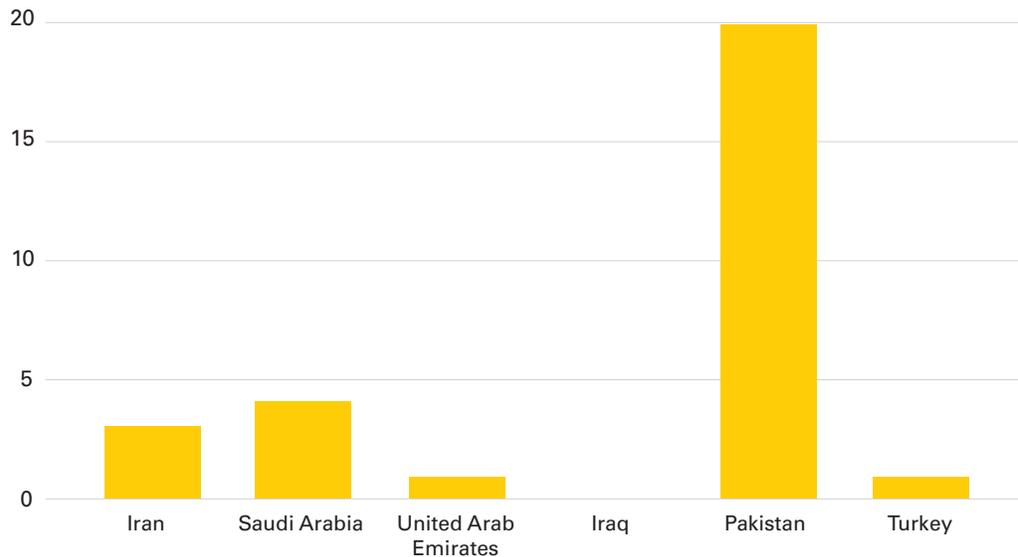
Joint Military Exercises

Over the past ten years, China has only conducted three joint drills and technical port calls with Iran. The first was in 2014, when two Chinese warships, including the guided-missile destroyer *Changchun*, visited Port Bandar Abbas and conducted joint drills focusing on safety at sea and anti-piracy.²³ This occurred after the Iranian Navy helped liberate a Chinese cargo ship from pirates in the Gulf of Aden.²⁴ The second was in 2017, when one Iranian destroyer and two Chinese destroyers conducted four days of naval drills in the eastern portion of the Strait of Hormuz. The third drill occurred in December 2019 as tripartite exercises with Russia. Named the “Marine Security Belt,” these drills were conducted in the Gulf of Oman and Indian Ocean. The participating ships were: China’s guided-missile destroyer *Xining*; Russia’s frigate *Yaroslav Mudry*, the tanker *Elnya*, and the tugboat *Viktor Konetsky*; and Iran’s frigate *Alborz*, the frigate *Sahand*, the corvette *Bayandor*, the hovercraft *Tondar*, and the IRGC vessels *Shahid Naserinejad* and the *Shahid Nazeri*.²⁵ In all instances, Chinese state media sources were more restrained in their commentary on what they called “routine exercises,” while Iranian state media sources trumpeted them as proof of a formidable partnership. These attitudes towards the drills are indicative of the very lopsided relationship between Beijing and Tehran, which Iran is now trying to correct by guaranteeing Chinese military participation going forward in the CSP.

China’s limited military engagement with Iran is not unusual when considering its other defense commitments in the region. Since 2010, China

has also conducted joint drills and technical port calls with Saudi Arabia, the UAE, Pakistan, and Turkey. China is particularly mindful of balancing its Iranian engagement with its engagement with its rival Saudi Arabia – every year China has had a serious drill with Iran (2017 and 2019), it has conducted sister drills with Saudi Arabia. Meanwhile, China has clearly chosen Pakistan, on the border with Xinjiang, as a military partner of choice with a total of 20 drills since 2010. Moreover, China and Pakistan have a series of annual joint drills – the “Warrior” special forces series, the “Shaheen” (“eagle”) air force series, and naval drills that have yet to gain a serial operation name. Many of the Shaheen operations are conducted in Xinjiang autonomous region in northwestern China. China has also hosted Saudi forces in Chinese territory with war games in Chongqing observed by Afghan officials. As for Turkey, the 2010 joint aerial drills China engaged in were the first exercises between a NATO member and Beijing. The rest of NATO was not pleased, particularly the United States, who was concerned U.S.-made F-16 jets had been used in the maneuvers. The backlash was enough to stem further military cooperation. Iraq only gained a Strategic Partnership with China in 2019, so the lack of joint drills is not unusual. Of China’s military drills with these partners, only one was held on a multilateral basis: the “Marine Security Belt” with Iran and Russia in 2019. China in the Middle East, and the world at large, generally prefers the leverage it can wield in bilateral relationships as opposed to multilateral entities.



Figure 10: Chinese Joint Drills and Technical Port Calls 2010-2019

Source: State and International News Agencies²⁶

Even though China has increased its military-to-military diplomacy in the Middle East, its participation in exercises with these partners is dwarfed by their comparative partnerships with the United States. With every country in this study other than Iran, the United States has regular, annual joint exercises across air, land, and sea with serial operation names. Moreover, the majority of these exercises are on a multilateral basis. The U.S. has the security and political capital to organize drills with dozens of countries at once, most of which include the comparative countries in this survey. Operations Eager Lion in Jordan, Bright Star in Egypt, and the International Mine Countermeasures Exercises (IMCMEX) are just a few examples of the ways that the U.S. is the predominant extra-regional partner in Middle East joint military

drills.²⁷ The U.S. also hosts all the air forces of this survey other than Iran in Red Flag/Green Flag aerial exercises at Nellis Air Force Base, Nevada. The U.S. military also trains hundreds of members of these militaries in the United States and their home countries as part of its foreign military training program.²⁸

This is something that China is certainly mindful of as it begins to commit to more concrete military partnerships in the region, particularly with Iran. China is aware that it cannot replace the United States as a military partner of other countries, nor does it aspire to that mammoth task. It has neither the military capability nor the political willpower to do so. It is, however, able to use exercises with Iran to irk the United States. The more the U.S. Navy focuses on Iran, the

less resources it can expend in the South China Sea. At the same time, the complete vacuum of U.S. partnership with Iran makes partnership with China more compelling from the Iranian side, and China knows it. This gives China much more leeway in its ability to negotiate military engagement with Iran while carrying out joint military exercises with Iran's sworn enemies. China also hopes these military exercises will encourage arms purchases.²⁹

Arms Sales

Arms sales to Iran are impeded by the UN multilateral sanctions that have been imposed since 2006 and the shifting variety of U.S. unilateral sanctions that included weapons beginning in 1984.³⁰ Even though the 2006 multilateral sanctions were motivated by nuclear weapons development and do not name conventional weapons, they have nevertheless stunted Tehran's access to the conventional weapons market. China previously made inroads in weapons sales to Iran during the Iran-Iraq War which represented the highest period of arms transfers from China to Iran. China had sold \$3.3 billion of military equipment to Iran by the end of the war, while selling equipment to Iraq as well.³¹

Since 2000, Iran has imported 930 anti-ship missiles, 1,750 portable surface-to-air missiles, six surface-to-air missile systems, three air search radars, 150 armored personnel carriers, and nine catamaran missile boats from China. In value alone, it outstrips every partner other than Pakistan. However, China has not exported any unmanned aerial vehicles (UAVs), or drones, to Iran. China has two series of drones on the international arms market: The Wing Loong I

and II and the Chang Hong series, the most relevant of which is the CH-4. The CH-4 drone is a medium-altitude, long endurance armed drone comparable to the U.S.-made Predator series, but cheaper. China has, on the other hand, exported Wing Loong and CH-4 drones to Saudi Arabia, the UAE, Iraq, and Pakistan. Iraq has applied the technology to combating the Islamic State, while Saudi Arabia and the UAE have used CH-4 drones in their campaign against Iranian-backed Houthis in Yemen, a fact sure to vex Iran.³²

The Chinese share of arms sales to the Arab states and Turkey is dwarfed by the sheer volume of U.S. sales to those states – all four are consistently in the top ten purchasers of American weaponry.³³ Iran in weapons sales, as in so many other sectors, has not been paired with China by choice. Its only other reliable weapons supplier in the same period is Russia with some sporadic trade with Belarus, North Korea, Pakistan, and Ukraine. This is reflected in the disproportionate share of Chinese-made weapons in Iranian arms imports, which increases dramatically after 2006. Even Pakistan, China's top arms importer in value and share in this series, has reliable business with France, Italy, Russia, Sweden, Ukraine, and the United States.³⁴

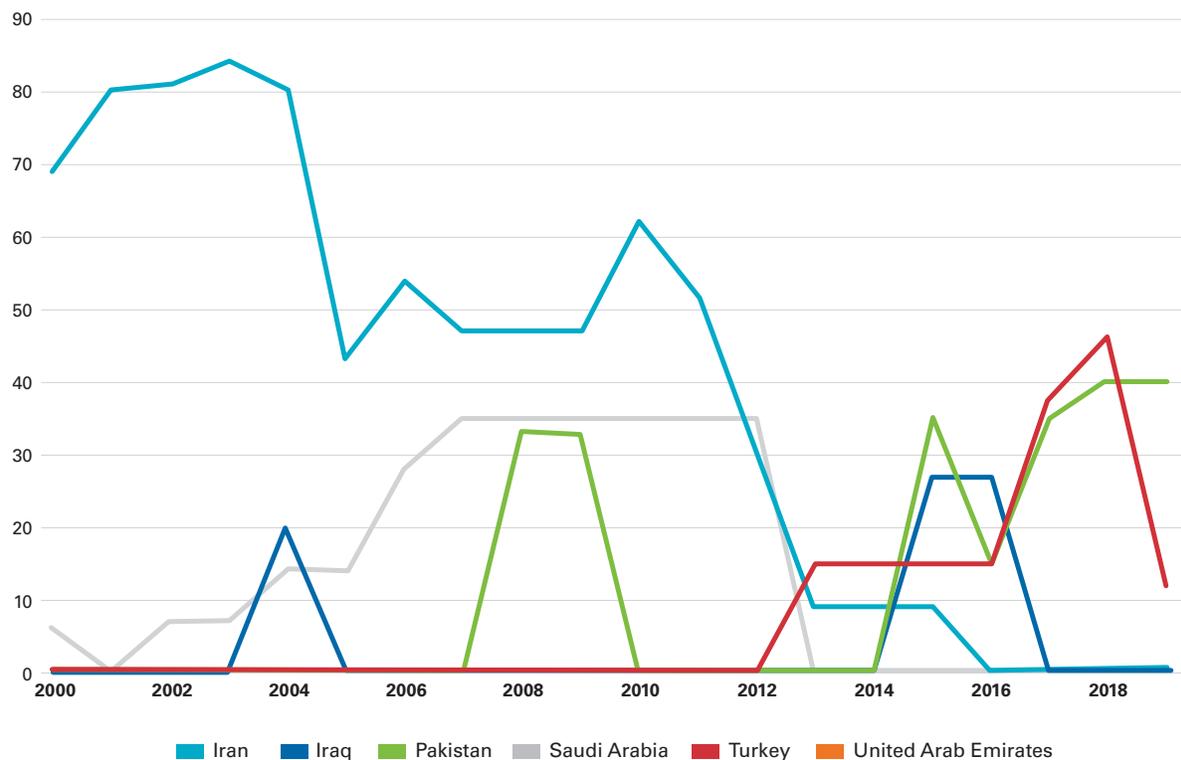
Even though a larger share of Iran's arms purchases are Chinese, Iran has yet to enter the dimension of joint arms production. This is an enterprise that both Saudi Arabia and Pakistan enjoy. During King Salman's visit to Beijing in 2017, one of the agreements signed included China's first drone factory in the Middle East. King Abdulaziz City for Science and Technology (KACST) signed a partnership



agreement with China Aerospace Science and Technology Corporation (CASC) to build a factory that manufactures the CH-4 drones. CASC also has a CH-4 drone factory in Pakistan.³⁵ The Iranian CSP seeks to alleviate this by calling for joint production ventures as part of security cooperation.³⁶ Whether such a joint production enterprise will actually materialize is another matter entirely, especially given the previous struggles of Chinese production in Iran and that China has yet to even sell CH-4 drones to the Islamic Republic.

Although China argues against sanctions on Iran in the United Nations and the international arena, sanctions clearly discourage China to at least some degree. The value of Chinese arms imports took a dive beginning in 2006, though its share dramatically increased as other partnerships were severed and the general volume of arms trade decreased. China has on several occasions found itself on the backfoot with U.S. sanctions on Iran, with eight Chinese defense companies coming under sanctions that China protested.³⁷ In 1996, China abandoned a military

Figure 11: Value of Imports of Chinese Arms (Excluding Pakistan)



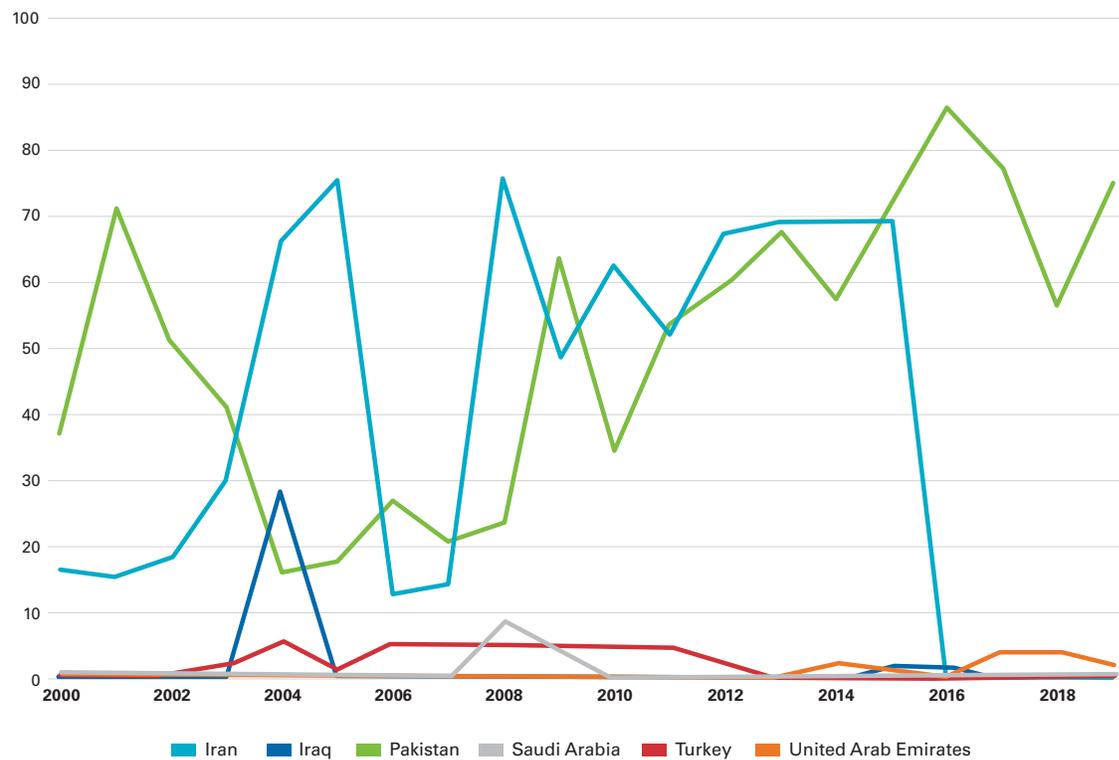
Source: The Stockholm International Peace Research Institute



contract after pressure from the U.S. in the wake of the Clinton administration’s Iran-Libya Sanctions Act.³⁸ In the immediate aftermath of the JCPOA, there was a great deal of optimism for cooperation between Chinese and Iranian defense industries, but that was seemingly crushed by the resumption of U.S. sanctions in 2018 after the United States withdrew from the agreement. The 2006 UN arms embargo is set to expire later this year on October 18. On August 14, the UN Security Council failed to renew the conventional arms embargo on Iran. The United

States and the Dominican Republic were the only states to vote in favor, China and Russia voted against it, and 11 member states abstained.³⁹ China once again took the role of Iran’s champion against sanctions in the UN and denounced the United States as a bully.⁴⁰ The declining state of U.S.-Chinese bilateral ties was not enough to marshal China in multilateral support of American objectives in Iran as it has been before, an ill omen for both the U.S.-China relationship and U.S. efforts to promote multilateralism.

Figure 12: Chinese Share of Total Arms Imports 2000-2019



Source: The Stockholm International Peace Research Institute



CONCLUSION

There is no denying the economic and political significance of the CSP between China and Iran. But as the analysis presented in this paper makes clear, the extent of economic and military cooperation between the two countries has been limited, at least in relation to other countries in the region; a fact that speaks to how the CSP framework inherently falls short of the “strategic alliance” much feared by Western analysts. Looking across the numerous metrics included in this study, Iran appears no more dependent than the five other major states in the region examined in this study – Saudi Arabia, the UAE, Iraq, Turkey, and Pakistan. Even the language of the draft CSP is balanced with China’s other commitments in the Middle East. It bears a striking resemblance to the Chinese White Paper on the Arab world (the sole Chinese policy paper concerning Chinese-Arab relations) which was published contemporaneously with the original China-Iran CSP negotiations in 2016.⁴¹ The CSP with Iran is not a break from Chinese policy in the Middle East, just a continuation of the norm using standardized language.

While Chinese officials will often describe the intentions of their partnership with Iran in grand historical terms, this rhetoric should not be taken at face value. The broader Western analysis of China-Middle Eastern affairs often fails to account for the marked divergence between rhetoric and material commitment. Policymakers in both China and Iran are more constrained by public opinion than is widely assumed. The leak of the 18-page draft of the updated CSP caused

a firestorm on Iranian social media and Foreign Minister Javad Zarif had to officially dispel rumors that Iran was selling Kish Island to China.⁴² Meanwhile, Chinese state media was virtually silent on these developments. The Middle East is a peripheral concern for most Chinese people and its primary function in state media is to criticize U.S. foreign policy failures. The Chinese government does not want to convey to its citizens that it is becoming entangled in a distant region where other world powers have historically foundered.

Furthermore, the deterioration of the China-Iran relationship since the beginning of the U.S. “maximum pressure” campaign reflects the efforts of the Chinese government to avoid antagonizing the Trump administration during the high-stakes trade war. Clearly, “defiance” is not the default position for China-Iran relations as it pertains to U.S. interests. Iran is a lever by which China can de-escalate tensions with the United States. China’s acquiescence in the face of U.S. secondary sanctions is concerning for Iranian policymakers, who may seek to take advantage of the perceived linkage between the CSP and China’s ambitions for the new global order. The credibility of China’s new claim to superpower status is at stake, should China prove unable to operationalize even a basic CSP with Iran due to U.S. pressure. In this way, the Trump administration’s push to make Iran into an arena in which to challenge China’s rise may actually serve Iran’s short-term interests by compelling China to show greater strategic commitment.



Overall, the recent push to revitalize the CSP is less a reflection of Chinese and Iranian ambitions, and more a reflection of the anxieties of both. Against the backdrop of China's regional affairs, Iran is last amongst equals. It remains to be seen whether the fuller implementation of the CSP can shift this situation in Iran's favor, but the answer will not be clear until China's policy in the Middle East is made more concrete and comprehensive.

The opinions expressed in this article are those solely of the authors.



APPENDICES

Appendix 1: English Translation of the Farsi Draft Chinese-Iranian Comprehensive Strategic Partnership

In the name of God
Ministry of Foreign Affairs
Islamic Republic of Iran

Final draft of

Iran-China (25 Year) Comprehensive Partnership Plan

Secretariat of the Supreme Council for the Mechanism of Iran-China Comprehensive Strategic Partnership

June 2020



Introduction

The People's Republic of China and the Islamic Republic of Iran, herein referred to as "parties" to the agreement,

Represent two ancient civilizations in Asia, maintaining close partnership in a range of areas from trade and economy to politics, culture and security. Sharing numerous views and interests in bilateral ties and multilateral arenas, the two parties consider one another as important strategic partners.

By recognizing their cultural commonalities, the importance of multilateralism, the right of all nations to sovereignty, the indigenous model of development, and through sharing positions regarding different global issues, China and Iran have pushed their relationship to the strategic level on the basis of mutual interests and a win-win approach.

Given their deep-rooted and friendly diplomatic ties since 1971 and proper grounds for cooperation in such fields as energy infrastructure, science and technology, the leaderships of the two parties are strongly committed to expanding this bilateral relationship, calling for plans to boost all ties.

The present document, the two parties are confident, will open a new chapter in bilateral ties between Iran and China as two splendid civilizations of Asia, and will serve as a giant leap toward materializing the common will expressed by the leadership on both sides for deepening relations and strengthening cooperation in various fields within the framework of [China's] Belt and Road Initiative.

This document also aims to help operationalize Article 6 of the initial joint statement issued in January 2016 on launching the Comprehensive Strategic Partnership between the People's Republic of China and the Islamic Republic of Iran. It does emphasize the necessity of setting up mechanisms and providing the essential infrastructure for expanding cooperation within a 25-year vision.

The two parties have agreed upon the following:

Article 1

Vision:

Through the deal, they will drive forward strategic partnership between China and Iran based on a win-win approach in bilateral, regional and global grounds.

Article 2

Mission:

Taking into account the tremendous capacities at hand for bilateral cooperation within the framework of the present document, the two parties will cooperate to achieve the following goals:

- Expansion of bilateral trade and economic ties
- Effective interaction between public and private-sector institutions as well as free and special economic zones
- Improvement of efficiency in such sectors as the economy, technology and tourism
- Strategic partnership in different economic fields



- Expansion of relations and cooperation among universities as well as academic institutions engaged in science and technology
- constant and effective review of the status of the joint economic cooperation with the aim of removing hurdles and tackling challenges
- Coordination and support for one another's positions at international bodies and regional organizations
- A strengthened enforcement of the laws in bilateral security cooperation including the fight against terrorism
- Cooperation in other fields

Article 3

Fundamental Goals:

With strategic bilateral policies, common opportunities and capacities, as well as the existing realities in mind, the two parties have enumerated and drafted the fundamental goals pursued by the present agreement in Appendix 1.

Article 4

Cooperation Grounds:

To expand comprehensive cooperation, the two parties will work together within the framework outlined in Appendix 2. Some of the key areas are as follows:

- Energy, including crude oil (production, transfer, refining and secure delivery), petrochemicals, renewable energies, civilian nuclear energy
- Highways, railroads and maritime connections

with an increasing Iranian role in the Belt and Road Initiative

- High-standard banking relations, with an emphasis on the use of national currencies along with an assertive fight against money laundering and financial provision for terrorism and organized crime
- Cooperation in tourism, scientific-academic fields and technology, exchange of experience in human force training, eradication of poverty and improvement of public livelihood in underdeveloped areas

Article 5

Executive Steps:

The two parties will strengthen strategic comprehensive cooperation in all fields on the basis of joint interests and principles and within the normal frameworks of business among economic enterprises by following all the steps stated in Appendix 3 of the present document.

Article 6

Supervision and Implementation:

1. For a coordinated supervision of the implementation of the contents of the present document, the two parties will set up a mechanism agreed upon by senior and authorized officials representing the leaderships of the two states.
2. The high-ranking representatives will hold annual meetings. Upon necessity, other relevant officials will have consultative calls with their counterparts.



3. The ministries of foreign affairs on both sides—aided by other involved institutions such as China’s Ministry of Commerce and Iran’s Ministry of Economy—will act as the body supervising the implementation of the contents of the present document and are tasked with generating work-in-progress reports and handing them to their leaderships within specified timetables.

Article 7

Cooperation in Third-Party Countries:

Given their common interests in the Belt and Road Initiative, the two parties shall encourage bilateral relations as well as multilateral ties through pursuing joint plans in neighboring or third-party countries.

Article 8

Rejection of Outside Pressure:

In line with the principle of multilateralism, the two parties shall safeguard the implementation of the Articles of the present document in the face of illegal pressure from third parties.

Article 9

Final Contents

1. Any revision of the appendices of the present document (as stated in Articles 3, 4, 5) is conditioned upon mutual consent and shall be carried out merely after coordination and mutual consultation.
2. To facilitate the implementation of the mutually-agreed-upon plans, the two parties are entitled to present suggestions, if need

be, for the purposes of improvement and updated adaptability of the content of the agreement. Assurances have to be offered that such steps shall not impact or impede the implementation of ongoing projects.

3. Appendices attached to the present document shall constitute an integral part to it.
4. The present document will be in force for 25 years upon the signing date.

The present document was signed on (date) ... (... (date) on the Iranian calendar) in the city of ... and is available in Chinese, Persian and English copies, all of which hold equal legal validity. Should a dispute arise between the two sides, the English version shall serve as reference.

Signatures

From the Islamic Republic of Iran

From the People’s Republic of China

Appendices

Appendix 1

Fundamental Goals:

- Both parties will make efforts to turn China into a steady importer of Iranian crude oil. China will be expecting Iran to be mindful of Chinese concerns regarding its return on investment in the Iranian oil sector. In exchange, the Chinese side will be mindful of optimizing the financial gains generated in oil deals with Iran.
- Promoting Iran’s position in the Belt and Road Initiative through a development of



multifaceted transport system, covering railroads, roads and highways, maritime and aviation based on national and regional demands

- Expansion of cooperation in the fields of banking, financial procurement and insurance
- Boosting Investment in different economic sectors including petrochemicals, heavy industries, agriculture, health, electricity, science-based companies and smart networks, modern industries such as telecommunications, public service and tourism
- Expansion of cooperation in the transfer and development of modern technologies including clean energies, renewable energies, construction of power plants, telecommunication and information technologies, health sector, agriculture
- Optimizing the two sides' capacities into operationalizing mega-projects in the fields of mine and industry
- Improving capacities in business, commerce and customs service cooperation
- Expansion of cooperation in agricultural, pharmaceutical and health sector production as well as innovative industries
- Increased cooperation in tourism, including through encouraging investment and developing tourism infrastructure and resources
- Push for developing science and sharing modern technologies for the purpose of

protecting the environment in various fields

- Strengthening infrastructure for technical and engineering cooperation in multiple economic fields and facilitation of exports of technical and engineering services
- Cooperation in maritime and ports infrastructure including through the construction of maritime facilities, vessels, ports, equipment and the related installations
- Negotiations with a focus on cooperation in energy projects in Iran
- Cooperation in the construction of suburban new towns in Iran
- Cooperation in the construction of industrial, service-oriented and technology-oriented centers in selected ports and islands with a focus on production as well as exports of jointly-produced commodities and services to regional countries
- Upgrading scientific, technical, legal and economic cooperation in different subfields of cyberspace and equipment meant for end-users
- Promoting investment in power plants
- Enhancing military, defense and security cooperation with a focus on training and research, defense industries and interaction in strategic fields
- Boosting comprehensive strategic political partnership at bilateral, regional and international levels



Appendix 2**Key fields of cooperation under the 25-year Comprehensive Partnership Deal****A)- Oil and energy**

- Provision of long-term energy security
- Joint efforts toward setting up a mechanism for sustainable imports of crude oil from Iran
- Encouraging companies on both sides to develop Iranian oilfields through partnership or joint investment
- Covering China's energy demand
- Negotiation on partnership in constructing and equipping storage facilities for oil, gas and petrochemicals in the two countries
- Encouraging Chinese firms into investment and financial procurement in electricity, energy, water and sanitation projects [in Iran]
- Transfer of Chinese technical know-how and experience in strategic planning into Iran's water and electricity sectors

B)- Active Involvement by Iran in China's Belt and Road Initiative

- Regional-international corridors
- Boosting cooperation and consultation over active involvement in the south-north corridor (Chabahar Port-Central Asia) and south-west (Chabahar and Bandar Abbas-Turkey and Azerbaijan Republic) on the basis of the fundamental principle of pursuing common interests

- Negotiations over the construction of the Pakistan-Iran-Iraq-Syria pilgrimage railroad and the related subprojects
- 1-National Railroad
 - Accelerating the completion process of Iran's east-west railroad based on the three economic principles of respect for private ownership, market orientation and competition
 - Encouraging the implementation of projects focused on the construction of roads, highways and railroads in Iran
- 2- Regional Cooperation
 - Transfer of energy including oil and natural gas from Iran's west to east
 - Transfer of natural gas to Pakistan and China through the China-Pakistan Economic Corridor (CPEC)
 - Planning and execution of joint projects focused on energy resource development and transfer in Iraq
 - Chinese cooperation in boosting production and transfer of energy between Iran and its neighbors
 - Joint investment on construction of power plants and electricity transfer lines in Pakistan, Afghanistan, Iraq and Syria and providing Iran with the opportunity to export its electricity to Pakistan and Afghanistan within the framework of the Belt and Road Initiative as well as exchange of energy through the Iranian east-west corridor



- -Joint cooperation in provision and exchange of electricity in Maritime Silk-Road countries within the Belt and Road Initiative framework
 - » Proposing comprehensive plans on the construction and capacity boosting of hydroelectric power plants using new technologies within the framework of the Silk Road Fund and other contracts and investment arrangements
 - » Joint work on the construction of small and medium-sized power plants in Iran and the region

C) Development of Mokran Coast

- Cooperation in the development of Jask Port
- Cooperation in the construction of an industrial town
- Cooperation in the construction of refineries, petrochemical companies, steel and aluminum production centers
- Cooperation in the development of touristic towns
- Cooperation in other areas including environment, industry, seaports, science, technology and smart towns based on the contents in the appendices of the present document

D) Cooperation in Telecommunication Technology

1. Introducing joint projects for developing and strengthening data and telecommunication infrastructure networks

- » Development of Fifth-Generation telecommunication networks
 - » Development of basic services (including search engines, email providers and social messaging systems)
 - » Equipping telecommunication technology (including GPS and switching systems, servers and data storage facilities)
 - » Development of end-user equipment (mobile phones, tablets, laptops)
 - » Negotiations on cooperation over developing basic software for computer and mobile operating systems, browsers, antiviruses, and implementation of those projects in timely manners
2. Introducing joint pilot projects in the fields of smart technology and artificial intelligence
 3. Introducing joint projects conducted by academic centers of the two countries as well as development of cooperation between science-based companies, ecosystem-focused firms and startups
 4. Strengthening cooperation in radio frequency projects and coordination of satellite frequencies at global levels

E) Grounds for Financial, Economic and Trade Cooperation

1. Expansion of banking, financial and insurance-related ties on the basis of appendices in the present document
2. Cooperation in agriculture and health sectors on the basis of appendices in the present document



3. Cooperation in tourism and cultural heritage sectors on the basis of appendices in the present document
4. Setting up a bilateral financial settlement mechanism with the aim of expanding and strengthening trade ties
5. Negotiations on, and inauguration of the necessary credit procurement with the aim of removing hurdles on the way of Iran-China joint cooperation
6. Work on a joint definition of the concept of poverty reduction along with development projects to be implemented in underdeveloped areas of the two countries

F) Bilateral Military, Defense and Security Cooperation

- Defense cooperation and negotiations at regional and international levels including in strategic affairs and fighting terrorism
- Expansion of defense cooperation through training, student and professor exchange programs, research, military drills, exchange of experience in military and defense areas as well as defense industry and technology

G) Political Cooperation

- Work on a joint definition of the necessary mechanisms meant to boost bilateral comprehensive relations
- Expansion of cooperation at regional and international organizations and institutions

Appendix 3

Executive steps

A) Short-term executive steps

1-Oil and Energy

The two parties have agreed to cover the following should conditions prove suitable:

- Steady exports of crude oil to China
- Contracts to be signed between Iran and giant Chinese firms on cooperation in upstream and low-stream oil projects
- Partnership in construction and equipping crude and oil products storage units in Iran, China or other countries
- Partnership in construction and capacity development of Iranian energy transfer lines, including oil and gas pipelines as well as construction and capacity development of oil products and electricity networks
- Augmentation of exports of Iran's petrochemical products to China and cooperation in projects focused on generating electricity and fertilizers out of urban waste
- The two parties have also agreed to take steps toward joint work in the following areas:
- Facilitation of the implementation and completion of projects under construction within previously agreed arrangements
- Encouraging investment in, and financial procurement and operationalization of thermal power stations as well as cooperation in the



construction of hydroelectric power plants, water and sanitation treatment centers, dams as well as irrigation, drainage and desalination facilities

- Inviting Chinese investment companies into projects meant to boost the share of renewable energies in combined cycle plants in Iran's energy basket within a buy-back framework, credit lines, or delivery of crude and oil products
- Cooperation in constructing equipment manufacturing factories and centers offering new technologies involved in Iran's water and electricity sectors

2- Financial, Banking and Insurance Cooperation

- Expansion of financial, banking and insurance cooperation under the two countries' market regulations
- Facilitation of the implementation of previous agreements signed with Chinese credit institutions and a constant review of credit procurement in respect of projects in the construction, production and service sectors, which fall within the already agreed frameworks
- Founding a joint company dedicated to facilitating the trade of commodities between the economic operators on both sides
- Encouraging financial procurement for substructure projects and trade exchanges by launching credit lines
- Opening new branches or agents of Iranian banks in Chinese special economic zones along with the launch of a joint China-Iran bank with branches on the [Chinese] mainland, as well as the inauguration of free trade zones and special economic zones in both countries all under trade regulations applied by the two states
- Facilitation of Chinese investment in projects launched in special economic zones as well as trade-industrial zones within the framework of the Belt and Road Initiative
- Encouraging credit institutions into financial cooperation with Iran within market regulations, as well as use of provisions made available by different sources, including the Silk Road Fund as efforts are also made toward financial procurement for production, construction and service projects, among them superstructure projects, which are viewed as priorities and prove eligible for such provisions.
- Invigorating insurance cooperation and coverage for key national projects in Iran within international regulations.
- Negotiations on the possibility of financial procurement between the two countries with the aim of deepening bilateral trade, monetary swap deals, clinching agreements on bilateral financial procurement and setup of a joint China-Iran investment fund; making use of provisions from different sources, including the Silk Road Fund once available.



3-Transport and Infrastructure

- Encouraging and procuring financial resources for the construction and development of airports, purchase of aviation products jointly manufactured by Iran and China as well as strengthening the aviation supply chain that includes Iranian companies
- Consultation over different airport-related fields, including airport management, scientific and educational exchanges with a focus on management, aviation industry management, standardization, design, development of new aviation products, repair and maintenance, quality test and control, aerial traffic management, airport security and services, equipment and terminal development, navigation and airport-related data technology infrastructure
- Technology transfer and cooperation over developing aviation industry's technological demands
- Facilitation of the completion process of railroad projects under construction as well as cooperation in the launch of national and regional railroad projects
- Attracting Chinese investment into electrification projects covering key Iranian railroads, including Isfahan-Shiraz, Tehran-Mashhad and Tehran-Tabriz express lines as well as cooperation in highway construction, including the Tehran-North project [connecting the capital Tehran to the country's northern areas]
- Joint investment in smart towns and biomes in Mokran and Tis [Sistan-Baluchistan province]
- Cooperation on constructing Green and Smart buildings
- Exchange of technology and cooperation over constructing desert highways
- Negotiations over the feasibility of the launch of an international maritime transport company
- Cooperation over, and facilitation of investment by Chinese firms in port logistic projects, building railroads and construction of logistics terminals in special and free economic zones
- Applying various forms of construction technologies implementable in Iran along with transfer of know-how to the country
- Encouraging investment in Iran's housing sector covering both substructure and superstructure projects
- Delivery of Chinese experience in launching housing projects in the form of public-private participation (PPP), in the supervision of housing construction projects and in the provision of housing for low-income classes
- Pilot planning of new towns and districts based on modern urban planning applied in smart and environment-friendly projects

4-Science, Culture, Tourism, Environment

- Launch of joint state-funded scholarships, student and professor exchange programs, joint research projects conducted by academic centers and science-based firms on both sides, alongside establishment of joint support



- funds focused on science and technology cooperation
- Specifying joint projects on modern technologies
 - Chinese offer of a certain portion of shares of its artificial intelligence town to Iran's Foreign Investments Company (IFIC) with at least one seat for the latter
 - Negotiations on forming the "Association of Deans of Large Universities"
 - Support for the setup of chairs of Persian and Chinese language and literatures in both countries
 - Specifying joint projects in developing and strengthening the infrastructure of data and telecommunication networks for the purpose of the necessary provisions for the digital Silk Road project, the development of the Fifth-Generation telecommunication projects, basic services (such as search engines, social messaging networks and email providers), telecommunication tools (such as GPS systems, switching systems, servers and data storage units), end-user equipment (including mobile phones, laptops and tablets); negotiations over the possibility of developing basic software (including for computer and mobile operating systems, browsers and antiviruses)
 - Cooperation and coordination on the drafting and ratification of regulations pertaining to international conventions and decisions-making regarding state controls over cyberspace
- Expansion of multilateral cooperation among online platforms on both sides in multiple forms and encouraging them into information exchange
 - Encouraging quick-response teams of the two sides' national cyber networks into clinching memoranda of understanding and enhancing cooperation for response to foreign cyberspace attacks and sharing intelligence on cyberspace threats
 - Cooperation in the tourism industry with a focus on developing infrastructure, facilitation of work toward attracting travelers from the two parties, improving touristic products and services and advancing cooperation in the fields of cultural heritage and handicrafts
 - Launching handicraft fairs and dispatch of delegations from both parties with the purpose of identifying handicraft markets as well as the supply of raw materials and equipment for the production of handicrafts
 - Regular launch of cultural fairs and exhibitions in both sides with a focus on optimizing the capacities of the non-profit organizations and supporting China-Iran friendship associations
 - Cooperation in the field of environment protection within the frameworks of the Belt and Road Initiative International Green Development [BRIGC]
 - Implementation of a memorandum of understanding by both parties on projects related to climate change and the supply of low-carbon materials for Iran



- Cooperation on finding solutions toward the issue of dust pollution in Iran

5-Free and Special Economic Zones

- Encouraging and supporting Chinese investors into projects in free and special economic zones of the Islamic Republic of Iran, with a particular focus on Qeshm, Arvand and Makou zones
- Identification and classification of selected ports and free and special zones on the basis of capacities that attract Chinese firms
- Identification of, and support strategies for Chinese investors to prepare the ground for attracting foreign capital in free and special economic zones
- Inviting Chinese experts into projects aimed at transferring know-how and experience in the field of management of pilot trade zones and special economic zones
- Boosting cooperation by the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund toward investment in free and special economic zones of the Islamic Republic of Iran
- Cooperation in investment on the setup of an international stock market for Iranian free zones and the launch of a joint free zone in a third-party country

6-Industry, Mine and Trade

- Cooperation among auto manufacturers in both sides with the purpose of transferring

technology and introducing joint production for delivery in both markets as well as third countries through launching fresh production cycles

- Defining joint industrial and service projects in third countries with reconstruction purposes in regional nations, including Iraq, Afghanistan and Syria
- Development of a joint manufacture of subway cars
- Plans for a car-making town and related sub-industries with a focus on optimizing renewable energies
- Encouraging investment in the production of machinery for industrial and mine projects, equipping and operationalizing mines, development and completion of ship manufacturing complexes, factories producing electronic appliances as well as solar cell manufacturers

7-Agriculture and Health

- Boosting cooperation between the Islamic Republic of Iran and the People's Republic of China on the basis of memoranda of understanding regarding the fight against the coronavirus and other similar viruses
- Boosting cooperation in the field of research and health technology transfer, public health systems, health education, as well as exchange between medical schools including through new projects and in fresh fields on the basis of the Belt and Road Initiative



- Cooperation on the supply chain for pharmaceutical products, medical equipment and other medical demands in the two countries
- Encouraging Chinese firms into investment, and the Iranian side into offering special legal provisions to those firms for the purpose of boosting production and trade in agriculture, watershed management, fishery, aquaculture and transfer of the related technology
- -Facilitation of exports of all agricultural, dairy, livestock and fish products with the participation of Chinese investors
- -Exchange of technology and investment in the production of pesticides, insecticides and fungicides under international regulations
- A constant updating and signing of basic documents pertaining to economic cooperation, including memoranda of understanding regarding inspection and plant quarantine, road cooperation as well as bilateral agreements on identifying Authorized Economic Operators in Iran and China (AEOs), etc.
- Expansion of practical cooperation in poultry raising, exchange of rice germplasms and technical know-how on hybrid rice, construction of traditional greenhouses, transfer of technology on planting based on alkaline and salty water, silkworm raising, etc.
- Increased cooperation on customs services, inspection and plant quarantine, facilitation of quarantine of food and agricultural products
- Encouraging investment in the production of herbal medicines and pharmaceutical products

in high demand in Iran

- Joint research on forestry, combating desertification, widening rangelands and improvement of environment

8-Military-Defense and Security Cooperation

- Financial support for a regular holding of summits of the joint commission for cooperation on national defense industries and negotiations on trade and industrial cooperation in the military sector
- Boosting cooperation on training and research among military, defense and security organizations and the exchange of experience including in the area of asymmetrical warfare as well as combating terrorism, international crime, human trafficking and narcotics
- Regular launch of joint naval, ground and aerial drills
- Expansion of cooperation in the fields of defense technology and industries with a focus on the implementation of projects in investment, design, development, joint production and equipment provision

9-Political Cooperation at Bilateral, Regional and International Levels

- Negotiations aimed at drafting a “timetabling” mechanism; dispatch of high-ranking delegations including for summits between foreign ministers; political consultations between deputies and aides of the foreign ministers, as well as special representatives named for specific regions and assigned by



the foreign ministries of the two parties with the aim of promoting dialogue on regional and international issues

- Continued support from the two parties for membership, political positions and proposed envoys at regional and international bodies. This shall cover China's support for Iran's full accession in the Shanghai Cooperation Organization

B) Medium and Long-Term Executive Steps

- Support for, and development of all activities relating to transit and transport of commodities through the north-south corridor, Chabahar Port and the Caspian Port (China, Kazakhstan, Turkmenistan, Iran)
- Equipping and developing selected ports with the aim of constructing industrial, technology-production and petrochemical centers
- Introducing proper incentives for investors and participation from the Chinese side in relevant projects in Iranian oil and gas-rich areas within international regulations
- Facilitation of investment from the Chinese side in refinery projects and exports of oil products from the Jask area as well as the construction of the Jask Port
- Attracting Chinese investment into projects at the Chabahar [Mokran] Petrochemical Town through offering facilitative financial procedures and preferential policies
- Full operationalization of the last phase of the joint special town for Chinese industries in selected special economic zones with the purpose of commodity production and services demanded in China and regional markets
- Partnership in management and development of selected free and special economic zones with the aim of setting up industrial, technological and strategic pilot projects
- Development of selected islands with a focus on opening regional centers for food products, maritime industries, petrochemical products and tourism
- Partnership in the construction of large industrial centers in Mokran region under international regulations and principles of economic cooperation
- Design and construction of a joint refinery in China on the basis of the special properties of Iranian crude
- Investment in small and medium-sized refineries in Iran's east, west and south for the purpose of exporting byproducts to regional countries
- Investment in the sector of clean energies, especially in Iran's vast deserts as well as exports of the produced energy commodities to neighbors and storage of natural gas in desert regions
- Investment in subway systems of 10 Iranian megacities as well as urban [rail]lines connecting big cities to the newly-built towns
- Investment in mines and mine industries sector with copper, iron ore, steel and alloy



industries in priority

- Optimizing the regional geo-economic potentials in the two countries in line with the goal to launch joint projects in third countries (neighbors)
 - Cooperation in the manufacture and supply chain of products, items and parts in the aircraft industry as well as equipping and developing the infrastructure pertaining to the construction, production, testing and quality control of aircraft (planes and copters)
 - Financial procurement for substructure projects in Iran (including agricultural projects) by the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund
 - Financial procurement for, and introduction of waste management technologies
 - Encouraging investment and financial procurement for substructure projects in the agriculture sector
 - Partnership and investment in the tourism sector and its development of in Silk Road countries
 - Expanding cooperation through educational and research exchanges as well as organizing events and marketing for handicrafts, maritime tourism and transport
 - Renovation and revival of historical sites and monuments; boosting cooperation in cultural heritage preservation, archeological research, cultural fairs, museum management, academic exchanges and information sharing as well as launch of training courses
- and workshops under an Asian heritage preservation plan
 - Joint investment in the construction of joint technology parks
 - Partnership and investment in the construction of international internet exchange points (IXPs) and international data traffic transfer lines (undersea and underground cables as well as radio, satellite and telecommunication links)
 - Introduction of futures studies programs and implementation of futures research projects by universities and academic centers from the two parties at national, regional and international levels with an optimized use of all cyberspace capacities
 - -Negotiations on the feasibility of setting up an international comprehensive and integrated financial system that employs China's capacities and provides legal access to all countries, as well an implementation of the approved steps once the conditions are fitting.

The translation presented here intends to provide a faithful English translation of the draft document and to reflect the format of the document as accurately as possible. The draft document has inconsistent formatting and section numbering which has been reproduced here.



Appendix 2: Data Tables*2.1 FDI Stock 2004-2018 (USD Billions)*

	Iran	Saudi Arabia	UAE	Iraq	Turkey	Pakistan
2004	0.04684	0.00209	0.04656	0.43487	0.00289	0.03645
2005	0.05609	0.05845	0.14453	0.43487	0.00423	0.18881
2006	0.11059	0.27284	0.14463	0.43618	0.01038	0.14824
2007	0.12235	0.40403	0.23431	0.02245	0.01199	1.06819
2008	0.09427	0.62068	0.37599	0.02079	0.02236	1.32799
2009	0.02258	0.71089	0.44029	0.02258	0.38617	1.45809
2010	0.71516	0.76056	0.76429	0.48345	0.40363	1.82801
2011	1.35156	0.88314	1.1745	0.60591	0.30648	2.16299
2012	2.07046	1.20586	1.33678	0.75432	0.50251	2.23361
2013	2.8512	1.74706	1.51457	0.31706	0.64231	2.34309
2014	3.48415	1.98743	2.33345	0.37584	0.88181	3.73682
2015	2.94919	2.43439	4.60284	0.38812	1.32884	4.03593
2016	3.33081	2.60729	4.8883	0.55781	1.06138	4.75911
2017	3.6235	2.03827	5.37283	0.41437	1.30135	5.71584
2018	3.23429	2.59456	6.43606	0.59854	1.73368	4.24682

Source: *The Statistical Bulletin of China's Outward Foreign Direct Investment*



2.2 FDI Flow 2004-2018 (USD Millions)

	Iran	Saudi Arabia	UAE	Iraq	Turkey	Pakistan
2004	17.55	1.99	8.31	0.00	1.58	1.42
2005	11.6	21.45	26.05	0.00	0.24	4.34
2006	65.78	117.20	28.12	0.35	1.15	-62.07
2007	11.42	117.96	49.15	0.36	1.61	910.63
2008	-34.53	88.39	127.38	-1.66	9.10	265.37
2009	124.83	90.23	99.90	1.79	298.26	76.75
2010	511.00	36.48	348.83	48.14	7.82	331.35
2011	615.56	122.56	314.58	122.44	13.50	333.28
2012	702.14	153.67	105.11	148.40	108.95	88.93
2013	745.27	478.82	294.58	20.02	178.55	163.57
2014	592.86	184.30	705.34	82.86	104.97	1,014.26
2015	-549.96	404.79	1,268.68	12.31	628.31	320.74
2016	390.37	23.90	-391.38	-52.87	-96.12	632.94
2017	-368.29	-345.18	661.23	-8.81	190.91	678.19
2018	-567.33	383.07	1,091.01	7.73	352.82	-196.73

Source: The Statistical Bulletin of China's Outward Foreign Direct Investment



2.3 Annual Turnover on Chinese Contractors 1999-2018 (10,000 USD)

	Iran	Saudi Arabia	UAE	Iraq	Turkey	Pakistan
1999	20012	3390	2517	4316	66	30577
2000	36029	1588	2638	7876	473	32042
2001	19962	3059	2511	10264	623	42044
2002	38208	5323	5823	14506	2339	35455
2003	32844	3485	13331	12843	1895	61473
2004	37195	11634	32170	888	4464	57423
2005	64086	31729	28039	1136	7170	66088
2006	74886	102082	88918	5051	8699	90063
2007	104122	127614	140293	9783	34558	135568
2008	111434	245371	210954	9575	80812	191586
2009	210376	359158	354167	35313	123207	173330
2010	186068	322705	297160	67165	81928	210848
2011	215792	435846	193825	177328	84201	237277
2012	149418	462231	154369	170054	105698	277832
2013	218133	588411	133959	338070	194266	370093
2014	222979	594713	115007	489810	180958	424619
2015	159048	701812	153943	397661	133887	516289
2016	224689	948175	224637	345464	214547	726809
2017	205025	634381	249594	273908	120443	1133799
2018	231551	521763	361485	255713	66728	1127117

Source: *The China Statistical Yearbook*

Overseas Contracted Projects refer to activities of contracting overseas construction projects by Chinese enterprises or any other units, which are stipulated in the Regulations on Administration of Foreign Contracted Project.



2.4 Number of Overseas Labor Personnel 2011-2018

	Iran	Saudi Arabia	UAE	Iraq	Turkey	Pakistan
2011	1632	16792	4377	4777	1333	3606
2012	1498	19100	4360	9069	1630	4204
2013	1016	19648	5972	9826	3398	3541
2014	645	17062	1421	7816	3359	5122
2015	1393	23836	1628	7294	4596	6292
2016	1006	27520	984	12140	5750	11830
2017	1155	16625	1900	6218	1468	17493
2018	2132	11953	2696	6110	766	15540

Source: *The China Statistical Yearbook*

Overseas Labour Services refer to operational activities of organizing labour force to go abroad providing services to foreign enterprises or agencies.



2.5 Chinese Exports 2004-2018 (USD Thousands)

	Iran	Saudi Arabia	UAE	Iraq	Turkey	Pakistan
2004	2554760.98	2775457.9	6841135.19	149552.912	2821291.82	2465791.93
2005	3296584.99	3824415.3	8729838.76	408108.934	4253725.6	3427661.67
2006	4488951.66	5055833.99	11404780.3	491158.084	7303284.86	4239365.17
2007	7363291.64	7839958.56	17104968.1	724940.246	10484265.6	5831349.38
2008	8163428.07	10823468	23643689.6	1271161.57	10606312	6051066.21
2009	7918687.12	8977851.55	18632295.5	1838448.83	8333534.86	5515073.61
2010	11092187.8	10366444.5	21235460.5	3589866.73	11942037.3	6937791.62
2011	14761998.9	14849707.4	26812847.7	3824651.34	15613704.6	8439729.44
2012	11598798.6	18452900.8	29568342.6	4911784.8	15585293.4	9276492.1
2013	14036645.3	18739813.8	33411294.7	6894088.32	17746990.9	11019596.1
2014	24338487	20575242	39034507	7743841	19305458	13244482
2015	17770106.9	21612928	37020164.4	7909228.95	18607841.1	16441888.4
2016	16417272.6	18650906.5	30066955.6	7547857.7	16686640.5	17232654.1
2017	18584814.8	18375008.2	28723965.3	8330414.68	18121507.5	18250788.6
2018	14008983.8	17560589.3	29902886.6	7917674.27	17864201.2	16967144.9

Source: UN Comtrade



2.6 Value of Chinese Arms Imports 2000-2019 (TIV* in Millions)

	Iran	Saudi Arabia	UAE	Iraq	Turkey	Pakistan
2000	69	0	0	0	6	69
2001	80	0	0	0	0	299
2002	81	0	0	0	7	286
2003	84	0	0	0	7	267
2004	80	0	0	20	14	77
2005	43	0	0	0	14	78
2006	54	0	0	0	28	98
2007	47	0	0	0	35	144
2008	47	33	0	0	35	250
2009	47	33	0	0	35	758
2010	62	0	0	0	35	747
2011	52	0	0	0	35	603
2012	31	0	0	0	35	608
2013	9	0	15	0	0	744
2014	9	0	15	0	0	477
2015	9	35	15	27	0	557
2016	0	15	15	27	0	727
2017	0	35	37	0	0	658
2018	0	40	46	0	0	446
2019	0	40	12	0	0	421

Source: The Stockholm International Peace Research Institute

*SIPRI uses a unique pricing system, the trend-indicator value (TIV), to measure the volume of deliveries of major conventional weapons. The SIPRI TIV measures transfers of military capability rather than the financial value of arms transfers.



Endnotes

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are not short on cash and are actually regular lenders themselves. Thus, while Chinese financing mechanisms are appreciated, particularly in the context of the BRI, they do not necessarily require Chinese loans. Furthermore, China does not uniformly publish its loans data as it does its other economic indicators. Many reports on Chinese loans often do not differentiate between promised and active loans, another symptom of rhetoric versus fact in Chinese-Middle East discourse. For these reasons, the authors did not include Chinese debt as a metric in this study, though it remains a valuable tool in other analytical approaches and contexts.

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