

# With COVID-19, Iran's Dependence on China Grows

by [Kevjn Lim \(/experts/kevjn-lim\)](/experts/kevjn-lim)

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## ABOUT THE AUTHORS

[Kevjn Lim \(/experts/kevjn-lim\)](/experts/kevjn-lim)

Kevjn Lim is a PhD researcher at the School of Political Science, Government, and International Affairs at Tel Aviv University, and a Middle East and North Africa contributor for IHS Markit.



Brief Analysis

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**Beijing has steadily become Tehran's economic ventilator, diplomatic prop, and military enabler, and the Iranians need this backstop now more than ever.**

**W**hen the coronavirus spun out of control in Wuhan this January, Iran ignored the example of many other countries and continued to maintain direct flights and open borders with China. Even after President Hassan Rouhani's government suspended all such flights on January 31, Mahan Air—a company affiliated with Iran's Islamic Revolutionary Guard Corps—kept flying between Tehran and four first-tier Chinese cities, leading many to allege that the airline was instrumental in introducing or at least exacerbating Iran's raging epidemic.

Whatever the truth behind these allegations, Mahan's policy is symptomatic of a larger geopolitical reality: Tehran has become profoundly, disproportionately, and perhaps irretrievably dependent on Beijing, despite its own revolutionary opposition to reliance on foreign powers. Where diplomatic and economic sanctions have fallen short, the pandemic has succeeded in isolating the Islamic Republic like never before, compelling it to keep its borders to China open.

COVID-19 has also dispelled the notion that Iran's heavily-sanctioned "resistance economy" (<https://www.washingtoninstitute.org/policy-analysis/view/irans-new-budget-is-tight-but-not-tight-enough>) still suffices to keep the country solvent. The government has conceded that staying afloat would be impossible if it curtailed cross-border trade, shut down industries, and quarantined entire cities. The crisis is so severe that Iran's Central Bank has for the first time in decades requested billions of U.S. dollars in assistance from the IMF.

Indeed, according to Deputy Health Minister Reza Malekzadeh, whenever his colleagues questioned why China flights continue, bilateral economic relations were among the reasons given. Two days after the government's ban on such flights, Chinese ambassador Chang Hua tweeted that Mahan CEO Hamid Arabnejad wanted to continue cooperating with Beijing. Neither man specified exactly what this meant, but the implied message to Tehran was clear given China's resentment of travel bans. Meanwhile, the Iranian Students News Agency, Tabnak, and other

domestic media criticized Mahan for prioritizing profit margins over public health.

## ECONOMIC VENTILATOR

**S**ince the Trump administration pulled out of the 2015 nuclear agreement and reinstated unilateral sanctions, Iranian trade has declined precipitously all around, including with the EU and major partners such as China, India, Japan, South Korea, and Turkey. In 2019, Iran-China trade fell by over 34 percent to \$23 billion compared to 2018, according to Chinese customs data. In addition, U.S. sanctions bedeviled currency transactions to the point where Iranian exports were disrupted in late 2018.

On the energy front, Beijing continues to load Iranian crude despite U.S. sanctions threats, justifying this as back payment for prior assistance in developing Iran's Yadavaran and Azadegan fields. Yet its overall crude imports from Iran dropped from more than 3 million tons in April 2019 to under 600,000 by November. At the same time, geopolitical uncertainty has shaken Beijing's upstream energy investments in Iran—late last year, the China National Petroleum Corporation pulled the plug on a \$5 billion contract to develop Phase 11 of the South Pars natural gas field, leaving it to the domestic firm Petropars.

Despite this turbulence, however, and despite China's near-term inability to offset Iran's freefalling trade with European parties to the nuclear agreement, Beijing remains Tehran's single most important trade partner and oil client by far. According to Kpler, an intelligence company that tracks commodity movements, China also remained Iran's sole liquefied petroleum gas (LPG) client as of December. Other indicators tell the same story. During the fiscal year 2018/19, the renminbi was second among all subsidized currencies that the Iranian Central Bank allocated for importers (the euro was first). And cheap Chinese goods have cornered Iranian markets in recent years due to sanctions-induced barter trade, palliating if not gratifying domestic consumer needs.

Tehran likewise places a premium on its part within China's Belt and Road Initiative. Last September, Beijing announced plans to invest \$400 billion in Iran's energy, petrochemical, transport, and manufacturing infrastructure over the next quarter-century. The news came at a time when foreign direct investment in Iran had dipped to such lows that Petroleum Minister Bijan Namdar Zanganeh subsequently set his sights on domestic funding instead. Among the few infrastructure projects still managed by foreign firms is the Tehran-Qom-Isfahan high-speed railway constructed by China Railway Group Limited and financed by Chinese credit. In contrast, Russian Railways announced its withdrawal from the Garmsar-Inche Borun rail electrification project last month under U.S. sanctions pressure. Each of these developments underlines the fact that Tehran needs Chinese financial resources and expertise far more than China needs to invest or supply them.

Notably, the Paris-based Financial Action Task Force reinstated Iran on its blacklist in February for not ratifying conventions on terrorist financing and money laundering. Such decisions will further complicate Tehran's ability to legally conduct financial transactions with FATF member states, including China and Russia. Central Bank governor Abdolnaser Hemmati expressed concerns about this scenario; likewise, parliamentarian Shehabeddin Bimeqdar has described how Moscow previously informed Tehran that it would not be able to continue economic cooperation if the FATF blacklisted Iran. Annual trade with Russia hovers around a mere \$2 billion, however; Tehran is far more concerned about a response from China, which so far has been mum.

## DIPLOMATIC PROP

**B**eijing remains one of Iran's two major power patrons, especially at the UN Security Council, but is seen as less unreliable than Moscow. Both powers openly oppose Washington's reinstated sanctions on Tehran, particularly in view of the current pandemic; they have also criticized Britain, France, and Germany (the E3) for invoking the nuclear agreement's dispute resolution mechanism after Iran removed all remaining restrictions on its uranium enrichment program.

If Tehran **[violates further nuclear limits \(https://www.washingtoninstitute.org/policy-analysis/view/iaea-reports-renew-questions-about-irans-nuclear-ambitions\)](https://www.washingtoninstitute.org/policy-analysis/view/iaea-reports-renew-questions-about-irans-nuclear-ambitions)** (e.g., by resuming enrichment to 20 percent fissile purity), the E3 is expected to unfreeze the deadlines for ultimately referring it to the Security Council. In that event, China's role, alongside Russia's, could be critical—the nuclear agreement is structured in such a way that a single veto suffices for international sanctions to snap back, yet it also ambiguously calls for a final, negotiated outcome.

Beijing's diplomatic influence is likewise evident in Iran's handling of the pandemic. As the crisis grew, Tehran reportedly instructed Mahan Air to dispatch humanitarian assistance to China. And in lockstep with Chinese government-affiliated media outlets, Supreme Leader Ali Khamenei and the Revolutionary Guards have gone so far as to accuse the United States of **[waging biological warfare \(https://www.washingtoninstitute.org/policy-analysis/view/khamenei-securitizes-the-pandemic-as-the-irgc-mulls-regional-action\)](https://www.washingtoninstitute.org/policy-analysis/view/khamenei-securitizes-the-pandemic-as-the-irgc-mulls-regional-action)** on both Iran and China. At the same time, domestic health officials have linked the disease's appearance in Qom—the beating heart of Iranian Shia Islam—with the **[presence of Chinese workers and seminary students \(https://www.washingtoninstitute.org/policy-analysis/view/the-coronavirus-in-iran-part-1-clerical-factors\)](https://www.washingtoninstitute.org/policy-analysis/view/the-coronavirus-in-iran-part-1-clerical-factors)**; Deputy Health Minister Alireza Raisi even asserted that there is an epidemiologically proven link between Chinese nationals and the pathogen. In the end, however, Mahan's ongoing direct flights with the People's Republic (which may or may not be for emergency purposes) could indicate Tehran's need to placate Beijing at all costs.

## MILITARY ENABLER

**A**fter a series of bilateral naval maneuvers that began in 2014, Tehran held unprecedented trilateral drills last December with China and Russia. These exercises may have been Beijing's way of dissuading the United States from attacking Iran at a time of high tensions or otherwise destabilizing trade in the oil-rich region; if so, Tehran likely saw the move as further proof that it was not so isolated.

More broadly, Beijing has been a major arms conduit to Iran for nearly forty years, even briefly eclipsing Russia in sales between 2008 and 2012, when Moscow's reset with the Obama administration accompanied a deterioration in relations with Tehran. China has contributed significantly to Iran's missile development, showing more willingness to share crucial defense technology than Western or even Russian suppliers. Many of Iran's short-range missiles and artillery rockets are based on Chinese models, while its longer-range ballistic missiles have **[benefited from Chinese upgrades \(https://www.washingtoninstitute.org/policy-analysis/view/europe-pushing-back-on-irans-ballistic-missile-program\)](https://www.washingtoninstitute.org/policy-analysis/view/europe-pushing-back-on-irans-ballistic-missile-program)**. This February, the United States sanctioned three Chinese firms and one individual for allegedly assisting Iran's missile program. Beijing was likewise Iran's leading partner for nuclear technology up until 1997, helping it establish key elements of its current civilian program.

## INDISPENSABLE CHINA

**I**ranian leaders have repeatedly called for comprehensive and strategic relations with China, a compliment Beijing has returned in principle. Yet Chinese leaders have been more circumspect toward Iran's calls for an anti-American bloc and its requests for full membership in the Shanghai Cooperation Organisation, an organization often viewed as fulfilling that same purpose.

Domestically, Iran faces swelling challenges related to **[regime legitimacy \(https://www.washingtoninstitute.org/policy-analysis/view/the-coronavirus-in-iran-part-2-regime-culpability-and-resiliency\)](https://www.washingtoninstitute.org/policy-analysis/view/the-coronavirus-in-iran-part-2-regime-culpability-and-resiliency)**, socioeconomic instability, **[violent unrest \(https://www.washingtoninstitute.org/policy-analysis/view/khameneis-domestic-and-foreign-response-options-to-the-protests\)](https://www.washingtoninstitute.org/policy-analysis/view/khameneis-domestic-and-foreign-response-options-to-the-protests)**, the coronavirus, and other problems. Externally, it must deal with a backbreaking battery of economic sanctions, diplomatic isolation, and military tensions—and China is the only state that is willing and able to help with all three. In the midst of a pandemic, Tehran needs that backstop now more than ever.

*Kevin Lim is a PhD researcher at the School of Political Science, Government, and International Affairs at Tel Aviv University, and a Middle East and North Africa contributor for IHS Markit. ❖*

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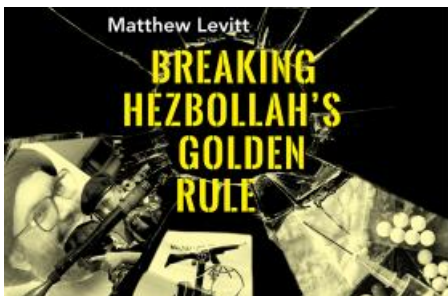
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