

Testimony before the US-China Economic and Security Review Commission Hearing on “US-China Relations in 2020: Enduring Problems and Emerging Challenges”

September 9, 2020

Dr. Jonathan Fulton

Assistant Professor of Political Science, Zayed University

Senior Nonresident Fellow, Atlantic Council

Introduction

The emergence of China as an important actor in the Persian Gulf region appears to have been sudden, but in reality it has been a rather gradual process. China has been steadily building a presence based largely upon commercial interests and political cooperation throughout the 21st century. The introduction of the Belt and Road Initiative (BRI) in 2013 has resulted in a more expansive set of Chinese regional interests, firmly establishing the Gulf, Arabian Peninsula, and Red Sea as important hubs in the Initiative’s Eurasian and Indian Ocean Region (IOR) ambitions, linking them to East Africa, the Mediterranean, and South Asia. This in turn has led to deeper diplomatic engagement with many key states in the region, mostly US allies and partners, and the growth of China’s influence is introducing a new dynamic to a region long acknowledged as a US vital interest. It is therefore important that US policy is informed by a clear assessment of China’s strategic goals, capabilities, and limitations in the Gulf.

In particular, China’s relationship with Iran has come under increasing scrutiny, especially in the period since the US withdrew from the Joint Comprehensive Plan of Action (JCPOA), an agreement that Beijing had participated in and spent no small amount of diplomatic capital in getting Iran to sign. The two countries have long if not especially deep historical ties that have often been exaggerated in the service of political goals. Despite rhetoric of being “indispensable...strategic partners,”¹ the contemporary bilateral relationship between the People’s Republic of China and Islamic Republic of Iran is opportunistic, based on limited shared interests, and inherently asymmetrical.

Sino-Iranian relations, while important in their own right, need to be understood in the context of broader objectives for policy-makers in both countries, and in doing so it becomes clear that Beijing’s interests in the Gulf and Middle East – North Africa (MENA) are much better served by working with Iran’s enemies or rivals, which are, importantly, US allies and partners. That is not to say that China would abandon Iran completely, but just to emphasize that the current prominent concerns of a China-Iran axis potentially undermining MENA/Gulf stability does not accurately reflect the state of affairs. China has a diverse set of relations across the region and a clear preference for the Middle East status quo, as fragile as that may be.

China, Iran and the Gulf Monarchies: A Delicate Balance

¹ Alex Vatanka, “China’s Great Game in Iran,” *Foreign Policy*, September 5, 2019, <https://foreignpolicy.com/2019/09/05/chinas-great-game-in-iran/>

The news of a comprehensive strategic partnership (CSP) between China and Iran drew a lot of attention over the summer of 2020, but it is an agreement that has been under development for four years and has thus far not significantly affected China's relations with other Gulf states. The CSP was signed in January 2016 during President Xi's state visit only six months after the completion of the JCPOA. This is the top level in China's hierarchy of diplomatic relations, whereby it agrees to work with the partner toward the "full pursuit of cooperation and development on regional and international affairs."² Research on China's partnership diplomacy has indicated that Chinese leaders are especially cautious with partnerships at this level, with three conditions needing to be met: high levels of political trust, dense economic ties, and good relations in other sectors such as cultural exchanges.³

Iran is not the only Gulf state with such an agreement, however. China signed one with Saudi Arabia that same week, having been in Riyadh prior to visiting Tehran, and the United Arab Emirates (UAE) was upgraded to that level as well during a state visit in 2018. Every other Gulf country except Bahrain has a strategic partnership with China, the next level down. This is an important point to emphasize: China has not chosen to partner with Iran instead of other Gulf states. It has continued to navigate the region with a balanced approach, working with all countries on issues of shared interests. This type of partnership allows for a greater degree of flexibility than a traditional alliance. For one thing, they are goal-driven rather than threat-driven, which allows partners to "quarantine" areas of disagreement.⁴ This is an important consideration for China in the Gulf as it navigates relationships with all eight states in an especially fractious region.

The timing of the CSP with Iran was not a coincidence. The expectation that Iran would return to the fold of "normal" states influenced Beijing's calculus, along with the realization that a less aggressive Iran would be an important market and energy supplier, as well as an important regional power. As such, the CSP may be seen as a result of Iranian commitments to a more constructive international presence through the JCPOA.

It is worth noting that China played a significant diplomatic role in getting Iran to agree to the JCPOA. Between June 2013 and July 2015 Chinese officials met with their Iranian counterparts on seventeen occasions to encourage them to come to an agreement with the P5.⁵ At the same time, they linked the possibility of increased investment and economic assistance to the successful resolution of the nuclear agreement. Understood was without a resolution, China would have to make the obvious choice between support for an isolated and disruptive Iran or continued

² "Quick guide to China's diplomatic levels," *South China Morning Post*, January 20, 2016, <http://www.scmp.com/news/china/diplomacy-defence/article/1903455/quick-guide-chinas-diplomatic-levels>

³ Georg Stüver, (2017). "China's Partnership Diplomacy: International Alignment Based on Interests of Ideology." *The Chinese Journal of International Politics* 10 (1), p. 45.

⁴ H.D.P Evenall & Ian Hall, "Asian Strategic Partnerships: New Practices and Regional Security Governance," *Asian Politics & Policy*, 8(1), p. 92.

⁵ John Garver, "China and the Iran Nuclear Negotiations: Beijing's Mediation Effort," in James Reardon-Anderson (Ed.) *The Red Star & the Crescent: China and the Middle East* (London: Hurst & Company, 2018), pp. 139-144.

economic engagement with the US. Of course, for Beijing there was no question; trade with Iran in 2015 was worth just under \$34 billion against over \$555 billion with the US.⁶

This underscores an essential point: despite narratives of mutual respect and friendly cooperation, the China-Iran relationship is fundamentally lopsided. China is consistently Iran's top source of imports and largest export destination. In 2019, Iran was China's thirty-third-ranked source of imports, between Kuwait and New Zealand, and its thirty-eighth-ranked export destination, between Egypt and Israel.⁷ China is an economic lifeline for Tehran, while Iran is a useful but often problematic partner for Beijing.

In a frustrating and recurring trend for Iran, China has consistently chosen its interests with the US over support for its partner. As Esfandiyar Batmanghelidj, a frequent commentator on Iran, recently noted, "Beijing remains unwilling to defend its commercial ties to Iran in the face of US sanctions."⁸ In the first half of 2020 China-Iran trade is down 40% from the same period in 2019.⁹ The Bank of Kunlun, the only Chinese bank operating in Iran, announced earlier this year that it would no longer be involved in the financing of construction, mining, manufacturing, or textile industries, instead limiting its services to "settlements involving humanitarian supplies and non-sanctioned industries."¹⁰ This was in response to US Executive Order 13902, which imposed sanctions on the Iranian industries listed above.

A recent report from Chatham House reinforces the notion that China's partnership with Iran is overstated. Chinese respondents described Iran as "not that relevant to China's national interest... China is both preoccupied with its trade dispute with the US and at the same time frustrated with Iran... many Chinese businesses do not believe it is worth doing business with Iran, given the difficulties involved."¹¹

Because of this, the July 2020 leak of a document that claimed a forthcoming substantial expansion of the CSP parameters would seem, if true, to represent a dramatic departure from China's approach to the Middle East. The details of this document had previously been released in September 2019 by *Petroleum Economist*, a UK-based publication, and was largely dismissed as

⁶ International Monetary Fund, Direction of Trade Statistics, <https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=1515619375491>

⁷ Ibid.

⁸ Esfandiyar Batmanghelidj, "Iran Can No Longer Rely on Trade with China," *Bloomberg*, April 27, 2020, <https://www.bloomberg.com/opinion/articles/2020-04-27/iran-can-no-longer-rely-on-trade-with-china>

⁹ "Iran's Trade with China Hit \$8.6b in Seven Months, Down 40% YOY," *Financial Tribune*, August 30, 2020, <https://financialtribune.com/articles/domestic-economy/105035/irans-trade-with-china-hit-86b-in-seven-months-down-40-yoy>

¹⁰ Batmanghelidj, "Iran Can No Longer Rely on Trade"

¹¹ Sanam Vakil and Neil Quilliam, "Getting to a New Iran Deal: A Guide for Trump, Washington, Tehran, Europe and the Middle East," *Chatham House*, October 22, 2019, <https://www.chathamhouse.org/publication/getting-new-iran-deal-guide-trump-washington-tehran-europe-and-middle-east>

unrealistic by analysts tracking the bilateral relationship.¹² It reappeared this summer during a round of bilateral meetings, and notably neither side has verified the claims.

The supposed deal would include \$400 billion worth of Chinese investment into Iran, with \$280 billion of that into its oil, gas and petrochemical sectors and \$120 billion to upgrade its transport and manufacturing infrastructure. This is unlikely, given the trend of declining Chinese overseas investment and contracting since its peak level in 2016.¹³ Also in the leaked document is the ominous threat of increased military and security cooperation, although it refers to cooperation that already exists: joint training exercises and intelligence sharing and a focus on counterterrorism, trafficking and transnational crime. This does not represent a shift in China's Gulf priorities; the People's Liberation Army Navy conducted three-week naval exercises, Blue Sword 2019, with the Saudi Royal Navy in November 2019.¹⁴ If these security elements of the supposed deal prove to be correct, they will not fundamentally alter the Gulf balance of power.

The same can be said of increased economic engagement between China and Iran. Looking at China's greater Gulf presence, Iran is far behind both Saudi Arabia and the UAE as a trade partner, and only slightly ahead of Oman in 2019. No doubt sanctions play a role in this, creating an artificially low ceiling for trade, but the reality is that over the past twenty years China has become the largest economic partner of the Gulf Cooperation Council (GCC) states. Trade as a bloc was worth over \$170 billion in 2019, against \$19 billion for Iran.¹⁵ This is not an outlier; over the past decade the Sino-GCC trade has consistently been substantially higher than that between China and Iran. Investment and contracting tells a similar story. Since the BRI was announced in 2013 the GCC has represented \$64 billion worth of contracts and investment while Iran just under \$13 billion.¹⁶ China's economic interests are heavily weighted in favor of the Arabian side of the Gulf.

The GCC states have been very savvy in making themselves more attractive than their neighbour. With free trade zones along the Arabian coast of the Persian Gulf, more convenient business atmospheres, and welcoming expatriate lifestyles many Chinese companies have set up regional

¹² Simon Watkins, "China and Iran Flesh Out Strategic Partnership," *Petroleum Economist*, September 3, 2019, <https://www.petroleum-economist.com/articles/politics-economics/middle-east/2019/china-and-iran-flesh-out-strategic-partnership>; Jacopo Scita, "No, China Isn't Giving Iran \$400 Billion," *Bourse and Bazaar*, September 20, 2019,

<https://www.bourseandbazaar.com/articles/2019/9/20/no-china-isnt-giving-iran-400-billion>

¹³ Dereck Scissors, "China's Global Business Footprint Shrinks," *American Enterprise Institute*, July 10, 2019, <https://www.aei.org/research-products/report/chinas-global-business-footprint-shrinks/>

¹⁴ "Saudi Arabia, China Conduct Drill to Improve Combat Readiness," *Arab News*, November 17, 2019, <https://www.arabnews.com/node/1585431/saudi-arabia>

¹⁵ International Monetary Fund, Direction of Trade Statistics, <https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85&sId=1515619375491>

¹⁶ "China Global Investment Tracker," *American Enterprise Institute*, <https://www.aei.org/china-global-investment-tracker/>

headquarters in the Gulf monarchies, especially Dubai where there are over 4,200 Chinese companies and a Chinese expatriate population estimated at between 250,000 to 300,000.¹⁷

Its growing geo-political role in MENA also tilts toward engaging with US partners and allies. China's geo-strategic ambitions for the region are tied to its Belt and Road Initiative (BRI), linking markets, business clusters and supply chains across Eurasia and the Indian Ocean. The interconnectivity that drives the BRI increases the importance of cooperation with stable, status-quo oriented countries while also highlighting the risks that Iran presents. For China, any semblance of Middle East stability is likely to be achieved by working within a network of strong states, and in this Iran has little to offer while its rivals in the GCC are much better positioned. Chinese investments into industrial parks and ports in the UAE, Oman, Saudi Arabia and Egypt are key to the Middle East branch of its Maritime Silk Road Initiative, the seaborne component of the BRI, linking the Gulf to the Arabian, Red, and Mediterranean seas.¹⁸ Iran could be an important endpoint in the Silk Road Economic Belt, the overland section of the BRI, but to reach it China must pass through sparsely populated and less prosperous Central Asian countries. While Iran is generally assumed to be a more important BRI partner for China, the evidence indicates otherwise.

All of that said, China does have interests in cooperating with Iran, and the CSP is an important pillar of the bilateral relationship. For one thing, it remains a potentially important country, despite its present limitations. With the largest market in the Gulf, a geo-strategic location, and an educated workforce, a "normal" Iran would be a valuable partner, and offering support, as meagre as it has been, keeps the door open for future engagement should Iran change course. It also serves a geopolitical purpose. As Jon Alterman from the Center for Strategic and International Studies has explained, "tensions with Iran help ensure that the United States cannot fully focus its military attention on the western Pacific."¹⁹ China's minimal support for Iran therefore provides a low-cost means of keeping the US preoccupied with the Middle East. Another important consideration is that because Iran is so firmly outside the US sphere of influence, Beijing does not have to worry that Tehran could succumb to pressure from Washington to reduce energy flows to China. While perhaps far-fetched, the same cannot be said with absolute certainty about US allies and partners; under President Trump's administration Middle Eastern countries are increasingly given the binary choice of working with the US or China on a range of sensitive issues, and Chinese leaders would have to consider that this could extend to other types of engagement if the Sino-US relationship further deteriorates.

¹⁷ Binsal Abdul Kader, "Chinese Community in UAE Grows Fourfold in 10 Years," *Gulf News*, August 10, 2016, <https://gulfnews.com/going-out/society/chinese-community-in-uae-grows-fourfold-in-10-years-1.1877034>

¹⁸ Consulate-General of the People's Republic of China in Kuching, *Wang Yi: China and Arab States Should Jointly Forge the Cooperation Layout Featuring 'Industrial Park-Port Interconnection, Two-Wheel and Two-Wing Approach'*, July 10, 2018, <https://kuching.chineseconsulate.org/eng/news/t1576567.htm>

¹⁹ Statement before the House Foreign Affairs Subcommittee on the Middle East, North Africa, and International Terrorism, "Chinese and Russian Influence in the Middle East," A Testimony by Jon B. Alterman, May 9, 2019, <https://www.csis.org/analysis/chinese-and-russian-influence-middle-east>

However, none of this should overlook the fact that for China, the Gulf monarchies are more valuable partners now and in the foreseeable future. Iran brings to mind the Napoleon quote about Brazil: “It is the country of the future and always will be.” Iran’s potential as a market and BRI partner leads many to overstate its importance to Beijing. Some day that may be true, but for now, it remains an acceptable (if often inconvenient) partner, but only one among several in the region.

For Iran, China is an unreliable but essential economic lifeline, the only major economy that they can pin their hopes on. As described above, however, China has consistently offered rhetorical and diplomatic support in the face of the US “maximum pressure” campaign, but in material terms there has been a steadily diminishing return. The perception that China will help is perhaps its most important benefit; the threat of a China-Iran-Russia axis could provide Tehran with some leverage in negotiating with the US and Europe. That both China and Russia voted against the Trump administration’s attempt to extend the arms embargo was a diplomatic win for Iran, helping to undermine the credibility of both the US and United Nations, at least among the Iranian domestic constituency. This too should not be misread as unconditional Chinese support for Iran, but rather as a rejection of the US strategy. As it became clear that the US wanted to extend the arms embargo, the Chinese mission to the UN tweeted, “US failed to meet its obligations under Resolution 2231 by withdrawing from #JCPOA. It has no right to extend an arms embargo on Iran, let alone to trigger snapback. Maintaining JCPOA is the only right way moving forward.” Given China’s role in the JCPOA, the cavalier manner with which the US pulled out of the agreement limited the cooperation Washington could expect from Beijing.

While the impact of the China-Iran CSP in the Gulf is over-stated, it is worth tracking what - if any - influence it will have in South Asia. China and India have a more immediately volatile relationship than China and the US, and as their interests increasingly bump up against each other’s this could heighten tension. New Delhi has consistently been outspoken against China’s BRI ambitions and among regional powers probably has the most to lose from Chinese expansion. With investment into ports in Myanmar, Bangladesh, Sri Lanka, the Maldives and Pakistan, China is increasingly competitive in a region that India has long considered its own sphere of influence. India’s investment into Iran’s Chabahar port represents a crucial access point for New Delhi to reach Afghanistan and Central Asia. The project has often stalled, but that has less to do with India’s intentions than international pressures. India has been discussing the project with the Iranian government since 2003, but it was not until 2016, after the JCPOA, that the two were able to make any headway. A return to US sanctions against Iran made the project very difficult for Indian companies to participate.²⁰ If deeper China-Iran cooperation were to be used to balance Indian power in South Asia, this would result in a more combustible regional environment.

As for the US, it is the underlying factor in all of these relationships. China has taken advantage of US security commitments in the Gulf, expanding its commercial and political presence knowing that US forces provided an umbrella for them to operate under. China is not alone in this, however;

²⁰ Suhasini Haidar, “Why is India Out of the Chabahar Rail Project?” *The Hindu*, July 19, 2020, <https://www.thehindu.com/news/international/the-hindu-explains-why-is-india-out-of-the-chabahar-rail-project/article32126361.ece>

the same can be said of nearly every extra-regional power with interests in the Gulf.²¹ While the current state of the US-China relationship is especially fraught, the Middle East is one region that does not necessarily look like a natural theatre of competition. If the US and China could develop a working relationship in the region, the two countries would likely recognize that while their approaches differ significantly, their interests align, and they could actually complement each other.²² Both see their MENA interests revolving around freedom of navigation and access to energy resources for global markets. To this end they both have a preference for the maintenance of the status quo. China does not have any intention to replace the US in the Middle East, nor does it have the desire or capacity. In the absence of such a constructive relationship, however, they could well find themselves in a heightened state of competition, forcing local actors to make undesirable alignment choices and creating an even less stable Gulf region.

Recommendations

- Convene a meeting with leaders of Middle East allies and partners to discuss means of limiting Chinese support for Iran
- Convene a non-partisan panel consisting of Middle-East / Gulf experts and China experts to liaise with the policy community on regional affairs to ensure a better awareness of potential outcomes
- Establish a dialogue between US, Chinese, and Middle Eastern foreign policy experts to enhance understanding of each other's' regional interests and objectives

²¹ See Jonathan Fulton and Li-Chen Sim (Eds.), *External Powers and the Gulf Monarchies* (London: Routledge, 2019)

²² Jonathan Fulton, "China's Changing Role in the Middle East," Atlantic Council, 2019, p. 15.