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OCCASIONAL PAPER

China and Iran

Economic, Political, and Military Relations

Scott Harold • Alireza Nader



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Preface

The partnership between the Islamic Republic of Iran and the People's Republic of China presents a unique challenge to U.S. interests and objectives, including dissuading Iran from developing a nuclear weapons capability. This paper examines factors driving Chinese-Iranian cooperation, potential tensions in the Chinese-Iranian partnership, and U.S. policy options for influencing this partnership in order to meet U.S. objectives.

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Summary

The Islamic Republic of Iran's possible pursuit of a nuclear weapons capability presents a serious challenge to U.S. interests in the Middle East. The U.S. strategy to dissuade Iran from developing a nuclear weapons capability has relied heavily on international sanctions, in addition to diplomatic engagement with the Islamic Republic.

No other country is as critical in this effort as the People's Republic of China. Winning China's cooperation on sanctions has been difficult, in large part due to the broad and deep partnership between China and Iran. In the past decade, China has become Iran's number one trading partner. Collaboration between Beijing and Tehran centers on China's energy needs and Iran's abundant resources but also includes significant non-energy economic ties, arms sales and defense cooperation, and geostrategic balancing against the United States.

Understanding the nature and range of Chinese-Iranian cooperation is important to crafting a successful U.S. strategy toward Iran. China's policies have hampered U.S. and international efforts to shape Iran's decisions on its nuclear program, and continued Chinese-Iranian cooperation will hinder U.S. attempts to pressure Iran.

The United States has limited options to influence China's relationship with Iran. Some observers have proposed that the United States use positive inducements to reduce Chinese cooperation with Iran, such as significantly enhancing bilateral relations with China or trading key U.S. interests. However, these policy moves would involve costly trade-offs and are probably politically unfeasible. The United States could also use negative inducements, such as sanctions against Chinese firms, though such measures are also of limited use given China's economic power. A third approach has been to build a broad international sanctions coalition against Iran, which has raised the diplomatic pressure on China to stop doing business with Iran but increased Iran's incentive to reach out to Beijing. While China may decrease business ties with Iran, it will nevertheless continue to see Iran as a central actor shaping Chinese interests in the Middle East. The increasing U.S.-Chinese competition in the Pacific region will also have a direct impact on China's willingness to cooperate with the United States on Iran.

Nevertheless, China and Iran face divergent interests across a number of issues, which could provide opportunities to contain their growing relationship. While some in China see value in leveraging Iran to tie the U.S. down strategically, China is generally reluctant to embrace Iran too tightly for fear of precipitating an open break in ties between China and the United States. Many Iranians perceive China to be exploiting Iran economically while backing an increasingly brutal and repressive regime.

Finally, neither country is destined to remain an authoritarian state forever. Democratic forces in either country could precipitate the emergence of regimes less hostile to the United States—a more democratic Iran that may not pursue nuclear weapons or a China less

interested in balancing against the United States. Given that such changes may be far in the future, the United States should continue to forestall an Iranian nuclear weapons capability and pressure China to reduce ties to Iran.

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China and Iran: Economic, Political and Military Relations

1. Introduction

The Islamic Republic of Iran presents a serious challenge to U.S. interests in the Middle East. The sources of Washington's discontent with Iran are numerous and include its sponsorship of terrorism, its widespread human rights abuses, its leaders' penchant for threatening U.S. friends and allies in the Middle East, and its support of anti-American insurgents in Afghanistan. The most important concern for U.S. policymakers, however, is Iran's suspected pursuit of a nuclear weapons capability. The United States and its allies have sought to dissuade Iran from developing a nuclear weapons capability through a combination of sanctions and engagement. Iran, however, continues to pursue uranium enrichment and is reported to be close to developing the technologies necessary for producing nuclear weapons.

The sanctions regime against Iran is heavily reliant on international actors, including Russia, India, Germany, Japan, South Korea, and Turkey, each of which each maintains significant commercial and financial ties with Iran. Winning China's cooperation, however, may be the most critical element of any U.S. effort to dissuade Iran from developing a nuclear weapons capability.

To date, China has been reluctant to support meaningful sanctions against Iran, in large part because of the broad and deep partnership that the two countries have developed over the past three decades. Collaboration between Beijing and Tehran centers on China's energy needs and Iran's abundant resources but also includes significant non-energy economic ties, arms sales and defense cooperation, and geostrategic balancing against the United States.¹ For the Iranian regime, no country in the world is as important in ensuring its survival and helping to insulate it from international pressure as the People's Republic of China (PRC). Despite its drive for independence from foreign control, Iran has become heavily reliant on China economically, diplomatically, and, to some extent, militarily.

From Beijing's perspective, Iran serves as an important strategic partner and point of leverage against the United States. Iran possesses vast reserves of oil and natural gas that could help fuel China's development, and Iran is also a growing market for Chinese goods. Additionally, an isolated Iran locked in conflict with the United States provides China with a unique

¹ Michael D. Swaine, "Beijing's Tightrope Walk on Iran," *China Leadership Monitor*, Hoover Institution, No. 33, June 28, 2010; Peter Mackenzie, *A Closer Look at China-Iran Relations: Roundtable Report*, Alexandria, Va.: CNA, September 2010; John Calabrese, *China and Iran: Partners Perfectly Mismatched*, Washington, D.C.: Jamestown Foundation, Occasional Paper, August 2006; Willem van Kamenade, "China vs. the Western Campaign for Iran Sanctions," *Washington Quarterly*, Vol. 33, No. 3, July 2010, pp. 99–114.

opportunity to expand its influence in the Middle East and could pin down the U.S. military in the Persian Gulf so that it is harder to pivot toward the Pacific.²

China's view of and approach to Iran is rooted in part in its perceptions of the United States as a geopolitical and military competitor. Though economically interdependent with the United States, China is concerned about overall U.S. intentions toward it. More specifically, China is anxious about the U.S. ability to dominate strategic global regions and/or choke off China's energy supplies in a potential military conflict, such as might break out over Taiwan. Thus, a strong economic, diplomatic, and military partnership with the Islamic Republic helps China offset U.S. power in the Middle East.

Understanding the nature and range of Chinese-Iranian cooperation is important to crafting a successful U.S. strategy toward Iran. China's policies have hampered U.S. and international efforts to shape Iran's decisions on the nuclear program, and growing Chinese-Iranian cooperation may further diminish U.S. attempts to pressure Iran. At the same time, the Chinese-Iranian relationship is fraught with tensions and contradictions. China is reluctant to embrace Iran too tightly, for fear of damaging not only its ties with the United States but also its international reputation. Many Iranians perceive China to be exploiting Iran economically while backing an increasingly brutal and repressive regime. The potential divergence of Chinese and Iranian interests could eventually provide the United States with better opportunities to contain and reverse China and Iran's close cooperation.

2. A Brief History of Iranian-Chinese Ties

China and Iran are the modern heirs to two ancient and proud civilizations, a fact that shapes their interactions and colors their leaders' senses of identity and place in the world today.³ Chinese and Iranian views of the bilateral relationship tend to emphasize not only a shared sense of cultural greatness, but also a joint sense of victimization by Western powers. Leaders in both countries have embraced historical narratives that characterize the international system as unjust and dominated by Western powers. Chinese and Iranian leaders strive to defend their own regimes' legitimacy in the face of an international system shaped by concepts of limited sovereignty and the universality of human rights.⁴

Once great powers, both China and Iran were reduced to semi-colonial states by the early 20th century. While Iran was effectively divided into "zones of influence" by Russia and Great Britain in the 19th century, China experienced a series of painful military defeats by leading Western powers. The Chinese communist regime, established by revolution in 1949, has been under a variety of U.S.-led international sanctions for much of its existence. The United King-

² John W. Garver, "Is China Playing a Dual Game in Iran?" *Washington Quarterly*, Winter 2011; thanks to an external reviewer for this insight.

³ John W. Garver, *China and Iran: Ancient Partners in a Post-Imperial World*, Seattle: University of Washington Press, 2007, pp. 13–17; Willem van Kamenade, *Cooperation and Confrontation: Iran's Relations with China and the West*, The Hague: Clingendael, 2009, p. 5; International Crisis Group, *The Iran Nuclear Issue: The View from Beijing*, Asia Briefing No. 100, February 17, 2010; Michael Mazza, "China-Iran Ties: Assessment and Implications for US Policy," American Enterprise Institute, April 21, 2011; Manochehr Dorraj and Carrie L. Currier, "Lubricated with Oil: Iran-China Relations in a Changing World," *Middle East Policy Council Journal*, Vol. 15, No. 2, Summer 2007.

⁴ Yang Xingli [杨兴礼], "Sixty Years of Iran Studies in China [中国的伊朗研究六十年]," *West Asia and Africa [西亚非洲]*, No. 4, 2010, pp. 63–67.

dom and the United States compelled Iran to pursue Western interests from the early 1940s onward, first by forcing Reza Pahlavi to step down from power in favor of his son Mohammad Reza, and subsequently by carrying out a coup against the populist Iranian Prime Minister Mohammed Mossadegh in 1953. As a consequence, many Iranians came to view Western powers as responsible for all of the flaws and failings of the Pahlavi regime. During the same period, U.S.-led sanctions against the communist regime in Beijing were used by China's leaders to portray the West as an enemy of the Chinese people.

Iran's relations with China were of little significance during the Pahlavi reign. Prior to the 1979 revolution, relations with Beijing were kept to a minimum, in large part owing to U.S. pressure on Iran to curtail economic and diplomatic ties with communist China. However, before his overthrow, the Shah did seek to improve relations with China in order to create a more independent foreign policy, and mutual concern over Soviet actions in Central, South, Southeast, and East Asia drove Tehran and Beijing to take tentative steps toward greater cooperation.

However, the Islamic Republic that replaced the Shah was at first suspicious of Chinese intentions and initially consigned China to the category of great powers that sought to exploit Iran. Mao Zedong's immediate successor as Chairman of the Chinese Communist Party, Hua Guofeng, was one of the last foreign officials to meet with the Shah before the collapse of his regime, and Iran's revolutionary leader, Ayatollah Ruhollah Khomeini, was not inclined to forgive such a transgression.⁵ PRC officials, however, immediately made substantial efforts to reach out to the new Islamic Republic, extending it recognition only three days after its founding. Gradually, Beijing was able to improve its relations with revolutionary Iran through skillful diplomacy and the sale of arms during the Iran-Iraq War, earning Tehran's gratitude for years to come.

Other factors contributed to growing Chinese-Iranian cooperation during the 1980s. First, Beijing dropped its support for revolutionary communism during this period, and therefore posed little ideological threat to the Islamic Republic, which was itself battling leftist forces in the early years of the revolution. Second, Iran's radical revolutionary policies isolated it from the rest of the world, including the United States and the Soviet Union as well as much of the Arab world, a position that the PRC could empathize with to some extent, having itself been at odds with both Washington and Moscow during most of the 1960s. Furthermore, the regimes in both China and Iran took power through violent revolutions against pro-American regimes, and both regimes strongly opposed Western "domination" of the international system.

China, a net oil exporter in the 1980s, viewed its relationship with Iran as a way to increase its influence in a geostrategically important region dominated by the United States. Additionally, Iran was useful to Beijing as an export opportunity for Chinese arms at a time of stagnant Chinese military procurement budgets. From Tehran's perspective, despite Khomeini's proclaimed intent to pursue a foreign policy that was "neither West nor East," practical considerations, most notably Iran's isolation and its war with Iraq, eventually drove Tehran to accept limited cooperation with Beijing so long as this did not entail any concessions on core domestic and foreign policies. As time would show, China was in many ways an ideal foreign partner for the Islamic Republic—it had never held territorial ambitions in Iran, unlike other great powers, such as Russia and the United Kingdom; it was willing to provide Iran with

⁵ Garver, 2007.

technologies that the rest of the world would not sell the regime; and it was willing to ignore Iran's provocative actions abroad and its human rights abuses at home.

The Chinese-Iranian relationship moved into a new phase as the 1980s drew to a close and important changes occurred in both countries. For Iran, the Iran-Iraq war's end in 1988 was followed in 1989 by the death of Khomeini and the assumption of power by Supreme Leader Ayatollah Ali Khamenei and President Ali Akbar Hashemi Rafsanjani. Meanwhile, China's crushing of the pro-democracy protests at Tiananmen Square in June 1989 would have near- and long-term effects on its foreign and domestic policy. Both countries' foreign and domestic policies became somewhat more pragmatic during these years, moving away from dogmatic revolutionary goals toward economic reconstruction and military modernization, and both countries remained isolated by the United States and its partners. As a consequence, Iran and China came to cooperate more deeply on arms and energy issues during this period. They also deepened diplomatic cooperation to resist U.S. and Western pressures to improve human rights and democratic freedoms in both countries. Iran's support for China's suppression of the pro-democracy movement in June 1989 helped strengthen relations.

From 1992 onward, Chinese Communist Party General-Secretary Jiang Zemin presided over the acceleration of the growth rate of the Chinese economy. As China's economy boomed, the PRC moved from being a net oil exporter to being a net importer in 1993, a development that greatly raised Iran's significance to China. At the same time, the United States pursued a policy of "dual containment" against Iran and Iraq. Iran's increasing isolation and China's growing need for energy and stronger international partnerships brought the two countries closer together.

Over the same period, however, the U.S. and China relationship repeatedly veered close to open confrontation, culminating in a showdown over security in the Taiwan Strait in 1996. Chinese leaders realized that a clean break with the United States would carry potentially disastrous consequences for the PRC. Recognizing that Chinese military assistance to Iran was further aggravating China's relationship with the United States and putting China's aim of continued rapid economic growth at risk, the Chinese leadership decided in 1997 to significantly downgrade relations between Tehran and Beijing. As a result, the PRC ceased open cooperation in important areas, such as the nuclear and missile programs.⁶

But four developments in the late 1990s and early 2000s opened up new opportunities and incentives for China to resume high-level cooperation with the Iran. First, Jiang Zemin successfully consolidated his grip on power in 1997, in part through his skillful management of China's relationship with the United States; thereafter, he could afford to worry less about tensions with the United States over Chinese ties to Iran disrupting his control. In spring 1999, the mistaken U.S. air strike on China's embassy in Belgrade led to popular and elite pressures on the Chinese leadership to distance itself from the United States, making cooperation with the Islamic Republic a popular way to show China's indifference to U.S. concerns. Then, in late 2001, China's accession to the World Trade Organization removed a source of U.S. leverage over China regarding Iran, as the United States could previously threaten to block China's accession to the global trading body if it cooperated with Iran. Finally, after the discovery of Iran's secret uranium enrichment program in 2002, Western companies began to withdraw from Iran and Western governments began to ramp up pressure on the Islamic Republic, open-

⁶ Garver, 2007.

ing up new opportunities for Chinese firms and diplomats to build economic and strategic ties to Tehran.

Thus, in the early 2000s, Chinese-Iranian relations began maturing into their present form. U.S. pressure on Russia, Japan, South Korea, India, and Europe to reduce trade and investment with Iran over its nuclear program gave China a freer hand to become involved in Iran's underserved domestic market and develop its energy resources. Under the new leadership of Hu Jintao and Wen Jiabao, China de-emphasized the relatively warmer relations with the United States and the West that had characterized the Jiang Zemin years in favor of emphasizing such goals as internal stability and social "harmony." The new Chinese leadership also pursued an economic policy of "going out," which focused on encouraging investments in global energy and mining industries. Chinese trade and investment ties with Iran expanded so greatly in this period that by 2007 China had become Iran's number one trading partner.

3. Iran's National Interests and Its Views of China

A strong relationship with China appeals to Iran for several reasons.

First and foremost, the Iranian regime views China as a potential ally against its chief nemesis, the United States. Opposition to American "hegemony" is an ideological pillar of the Islamic Republic. This is reflected not just in the regime's propaganda but also in Iran's foreign policies, which include support for Hizballah, HAMAS, and various insurgent groups in Iraq and Afghanistan. The Islamic Republic has had some success in establishing itself as a regional power, particularly in Iraq and the Levant. However, it has not succeeded in its main objective of supplanting the United States as the premier power in the Middle East. Iran is especially anxious about the U.S. military presence in the Persian Gulf, which Iran views as its rightful sphere of influence. However, Iran does not possess the economic and military might necessary to realize its ambitions on its own. It is also constrained by other regional powers, such as Saudi Arabia, Turkey, and Israel. And, unlike these countries, Iran lacks a powerful external ally.

Iran hopes that China will potentially tip the balance in its favor. Iranian officials, unlike their Chinese counterparts, are not reluctant to explicitly emphasize the strategic nature of the partnership. According to Iranian Foreign Minister Ali Akbar Salehi, "Tehran-Beijing ties are strategic and their prospects are bright."⁷ Indeed, Tehran views China as an emerging economic, political, and military power that can offset U.S. power globally and in the Middle East specifically. Moreover, Iranian officials appear to believe that China's interests are closely "tied" to Iran.⁸

Iran also views China as a strong economic partner and a crucial provider of the investment and technology necessary for Iran's economic development and modernization. Faced with U.S. and international sanctions, Iran lacks access to foreign capital and expertise to develop its declining energy sector.

To a considerable extent, the Islamic Republic has become dependent on China as the regime's chief diplomatic protector in the face of internal and external pressures. In contrast to Western powers, China is unconcerned with the Iranian regime's internal behavior. The

⁷ Fars News Agency, "Senior Analyst Underlines Iran's Geostrategic Importance to China," June 20, 2011.

⁸ Mehr News Agency, "Manafe Russiye va Chin ba Iran Gereh Khorde Ast [Russia and China's Interests Are Tied to Iran]," August 21, 2010.

regime's brutal suppression of the 2009 protest movement and its wider human rights abuses were met with silence from Beijing; China may have even provided active assistance in monitoring and suppressing Iranian opposition forces (through the provision of telecommunications tracking technology and crowd control devices).⁹

Obtaining the patronage of an extra-regional power is somewhat psychologically humbling for Iran, whose leaders proudly describe the Islamic Republic as an independent power not beholden to other countries. Nonetheless, over time, diplomatic, economic, and military pressures have forced the Iranian regime to become more dependent on assistance rendered by China.

For a long time, Russia was one of Iran's chief foreign partners. It sold advanced weapons to Iran, helped develop its nuclear industry, and shielded the Islamic Republic from harsh UN sanctions through its vote in the Security Council. But ties between Iran and Russia became severely strained after the Russian vote for UN Security Council Resolution 1929 in 2010 and its refusal to sell Iran its advanced S-300 air defense system. Iran's relations with Russia were based on expediency rather than shared strategic interests. After all, Russia was one of the imperial powers that sought to dominate Iran in the 19th and 20th centuries, and the two countries compete for influence in Central Asia and the Caspian Sea region. Hence Russia appears to view Iran as more of a convenient point of leverage vis-à-vis the United States, or even a regional competitor, rather than a true strategic partner. From Iran's perspective, the Russian leadership may be all too willing to trade Iran's interests in return for concessions from the United States.

Iran's failure to achieve its strategic goals though cooperation with Russia leave it with three other potential non-Western partners: India, Brazil, and China. India and Iran maintain cordial relations, but from Tehran's perspective, Indian interests are too closely aligned with those of the United States on important issues for New Delhi to support Tehran against Washington. Brazil may emerge as a more independent geopolitical actor, as demonstrated by its brokering of the ultimately unsuccessful nuclear swap deal in 2010, but, at least in the near term, Brazil lacks the economic, military, geopolitical heft, and view of the United States best suited to Iranian needs.

Thus, China is the most plausible large foreign patron for the Iranian regime, and in many ways an ideal one—China is powerful, prosperous, and makes few demands of Iran regarding its internal politics or its external activities in the wider Middle East. Iran, perhaps unrealistically, seems to hope that China can even serve as a true strategic partner that, unlike Russia, will not trade its relationship with Iran for its own interests vis-à-vis the United States.

4. Iran's Military Modernization Has Been Facilitated by China

China has aided Iran's efforts to modernize its military hardware and doctrine. As noted previously, the PRC was an essential provider of military hardware during Iran's eight-year struggle with Saddam Hussein's Iraq. Iran's rupture with the United States severely impeded its ability to conduct its war with Iraq, while the Soviet Union and such major Western powers as France

⁹ "Tasvirī az varedat e tajahizat zarhi vije sarkoub eteraz ha shahri [Pictures of Imported Equipment Used to Counter Urban Demonstrations]," *Rahe Sabz* (Iran), January 1, 2011; Mark D. Wallace, "Huawei: Why a Chinese Company Finally Decided to Pull Back from Iran," CNBC, December 20, 2011.

supplied Baghdad with military hardware while refusing similar assistance to Iran. Chinese military sales to Iran were often provided indirectly and discreetly through third-party sale/transfers carried out via countries such as North Korea, but they were recognized by Tehran as a critical form of support.¹⁰

China not only sold Iran small arms; it also supplied Iran with tactical ballistic and anti-ship cruise missiles. Indeed, Iran's use of Silkworm missiles against Kuwaiti shipping in 1987 became a significant source of tension between China and the United States.¹¹ China eventually agreed to stop sales of the Silkworm and the more sophisticated C-802 missiles to Iran.¹²

But instead of directly selling missiles to Iran, China played a crucial role in starting up Iran's indigenous military-industrial sector, greatly helping Iran's military modernization efforts. Chinese design and technology can be seen in many Iranian missile series, from the short-range Oghab and Nazeat missiles to the long-range Shahab 3.¹³ In addition, Iran has developed its own relatively sophisticated antiship cruise missiles with Chinese help. These include the Nasr, which is reported as being nearly identical to the Chinese C-704. According to some reports, China even helped Iran establish a plant for the manufacture of the Nasr in 2010.¹⁴ China is also reported to have provided Iran with advanced antiship mines and fast-attack boats.¹⁵ The total value of these transfers is difficult to know for certain but has been estimated by some analysts to range from a low of \$4 billion to possibly as high as \$10 billion.¹⁶

Such transfers of weapons and technological know-how have continued despite international sanctions, with one observer reporting allegations that Chinese arms suppliers have agreed to deliver weapon systems with the serial numbers filed off so as to obscure their origin.¹⁷ In some cases, China is suspected of transferring ballistic missile technology to Iran via North Korea.¹⁸ Even more troubling are allegations that Chinese and Iranian defense cooperation has also extended to covertly developing Iran's chemical weapons program.¹⁹

Iran's ballistic missiles and naval capabilities form the core of its military doctrine vis-à-vis the United States. Lacking an advanced air force, Iran aims to project military power through the use of its missile forces, which can be used to deter the United States or retaliate against the United States or its regional allies in the event of a military conflict. Additionally, Iran's naval capabilities can be used to disrupt shipping in the Persian Gulf, potentially inflicting pressure on the United States to end any future military conflict on terms favorable to Iran.

¹⁰ Garver, 2007. China also sold weapons to Iraq during the war.

¹¹ Charles P. Wallace, "US-Owned Tanker Hit by Iran Missile in Gulf: Kuwaiti Officials Are Certain That Weapon Was A Silkworm," *Los Angeles Times*, October 16, 1987.

¹² Garver, 2007.

¹³ *Jane's Strategic Weapons Systems*, Vols. 100–101.

¹⁴ UPI, "China Opens Missile Plant in Iran," April 23, 2010.

¹⁵ Garver, 2007.

¹⁶ Garver, 2007.

¹⁷ Mazza, 2011.

¹⁸ On allegations that flights carrying missile and nuclear technology passed through China on their way from Pyongyang to Tehran, see Louis Charbonneau, "EXCLUSIVE: N. Korea, Iran Trade Missile Technology—U.N.," Reuters, May 14, 2011.

¹⁹ Iran Watch, "Iran's Chemical Weapon Program," July 2005.

5. China Helped Start Iran's Nuclear Program

China has assisted in the development of Iran's nuclear program. Most of this assistance has been, in principle, geared toward the civilian aspect of the program. However, much of what China has actually provided, including support on uranium enrichment, has a military dimension as well. For example, from 1985 to 1996, China provided Iran with various types of critical nuclear technology and machinery and helped to acquire others, assisted Iran in uranium exploration and mining, and helped Iran master the uses of lasers for uranium enrichment.²⁰ In particular, Chinese technicians and engineers played an important role in training Iranian nuclear engineers and in establishing the Esfahan Nuclear Research Center, which has played a central role in the development of Iran's nuclear program.²¹

It is not clear whether Chinese aid was provided with the express aim of helping Iran to develop a nuclear weapons capability—the Chinese firms involved, and the Chinese government itself, may have been motivated more by profits and better relations with the Islamic Republic than by strategic considerations. But the effect has been to assist Iran's acquisition of such capabilities.

China stopped providing direct nuclear support to Iran in 1997 as part of an effort to improve ties with the United States and win assistance with its own civilian nuclear program.²² Beijing's decision caused a good deal of friction in its relationship with Iran, but China's earlier nuclear assistance and sanctions-busting by Chinese firms likely helped Iran make substantial progress toward a functioning nuclear program.

A functioning nuclear weapons capability could allow Iran to significantly affect the balance of power in the Persian Gulf by potentially neutralizing the U.S. conventional military superiority, dissuading the Gulf Cooperation Council (GCC) from hosting U.S. forces, and potentially establishing Iran as the "hegemon" of the Persian Gulf. As will be discussed below, because some Chinese political elites view a more powerful Iran as serving Chinese interests in the Middle East, China has both provided material and diplomatic support to the Iranian nuclear program.

6. China Has Shielded Iran from the Effects of International Sanctions

Such support has been particularly appreciated by Iran, given its growing international isolation. Iran has been put under four rounds of UN Security Council sanctions in addition to

²⁰ See Garver, 2007, Chapter 6, "China's Assistance to Iran's Nuclear Programs," especially pp. 156–158. See also Nuclear Threat Initiative, "China's Nuclear Exports and Assistance to Iran," September 23, 2003.

²¹ Nuclear Threat Initiative, 2003.

²² For more detail on Chinese nuclear assistance to Iran, see International Institute for Strategic Studies, "Iran's Nuclear, Chemical and Biological Capabilities: A Net Assessment," February 2011, p. 43. Since that time, however, Washington has continued to allege that Chinese companies are still knowingly providing dual-use components to Iran in violation of Beijing's solemn commitments to cease such activities. For recent examples of such allegations, see John Pomfret, "US Says Chinese Businesses and Banks Are Bypassing UN Sanctions on Iran," *Washington Post*, October 18, 2010; and Indira A. R. Lakshmanan, "US Concerned Chinese Companies May Be Aiding Iran Nuclear Weapon Effort," Bloomberg News, March 20, 2011.

unilateral U.S. sanctions, all of which have deeply affected Iran's shipping, energy industry, and its financial system.²³

However, 2011 legislation by the U.S. Congress targeting Iran's Central Bank has inflicted the greatest damage on Iran's economy. Any foreign company or country that deals with the Iranian Central Bank, which serves as a clearinghouse for Iran's oil sales, could be barred from the U.S. financial system. As a result, many of Iran's major oil customers are reducing purchases of Iranian oil. Japan, South Korea, the European Union, and perhaps even China have sought additional oil from the GCC states.²⁴ The United States hopes that GCC oil can slowly replace Iranian oil in the market without a substantial increase in oil prices.

Iranian leaders reacted to impending sanctions against the Central Bank with alarm. Iran's currency, the rial, depreciated as soon as sanctions were passed by the U.S. Congress, substantially raising the cost of everyday goods within Iran.²⁵ Sanctions may not have dissuaded the Iranian government from continuing the nuclear program, but they have clearly increased the costs for the regime of continuing its pursuit of uranium enrichment. Stronger sanctions on Iran may yet impact its nuclear decisionmaking.²⁶

To date, Iran has been able to rely on China as a shield against sanctions over its nuclear program. This is especially true of the three rounds of sanctions preceding UN Security Council Resolution 1929. Indeed, shortly after the passage of each UN resolution, China has accelerated and expanded its economic ties with Tehran. The writings of a number of Chinese foreign policy analysts suggest that this is a deliberate strategy by Beijing to help Tehran weather international condemnation while expanding China's influence in the country. One analyst argues that China's strategy, when confronted with overwhelming international pressure to support sanctions such as UN Security Council Resolution 1929, should be to "cast a supporting vote . . . but [then] shift towards a more passive position."²⁷ Through its economic cooperation and deal-making with China, including a barter agreement designed to facilitate trade despite sanctions against banks doing business with Iran, Iran has blunted the impact of the international sanctions regime on the country. The impact of sanctions against the Central Bank and Iran's expulsion from the global financial system is therefore strongly affected by China's decisions.²⁸

²³ Luke Hunt, "Iran's Asian Fleet Hits Sanctions Wall," *Asia Sentinel*, March 28, 2011; Claudia Rossett, "Tehran's Ghost Fleet," *Wall Street Journal*, August 29, 2011.

²⁴ "Gemba Asks Saudi Arabia to Keep Oil Stable," *Japan Times*, January 9, 2012; "Azumi Vows to Cut Iran Oil Imports," *Yomiuri Shimbun*, January 13, 2012; Reuters, "S. Korea PM Heads to Oman, UAE as Iran Sanctions Bite," January 11, 2012; "Gov't Agonizing Over How to Scale Back Oil Imports," *JoongAng Ilbo*, January 14, 2012; Edward Cody, "E.U. Commits in Principle to Iran Oil Embargo," *Washington Post*, January 13, 2012; "India's HPCL to Double Saudi Crude Oil Imports Amid Iran Sanctions," *Platts*, January 10, 2012; Reuters "Turkey to Seek US Waiver on Iran Oil," January 4, 2012; Indrani Bagchi, "EU Wants India, China to Join Iran Oil Embargo," *The Times of India*, January 14, 2012.

²⁵ Voice of America, "Iran's Currency Slumps on Sanctions Fears," January 2, 2012.

²⁶ Lynn E. Davis, Jeffrey Martini, Alireza Nader, Dalia Dassa Kaye, James T. Quinlivan, and Paul Steinberg, *Iran's Nuclear Future: Critical U.S. Policy Choices*, Santa Monica, Calif.: RAND Corporation, MG-1087-AF, 2011.

²⁷ Xue Jingjing [薛静静], Yang Xingli [杨兴礼], and Liang Yantao [梁艳桃], "China-Iran Oil Trade Risks and Responses," *Practice in Foreign Economic Relations and Trade* [对外经贸实务], No. 1, 2011, p. 29.

²⁸ Tom Lasseter and Kevin G. Hall, "Fate of U.S. Effort to Isolate Iran Could Rest with China," *McClatchy Newspapers*, January 16, 2012.

7. China Is Iran's Biggest Economic Partner

Energy Cooperation

The foundations of the economic partnership between Iran and China are Iran's abundant energy resources and China's growing energy needs. Over the past several years, China has become Iran's biggest oil customer and biggest economic partner.²⁹

Indeed, according to an Iranian official, 166 Chinese companies attended Iran's Oil Show in 2011, as opposed to 100 Chinese firms in 2010, making the Chinese the most numerous foreign participants in this international commercial exhibition.³⁰ Iran has also formed a joint oil and gas committee with China to broaden and expedite energy cooperation.³¹ Furthermore, China signed a \$20 billion agreement in May 2011 to boost bilateral cooperation in Iran's industrial and mining sectors, and the leaders of the two countries have announced plans to more than double their annual bilateral trade, currently around \$30–\$40 billion, to \$100 billion by 2016.³²

In addition to purchasing Iranian oil and natural gas, China is also the most important foreign player in Iranian "upstream" (exploration and extraction) operations. China is currently slated to develop the giant Azadegan and Yadavaran oil and natural gas fields.³³ Japan had been designated by Tehran as its preferred foreign investor in Azadegan, but Tokyo withdrew from the deal due to U.S. pressure.

U.S. pressure on Iran has resulted in not just Japan but also many other Asian and European countries abandoning their investments in Iran. Although Iran is believed to hold the world's second-largest natural gas reserves, it lacks the technology and know-how to exploit these vast resources on its own. China has helped to fill the void created by the departure of Asian and European energy companies by agreeing to develop the giant South Pars field.³⁴

In addition to the South Pars field, China has expressed an interest in helping Iran develop its heavy oil fields.³⁵ Heavy crude is harder to produce, refine, and sell than light crude oil, which has a lower density. Sixty percent of Iran's oil reserves are thought to be of the heavy crude variety.³⁶ The PRC has also become Iran's largest market for petrochemical exports, especially methanol.³⁷ According to Reza Hamzelou, the head of Iran's Petrochemical Commercial Company, Iran has surpassed Saudi Arabia as the biggest methanol exporter to China, and

²⁹ Though as the risk of conflict and an international agreement to ban Iranian oil imports have risen, China has begun diversifying its oil imports, reducing its reliance on Iran, and seeking to secure alternate sources of supply. "China Replaces Iran Oil with Mideast, Africa, and Russia," *al Arabiya*, December 23, 2011; Reuters, "China Buys Russia, Vietnam Oil as Iran Supply Cut," January 4, 2012; Reuters, "China's Wen Presses Saudi Arabia for Oil Access," January 14, 2012.

³⁰ Moj News Agency, "Chinese Firms Dominate Iran Oil Show 2011," April 17, 2011.

³¹ "Iran, China to Form Joint Oil and Gas Committee," *Tehran Times*, April 23, 2011.

³² Fars News Agency, "China Expects \$40bln Trade Exchange with Iran in 2011," July 11, 2011; Fars News Agency, "China Keen to Expand Parliamentary Ties with Iran," April 19, 2011; Mehr News Agency, "Iran, China Sign 6 Industrial, Mineral Deals Worth \$20B," May 10, 2011.

³³ Fars News Agency, "Iran, China Sign \$1.7bln Oil Contract," January 15, 2009.

³⁴ Upstream Online, "CNPC Replaces Total at South Pars 11," June 3, 2009.

³⁵ "Darkhast e Chiniha Baray e Tose e Miyadin e Naft Sangin e Iran [China's Request to Develop Iran's Heavy Oil Fields]," *Abrar Eghtesadi* (Iran), January 21, 2010.

³⁶ Reuters, "Iran Has 85 Billion Barrels Heavy Oil Reserve: Report," August 30, 2008.

³⁷ TehranEmrouz, "Iran Jay e Arabistan Ra Gereft [Iran Took Saudi Arabia's Place]," November 1, 2010.

Chinese companies are currently negotiating the construction of a \$5 billion methanol plant in the Iranian city of Mahshahr.³⁸

Until recently, the Islamic Republic did not have the refining capability to meet domestic fuel demands and was forced to import as much as 40 percent of its fuel needs.³⁹ This made Iran particularly vulnerable to sanctions targeting refined fuel imports, prompting the government to vigorously expand its refining capacity. China has assisted the regime's objectives by not only increasing fuel shipments through companies such as Zhuhai Zhenrong,⁴⁰ but also helping Iran expand its refining capacity.⁴¹ It appears that these efforts by China and Iran may have paid off: The Iranian government has recently claimed that it no longer imports any fuel from China or any other country and is even capable of exporting fuel.⁴² Even if not entirely true, Iran could now be less vulnerable to sanctions on fuel imports than it was just a few years ago, thanks in part to Chinese assistance.⁴³

Infrastructure Development

Iran's economic reliance on China is not limited to the energy sector. In fact, non-energy trade and investments form a substantial component of bilateral economic ties. In the past two decades, Chinese engineers have built bridges, dams, railroads, and tunnels throughout Iran. For example, China's Sinohydro Corp. signed an agreement with Iran to build the world's tallest dam in the western province of Lorestan.⁴⁴ This dam, along with several others that are planned, will help Iran expand its domestic energy supplies, potentially allowing it to sell more oil on the international market.

China is also developing Iran's rail network, helping it become more integrated into regional markets. Iran and China are reportedly considering a plan to build a railroad that will connect the western Chinese province of Xinjiang to Iran through Kyrgyzstan, Tajikistan, and Afghanistan. If completed, the railroad may eventually link to a wider rail network that may include Iraq, Syria, Turkey, and Europe, though this seems less likely given the instability in countries such as Syria and Iraq.⁴⁵

The Tehran metro system, completed in sections between 2000 and 2006, is probably China's showpiece infrastructure development project in Iran. The metro system would have been difficult for Iran to build without Chinese assistance. Crucial Western technology (the braking system, for example) was initially obtained by Chinese companies and used in the

³⁸ "Mosharakt e 5 milliard dollari Chin dar yek tarh petrochimi e Iran [China's Participation in Iran's Five Billion Dollar Petrochemical Plan]," *Abrar Eghtesadi* (Iran), May 22, 2011.

³⁹ Mehr News Agency, "Iran's Lavan Refinery Produces One Million Liters of Gasoline per Day," January 17, 2010.

⁴⁰ Javier Blas, Daniel Dombey, and Carola Hoyos, "Chinese Begin Petrol Supplies to Iran," *Financial Times*, September 22, 2009.

⁴¹ Reuters, "Iran Seeks China Investment to Build Refineries," July 13, 2011.

⁴² Fars News Agency, "Iran to Celebrate Self-Sufficiency in Gasoline Production," June 22, 2011; "Iran Not Importing Gasoline from China: NIORDC," *Tehran Times*, March 13, 2012.

⁴³ To exert leverage over this part of the relationship, the United States has recently applied sanctions against the Chinese state energy trading firm Zhuhai Zhenrong over its sales of refined energy products into the Iranian market. Reuters, "U.S. Slaps Sanctions on China State Energy Trader Over Iran," January 12, 2012.

⁴⁴ UPI, "Defiant Iran Forges Ahead with Dams Plans," April 6, 2011.

⁴⁵ Christina Lin, "The PLA's 'Orient Express': Militarization of the Iron Silk Road," *China Brief*, The Jamestown Foundation, Vol. 11, No. 5, March 25, 2011.

Tehran metro system.⁴⁶ China is currently financing \$1 billion worth of city improvement projects in Tehran, including the expansion of its subway and highway system. Such foreign investments, according to Tehran's municipal finance director, are "unprecedented" in the city's history.⁴⁷ The northeastern Iranian city of Mashhad has also started to operate its own metro system built with Chinese assistance.⁴⁸

The Effects of Sanctions on Chinese-Iranian Economic Cooperation

Despite the PRC's expansive economic relationship with Iran, in late 2011 China's official media expressed anxiety that "contention . . . over the Iranian nuclear issue has reached white hot levels and could even be on the precipice of a showdown."⁴⁹ Major Chinese firms, such as CNPC, Sinopec, CNOOC, and Zhenrong, have failed to implement their agreements with Iran or have "gone slow" with those agreements, possibly due to the U.S. agreement to not to sanction those firms for their 2008–2009 investments with Iran over the near term if they forgo new investment deals.⁵⁰

Still, it is not clear that these are long-term moves driven by any change in assessment in Beijing about the wisdom of cooperating with an Iran that is seeking a nuclear weapons capability. Rather than indicating a central government decision to cease or reduce cooperation with Iran, such moves are probably better understood as either firm-level decisions or tactical moves to reduce the kinds of risks that saw China potentially lose its \$18.8 billion in investments in Libya when that country democratized.⁵¹ If this analysis is correct, it is likely that if the current tensions between Iran and the West subside, Chinese state-owned firms will quickly resume their investments in Iran, and the PRC will strive to build an even stronger economic partnership with the Islamic Republic. In the meantime, China is helping keep the Iranian economy afloat by using a barter system to trade Iranian oil for its goods and services, helping Tehran bypass U.S. sanctions.⁵² China also appears to be taking advantage of the EU embargo against Iran to receive significant discounts on Iranian oil.⁵³ This may cause some tensions between the two countries in the short term, but an increasingly isolated Iran may have no other choice but to become even more dependent on China as an economic partner.

8. The Iranian Regime Depends on China for Survival

China's strong economic, military, and diplomatic relations with Iran are attributable mostly to two key factors: (1) Iran's growing international isolation, especially from the West, and (2) the

⁴⁶ Garver, 2007.

⁴⁷ Fars News Agency, "Finance e 230 milliard tomani Chini dar proj e sadr niyayesh [China's 230 million Toman Financing of Sadre-Niyayesh]," October 10, 2010.

⁴⁸ Global Mass Transit Report, "Iran's Mashhad Metro Launches Commercial Operation," April 24, 2011.

⁴⁹ Quoted in Reuters, "PRC Media Warn of Iran Conflict," November 10, 2011.

⁵⁰ Reuters, "Iran Crude Exports to China's Sinopec to Fall a Third in Jan," December 14, 2011.

⁵¹ "Libya Unrest Costs Chinese Firms US\$18.8 Billion: Ministry," *China Times*, March 24, 2011.

⁵² Barbara Slavin, *Iran Turns to China, Barter to Survive Sanctions*, Washington, D.C.: Atlantic Council, November 2011. Also see Sara Vakhshouri, "The Coalition Against Iranian Oil: Winners and Losers," *Huffington Post*, February 27, 2012.

⁵³ Indira A. R. Lakshmanan and Gopal Ratnam, "China Gets Cheaper Iran Oil as U.S. Pays Tab for Hormuz Patrols," *Bloomberg News*, January 12, 2012.

authoritarian nature of both the Iranian and Chinese regimes. The relationship between the two countries, however, is hardly equal, with China enjoying a more advantageous position.

Over time, Iran's relationship with China has changed from one of mutual cooperation in the 1980s into one of lopsided dependence today. China views Iran as a potential partner for limiting U.S. influence in the Middle East, but it is not overwhelmingly dependent on the Islamic Republic for its energy needs (sourcing 11 percent of its imported oil from Iran in 2011⁵⁴), economic development, or overall national security. Moreover, the PRC purchases oil and natural gas from other Middle Eastern energy producers such as Saudi Arabia and the United Arab Emirates, and depends on its vibrant economic ties with the United States to maintain its growth.

Iran, on the other hand, is locked in a bitter conflict with the United States, and it faces growing geopolitical competition with Saudi Arabia and the GCC. With only a small number of allies, the Islamic Republic has come to depend increasingly on China for critical diplomatic, economic, military, and technological support. China has now become the Iranian regime's main external protector.

The Islamic Republic's potential wariness of dependence on a foreign power such as China is somewhat offset by the authoritarian nature of the Chinese regime, which shares Iran's resistance to Western pressures for political liberalization and democratization. The Iranian regime believes Western conceptions of democracy to be a direct threat to its hold on power. From the regime's perspective, Western powers have promoted democracy in Iran in order to weaken the Islamic Republic; the opposition Green Movement is often portrayed as Western lackeys engaged in "sedition" rather than a genuine democratic movement. The Islamic Republic knows that China harbors similar fears about democracy, making it a reliable partner in resisting Western criticism over Iranian human rights abuses.

Tehran perceives China as a much less meddlesome foreign power than the European nations or the United States. China and Iran have never been at war, and China has never expressed any imperial ambitions in Iran. Moreover, China does not border Iran and is thus a relatively safe external patron. However, depending on how it handles its relationship with Iran, China could, given the right circumstances, come to be seen as exploiting Tehran's vulnerability, especially if the Islamic Republic becomes increasingly isolated and prone to internal discord and disunity. Iranian perceptions of China as a non-imperialist power are largely based on a history of limited interaction between the two nations. But if China seeks to shape the domestic character of the regime, or is perceived to be leveraging Iran's vulnerability to extract concessions on investment opportunities or gets into a dispute with Iran over energy import contract prices,⁵⁵ Iranians could begin to see China as an exploitive country in the same vein as previous imperial powers.

An example of such potential Chinese interference in Iranian domestic politics may have been foreshadowed in the aftermath of the 2009 Iranian presidential election. The election, perceived by many Iranians as fraudulent, gave rise to the opposition Green Movement and anti-regime protests by millions of Iranians. Many of the demonstrators specifically blamed China for supporting and maintaining the regime. China has been accused of providing anti-riot equipment used to suppress opposition protestors and selling technology that enabled the

⁵⁴ Agence-France Presse, "Iran-China Trade Soars to Top \$45 Bn: Report," January 25, 2012.

⁵⁵ "Pricing Dispute Threatens Iran's Oil Exports to China," *Wall Street Journal*, January 7, 2012.

regime to track dissidents' movements.⁵⁶ Most notably, regime supporters' chants of "death to America" were often countered by opposition cries of "death to China."⁵⁷ These events demonstrated the extent of anti-Chinese sentiment among urban and pro-democracy elements of the Iranian population, who may come to dominate Iranian politics in the future.

Resentment against China is also reflected in other sectors of Iranian society, especially the clergy. Shortly after the outbreak of the Green Movement in Iran, riots broke out in China's Xinjiang Uighur Autonomous Region in July 2009, leading high-ranking Iranian clerics to criticize China for its treatment of the Muslim Uighurs. Ayatollah Yousef Sanei, one of the highest-ranking clerics in Iran and in many ways the spiritual leader of the reform movement, described China's response to the riots as "inhumane and harsh."⁵⁸ To be sure, Sanei's motivations were not purely religious in nature; avowedly opposed to President Mahmoud Ahmadinejad's government, Sanei's views may have represented the deep unease felt by the reformists toward China's support for Iran's authoritarian regime. But China was also criticized by conservative and pro-regime clerics such as Ayatollah Makarem Shirazi and Ayatollah Nouri Hamedani, both of whom condemned China's treatment of the Uighurs and called for a strong stance from the Iranian government.⁵⁹

It is not clear whether core elements of the Iranian regime, including Supreme Leader Khamenei and the Revolutionary Guards, harbor serious concerns regarding Iran's relationship with China or not. But even as it maintains close economic and military ties with China, the Islamic Republic remains sensitive and politically vulnerable to any sort of foreign "interference" in its affairs.

Looking to the future, significant sections of the Iranian population and even some elements of the elite appear increasingly inclined to view China as a malign influence. In particular, the Green Movement and reformists view China as the protector and enabler of the regime's most hardline elements, which could pose challenges for the Chinese-Iranian relationship if Iran becomes more democratic in the future.

9. China's National Interests and Its Policies Toward Iran

Many countries are wary of Iran's nuclear activities and assertive foreign policies but at the same time attracted to its abundant energy resources and economic potential. Yet few have been as bold as China in seizing these latter opportunities. As a result, China is in the paradoxical position of having more leverage than almost any other country vis-à-vis Iran, but also having the most to lose should more broadly punitive sanctions be imposed or war break out, a fact not lost on Chinese analysts and policymakers.⁶⁰ Additionally, some Chinese analysts warn about the risks for Chinese interests of unduly antagonizing Iran, given what they see

⁵⁶ "Tasviri az varedat e tajahizat zarhi vije sarkoub eteraz ha shahri [Pictures of Imported Equipment Used to Counter Urban Demonstrations]," 2011; Wallace, 2011.

⁵⁷ "Hashiy e ha namaz jomhe emrouz Tehran [Warning from Today's Tehran Friday Prayers]," *Alef*, July 17, 2009.

⁵⁸ "Clerics Stand Up for Rights of Uyghur Muslims," *Tehran Times*, July 14, 2009.

⁵⁹ "Dashtan rabet e ba Chin dalil nemishavad dar barabar sarkoub mosalmanan khamoush beshinim [Ties with China Do Not Mean We Should Be Silent on the Oppression of Muslims]," *Asr Iran* (Iran), July 21, 2009.

⁶⁰ Dingli Shen, "Iran's Nuclear Ambitions Test China's Wisdom," *Washington Quarterly*, Vol. 29, No. 2, Spring 2006, pp. 55–66; Chen Lianqing [陈连庆] and Yang Xingli [杨兴礼], "A Discussion of the Impact of the Iran Nuclear Issue on

as Iran's influence in the Middle East, Central and South Asia, and the Organization of the Islamic Conference.⁶¹

Still, China's relations with Iran are primarily shaped by its economic interests, particularly its expanding energy needs. Additionally, China's policy toward Iran is deeply influenced by the PRC's perceived rivalry with the United States, based on the suspicions of many Chinese decisionmakers that the United States seeks to block China's rise to great-power status, balanced against China's dependence on maintaining a stable economic relationship with the United States.

For much of the past decade, scholars of Chinese foreign policy have noted a gradual expansion in the number of players whose views of the United States and China's "ascent" affect China's overall external relations.⁶² In a recent and influential work, Linda Jakobson and Dean Knox have updated this general finding by describing a host of new actors, including the Chinese military and state-owned enterprises (most notably financial institutions and energy companies).⁶³ With respect to China taking a more proactive role in sanctioning Iran, Jakobson and Knox note that the "mainstream view among both old and new actors is that calls by industrialized countries to contribute to global public goods are an attempt to slow China's ascent."⁶⁴ They also warn that large numbers of the Chinese elite "would like China to more vigorously defend its right to set conditions when others—usually Western states—seek China's cooperation on initiatives such as sanctioning Iran."⁶⁵

Picking up on the importance of such increasingly "open discourse in a constrained environment," David Shambaugh has described "the center of gravity on the Chinese spectrum" of foreign policy voices as lying not with those who favor greater cooperation with the West, but instead with "Realists" and hyper-nationalistic and strongly anti-American "Nativists." Advocates emphasizing cooperation with the United States and other major powers are seen to be losing influence, and the general trend with respect to addressing leading international problems is to contribute "only as much to global governance as is necessary to deflect Western criticism," since "there is a virtual consensus across the spectrum [of PRC foreign policy analysis] that the whole concept of global governance is a Western trap which tries to undermine China's sovereignty and lure it into a variety of foreign entanglements where China does not belong."⁶⁶

If these analyses are correct, then it seems reasonable to conclude that, at present, when it comes to China's policy toward Iran, the forces inside Chinese policymaking circles who emphasize strategic and economic concerns are likely to exert a strong influence, perhaps even

China-Iran Relations [简论伊朗核问题对中国-伊朗关系的影响], *Journal of Hubei University of Economics, Humanities and Social Sciences* [湖北经济学院学报 (人文社会科学报)], Vol. 7, No. 9, September 2010, pp. 79–81.

⁶¹ Wang Liping [汪力平] and Xia Shi [夏仕], "The Iranian Nuclear Issue Against a Backdrop of Nuclear Security and China's Strategic Foreign Policy Options [核安全背景下的伊朗核问题与中国外交战略选择]," *Leadership Science* [领导科学], June 2010, pp. 58–60.

⁶² David Michael Lampton, ed., *The Making of Chinese Foreign and Security Policy in the Reform Era*, Stanford, Calif.: Stanford University Press, 2002.

⁶³ Linda Jakobson and Dean Knox, *New Foreign Policy Actors in China*, SIPRI Policy Paper No. 26, September 2010.

⁶⁴ Jakobson and Knox, 2010.

⁶⁵ Jakobson and Knox, 2010.

⁶⁶ David Shambaugh, "Coping with a Conflicted China," *Washington Quarterly*, Vol. 34, No. 1, Winter 2011, pp. 7–27.

greater than those who focus primarily on diplomatic cooperation with the United States on issues of nonproliferation and economic development. Still, Chinese foreign policy in recent years has tacked back and forth between a greater assertiveness and a continuing emphasis on cooperation, owing to the continuing influence of those who point to Beijing's need to maintain a stable, if cool, relationship with the United States to ensure China's continued growth.

In seeking to gauge U.S. influence on China, it is useful to have some comparative perspective about Iran's value to China, relative to the United States', as a destination for Chinese investment and trade. Through October 2011, total bilateral Chinese-Iranian trade amounted to approximately \$39 billion.⁶⁷ The PRC's new investments in the Islamic Republic reportedly totaled roughly \$1 billion in 2011, though figures are hard to come by and the Iranian regime is widely suspected of deliberately seeking to exaggerate the size of Chinese investments for political purposes, a phenomenon that has led one observer to describe PRC investment in Iran as "one step forward, two steps back."⁶⁸ By contrast, through the third quarter of 2011, Chinese investments in the United States amounted to approximately \$15.9 billion,⁶⁹ while U.S. imports from China reached approximately \$330 billion through October 2011.⁷⁰ Finally, in the energy sector, over the past two years, the Chinese firms CNOOC and Sinopec have purchased more than \$4.6 billion worth of energy assets in the United States, giving these firms an incentive not to put their U.S. investments at risk by cooperating with Iran in ways that earn Washington's ire.⁷¹

Additionally, China is entering a political transition year in 2012, and during such times Beijing's top leadership is widely believed to favor downplaying confrontation and ensuring that foreign policy issues do not intrude into leadership succession debates. As such, those who favor prioritizing cooperation with the United States may, at least temporarily, succeed in downplaying relations with Iran in order to prevent tensions with Washington over Iran from disrupting the political handover from Hu Jintao and Wen Jiabao to their successors.

10. China Views Iran as a Secure Source of Energy

China's need for energy is one of the most important factors shaping Chinese-Iranian relations.⁷² Ever since China's rapid economic growth began in the early 1990s, the Chinese leadership's goal has been to secure the energy needed to fuel China's economy. As Figure 10.1 shows, China's oil consumption exceeded indigenous production capacity for the 16 years between 1993 and 2009. As shown in Figure 10.2, China's dependency on imported oil surpassed 50 percent of its total oil demand in 2009. This trend has continued since 2009.

⁶⁷ Ladane Nasser, "Iran, China Trade Climbed 34% in First 10 Months, Donya Reports," Bloomberg News, November 23, 2011.

⁶⁸ "Iran Attracts \$1B in FDI in 11 Months," *PressTV*, November 10, 2011; Justin Li, "Chinese Investment in Iran: One Step Forward, and Two Steps Backward," *East Asia Forum*, November 3, 2010.

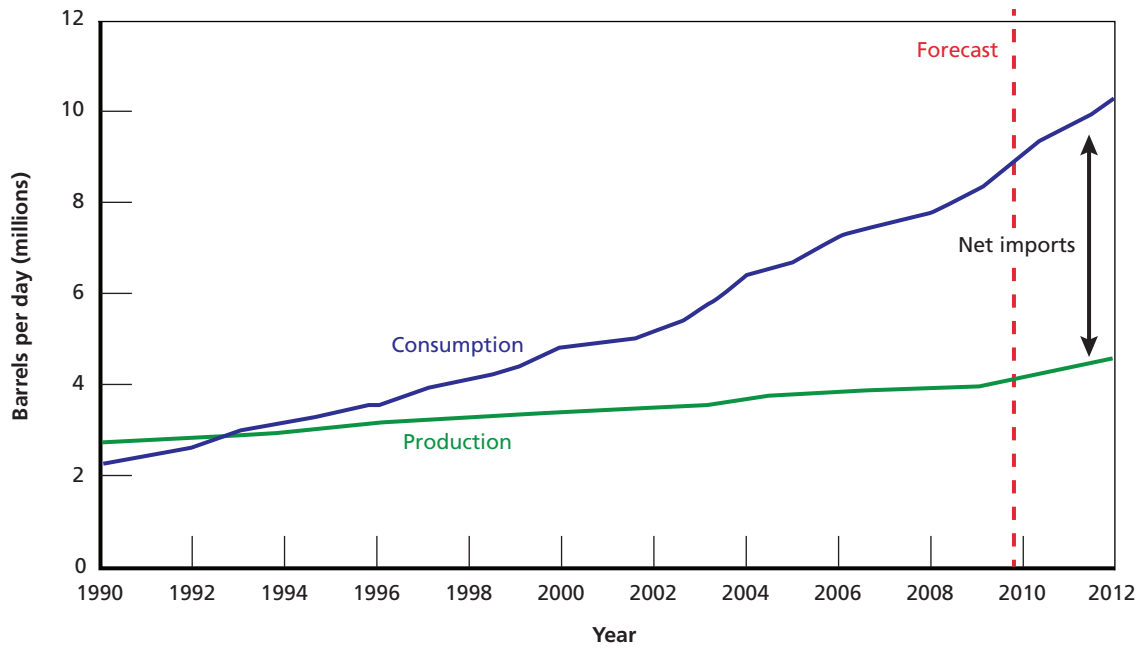
⁶⁹ Rhodium Group, "China Investment Monitor: Tracking Chinese Direct Investment in the U.S.," 2011.

⁷⁰ U.S. Census Bureau, "Trade in Goods with China," 2011.

⁷¹ Reuters, "CNOOC to Pay \$1.1B for Stake in Chesapeake Unit," October 10, 2010; "Chesapeake, CNOOC Close \$1.3B Niobrara Shale Cooperation Agreement," *PennEnergy*, February 17, 2011; Reuters, "Sinopec, Devon in \$2.2 Bln Shale Deal," January 3, 2012.

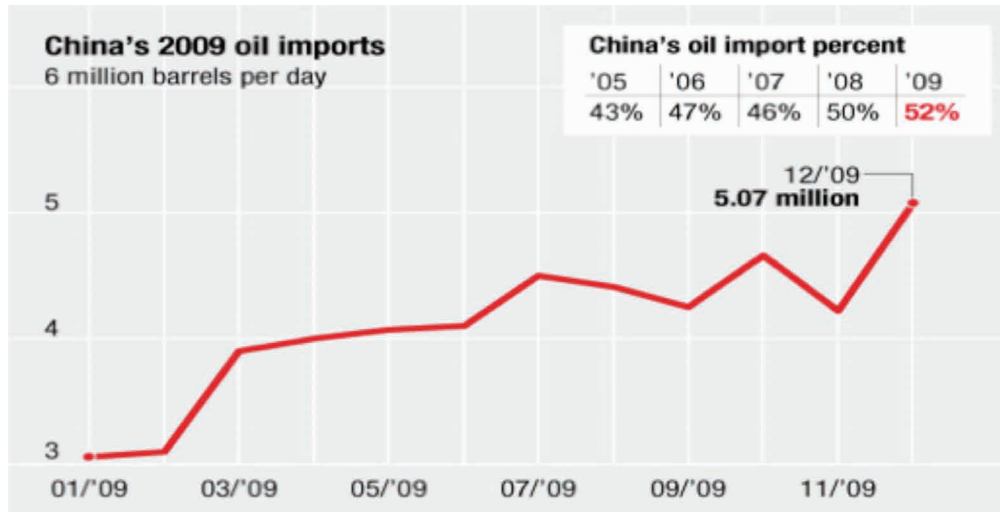
⁷² Mazza, 2011; Dorraj and Currier, 2007.

Figure 10.1
China's Oil Production-Consumption Balance



SOURCE: U.S. Energy Information Administration, "China: Analysis," May 2011.
RAND OP351-10.1

Figure 10.2
China's Growing Dependency on Imported Oil



SOURCE: Michael J. Economides and Xina Xie, "China's Oil Imports Continued Upward Trend in '09," *Energy Tribune*, www.energytribune.com, January 6, 2010. Used with permission.

RAND OP351-10.2

For Beijing, investing in Iran's energy sector appears to represent the promise of a secure oil supply for years to come. In addition, China's investments in Iran have not only led to profitable contracts for the PRC's three major national oil companies (China National Petroleum Corporation, Sinopec, and China National Off-Shore Oil Corporation) but have also potentially enhanced Chinese energy security by developing a solid relationship with a supplier unlikely to be intimidated into cutting oil exports to China in the event of a U.S.-Chinese military conflict.⁷³

As noted previously, non-energy commercial ties between China and Iran are also important for the bilateral relationship. For example, Chinese involvement in developing Iranian infrastructure has ranged from building the Tehran metro to investment in mining operations to dam construction and port development, as well as commercial ship-building and sale of consumer goods.⁷⁴ Non-energy trade and investment serve as a major incentive for Beijing to expand relations with Iran, as they provide opportunities for Chinese state-owned enterprises to win foreign contracts and sell their goods abroad, while helping provide jobs for Chinese labor. From 1985 to 1997, civilian nuclear power cooperation was also a major element of the relationship, which helped China to earn substantial profits that enabled it to modernize its own nuclear power infrastructure.⁷⁵

11. China Views Iran as Countering U.S. Power in the Middle East

China has also pursued significant military and defense relations with Iran. From the Chinese perspective, there is strategic value in helping Iran develop enough military capabilities to counter U.S. dominance of the Persian Gulf. The U.S. alliance with the GCC has ensured a security regime consistent with U.S. interests in the Middle East. However, the Persian Gulf is not fully and securely within the U.S. orbit as long as the Islamic Republic opposes the U.S. presence in the region. An Iran equipped with relatively advanced military hardware contributes to the Chinese objective of preventing the domination of this geostrategically important region by the United States while helping to keep the U.S. focus away from the Pacific region.

Furthermore, by supplying Iran with weapons such as antiship cruise missiles, China gains an opportunity to field-test hardware and concepts of operations that it might one day use itself in a conflict with the United States.⁷⁶ The United States, in turn, has developed an updated AirSea Battle Concept (ASBC) for responding to anti-access/area denial capabilities (A2/AD) such as those fielded by China and Iran; if a conflict between the United States and Iran ever came to pass, China would be able to use it to gauge how the U.S. ASBC would work in practice.

While some observers have speculated that China may eventually establish a formal defense relationship with Iran, perhaps with an eye toward leasing naval facilities that could help the People's Liberation Army Navy (PLAN)'s secure the sea lanes used by China to obtain

⁷³ Dorraj and Currier, 2007; Mazza, 2011.

⁷⁴ Calabrese, 2006; Garver, 2007.

⁷⁵ Garver, 2007.

⁷⁶ Garver, 2007.

energy from the Middle East, this seems unlikely, at least for the foreseeable future.⁷⁷ At present, China has no formal overseas military installations and has stated that it will not seek such, though some People's Liberation Army (PLA) analysts and officers have begun debating the need for such facilities if China's military power is to ever match its economic standing.⁷⁸ Still, it is difficult to imagine a formal, legal, and publicly acknowledged Chinese-Iranian defense alliance, given the negative implications such an arrangement would likely entail for China's relations with the United States, the Arab world, and Israel.

Many Chinese analysts nonetheless favor maintaining close relations with the Islamic Republic, partly based on their belief that Iran will view China's rise as a nonthreatening development and will seek to support it. These analysts also tend to believe that a Middle East dominated by Iran could benefit Chinese national interests. Chinese-Iranian geopolitical cooperation could, of course, continue to grow in the future even if the two countries never sign a formal mutual defense treaty. Such cooperation may be specifically aimed at countering what both perceive to be U.S. "hegemony." As one Chinese analyst has argued,

as our country's overall national strength continues to increase and as the trend of [our] peaceful rise grows ever stronger, Sino-Iranian relations can begin to tilt ever more in a strategic direction, seeking to raise our political influence and efficacy in international affairs through the strengthening of our relations with Iran, with the ultimate goal being to find the appropriate balance between practical outcomes and strategic aims.⁷⁹

Thus, even while recognizing the inherent limits of the relationship, such analysts perceive ties with Iran as contributing materially to the growth of China's overall influence and strategic weight in international affairs.

At the same time, Chinese analysts also express the belief that it is essential to avoid antagonizing Iran. Were China to get into a political disagreement with Iran over its nuclear program, the result could be, as one analyst writes, "reflected in [the two countries'] economic relationship . . . and oil [exports] could be cut off."⁸⁰

It is also common for Chinese analysts to encourage Beijing to link cooperation with Washington on Iran opportunistically to U.S. weapon sales to Taiwan, in an attempt to extract maximum leverage from China's ties to Iran.⁸¹

Even as they see many reasons to support Iran, some Chinese observers are concerned that a stronger and more threatening Iran may spark a confrontation with the United States in the Persian Gulf, which could prove disastrous for Chinese interests. Iran's threats to close the Strait of Hormuz have reinforced these anxieties, though Chinese commentators tend to blame the United States for the potential closure of the strait.

⁷⁷ Flynt Leverett and Hillary Mann Leverett, "Towards a Russia-China-Iran Military Alliance?" *Global Research*, February 8, 2010; Kaveh L. Afrasiabi, "A China Base in Iran?" *Asia Times*, January 29, 2008.

⁷⁸ China is considering an offer from the Seychelles to establish a naval resupply station on its territory for China's counter-piracy mission off the coast of Africa. Reuters, "China Considers Seychelles Port Offer, Denies Base Plan," December 13, 2011.

⁷⁹ Chen Junhua [陈俊华], "An Analysis of the Special Characteristics and Strategic Significance of China-Iran Relations in the New Era," *World Regional Studies* [世界地理研究], Vol. 18, No. 3, September 2009.

⁸⁰ Wang and Xia, 2010, pp. 58–60.

⁸¹ Mazza, 2011.

Other Chinese analysts manage to find a silver lining in this dark cloud, arguing that a confrontation between Iran and the United States might not be an entirely bad thing for China, because the end result of such a conflict would be an America so distracted, bogged down, exhausted, and/or bankrupted that it would be incapable of focusing on containing the growth of Chinese power in Asia, thus paving the way for China's eventual arrival as a true superpower. Such analysts can draw inspiration from prominent Chinese foreign policy analyst Wang Jisi, dean of the Peking University School of International Studies, who has argued that the U.S. war with Iraq benefited China because "It is beneficial for our external environment to have the United States militarily and diplomatically deeply sunk in the Mideast to the extent that it can hardly extricate itself."⁸² Similarly, Renmin University professor Shi Yinhong has recently argued that "Washington's deeper involvement in the Middle East is favorable to Beijing, reducing Washington's ability to place focused attention and pressure on China."⁸³ Indeed, a U.S. conflict with Iran could place substantial limitations on the Obama administration's declared "pivot" back to the Asia-Pacific. At the same time, a U.S.-Iranian conflict in which China was seen to have tacitly backed Iran up to the brink of war and then backed away from the regime at a critical moment could carry implications for China's credibility with other states that tend to lean heavily on Chinese assistance, such as North Korea and Pakistan.

Some Chinese analysts appear to believe that the PRC's growing ties with Iran could serve as a hedge to prevent Iran from falling into the U.S. orbit in the future, especially if the Islamic Republic is overthrown and replaced by a more pro-American government.⁸⁴ China's goal appears to be a long-term, broad, and deep relationship with Iran that could survive even a democratic transition in Tehran. Such a close partnership would take on even greater importance for Beijing if Pakistan were to collapse into anarchy. While some Chinese observers dismiss assertions that China is trying to build an all-weather relationship with Iran, it does appear consonant with the long-term direction of China's policies toward building support for and acceptance of the country's rise.⁸⁵ China's relationship with Iran aims at strengthening and preserving the regime while tightening its linkages to China in numerous arenas so that Iran views China as a friendly power.

Chinese foreign policy analysts also encourage Chinese policymakers to realize that "using the positive factors present in the US-Iran conflict to expand [our] international influence is [China's] wisest choice" and urge PRC firms to "strive to grab more opportunities to invest in Iran; use investments to further trade; and use investments in exchange for oil."⁸⁶ Other Chinese observers, even while noting that ties with Iran are not likely to rise to the level of importance of those with the United States, Japan, Russia, or the European Union, nonetheless argue that ties with Iran contribute materially to the growth of China's overall influence and strategic weight in international affairs and help to block a potential adversary, the United States, from dominating the strategically important Middle East.

⁸² Cited in Mazza, 2011.

⁸³ Shi Yinhong, "How the Middle East's Uprisings Affect China's Foreign Relations," *EastAsiaForum*, May 17, 2011.

⁸⁴ Wang and Xia, 2010.

⁸⁵ Author's interview of Shanghai-based academic, April 8, 2011.

⁸⁶ Xue Jingjing [薛静静], Yang Xingli [杨兴礼], and Liang Yantao [梁艳桃], "China-Iran Oil Trade Risks and Responses," *Practice in Foreign Economic Relations and Trade* [对外经贸实务], No. 1, 2011, p. 29.

12. Diverging Interests Limit Chinese-Iranian Cooperation

Despite their energy cooperation, trade, and shared geopolitical interests, Iran and China have potentially divergent interests on a number of issues, possibly limiting the scope of their future cooperation. Although China and Iran may appear united on their opposition to U.S. “hegemony,” their respective interests vis-à-vis the United States differ greatly. China relies on the United States for economic growth, whereas Iran is almost completely cut off from the U.S. economy and faces increasingly harsh U.S.-organized international sanctions. As such, China’s ability to express its dissatisfaction with the United States is limited by its desire to maintain stable trade and investment relations with it. The Islamic Republic, on the other hand, poses a serious challenge to U.S. interests in the Middle East and beyond: It has provided direct support to insurgents fighting U.S. forces in Iraq and continues this policy in Afghanistan, though on a smaller scale, and Iran’s pursuit of a nuclear weapons capability is perceived by the United States as a direct threat to its national security interests.

The PRC and the Islamic Republic are both the creations of violent anti-Western revolutions, but China has also shed much of its revolutionary ideology on foreign policy issues. The Islamic Republic, in contrast, is still a revolutionary entity at heart, and opposition to the United States is a pillar of its claim to legitimacy. Similarly, Iran’s support for terrorist movements and insurgencies is viewed in China with some consternation, as it may set a dangerous precedent for Chinese minority groups chafing under Beijing’s rule. Iran’s efforts in creating a potential nuclear weapons capability also conflict with China’s official position opposing nuclear proliferation, a point recently reiterated by Prime Minister Wen Jiabao.⁸⁷ Still, some Chinese analysts appear to believe that a nuclear Iran would have advantages for China insofar as it would serve as a check on U.S. influence in the Middle East, and few express much anxiety that a nuclear-armed Iran would carry direct, negative implications for China’s own security.

While the more risk-averse elements of the Chinese political and foreign policy elites (those focused on the long-term accretion of national power) appear to view Iran’s overall behavior as posing some risks to China’s objective of maintaining a peaceful regional environment so as to facilitate continued economic development, Beijing appears unlikely to budge from its default approach of calling for further negotiations.⁸⁸ At the same time, China’s formal opposition to Iran’s nuclear program, its calls on Tehran to “show flexibility and sincerity and have earnest cooperation with the [International Atomic Energy Agency],”⁸⁹ and its negative reaction to Iran’s threats to close the Strait of Hormuz are all sources of discomfort to the Iranian leadership.⁹⁰

Chinese-Iranian economic ties have also created some backlash and dissatisfaction with the relationship among some Iranians. Increasing numbers of Iranians appear to perceive Iran’s economic ties with China as largely consisting of China buying Iranian oil, gas, and raw materials while flooding the Iranian market with low-priced and inferior Chinese manufactured

⁸⁷ Michael Wines, “China Leader Warns Iran Not to Make Nuclear Arms,” *New York Times*, January 20, 2012.

⁸⁸ On Iran’s status as the “more ardent suitor” and China’s role as the “more hesitant party,” see Garver, 2007.

⁸⁹ Reuters, “China Urges Iran to be Flexible on Nuclear Program,” November 4, 2011.

⁹⁰ “Wen Says China Against ‘Any Extreme Acts’ at Hormuz,” *Xinhua*, January 19, 2012.

goods at the expense of Iran's industrial development.⁹¹ The Ahmadinejad government has had to defend itself against accusations that it has allowed unrestricted imports that have damaged several Iranian industries, including the agricultural sector.⁹² Iran has also taken measures to block "cheap" Chinese imports.⁹³

Moreover, the Islamic Republic has traditionally restricted foreign ownership of its energy resources, which limits China's opportunities to acquire equity in Iranian oil. Additionally, foreign investors have historically experienced frustration with Iran's approach to international contract-making and business dealings, which regularly involve continuous rounds of contract negotiations and unimplemented business deals. Chinese investors are said to have found this every bit as frustrating as their Western and Japanese counterparts.⁹⁴

Furthermore, it is not clear whether China has the necessary technology and know-how to help Iran exploit its oil and natural gas resources to the fullest extent possible. Iran has been frustrated with China's pace in developing Iranian natural gas reserves; the Iranian government has even warned the China National Petroleum Corporation that it may cancel its \$5 billion contract to develop phase 11 of South Pars field if the Chinese firm does not accelerate its pace of exploration.⁹⁵

The close Chinese-Iranian relationship could also be put at risk if Iran undergoes a major political transformation. A more democratic and secular Iran may resent China's support for the repressive Islamic Republic. Much will depend on Iran's future relationship with the United States. Continued hostility between the two could enhance Chinese influence in Iran, whereas normalization of U.S.-Iranian relations could translate into significantly less Chinese influence in Iran and perhaps throughout the Middle East if American, European, and other East Asian companies begin to compete with China for contracts in Iran once more. Furthermore, a more open and democratic Chinese government, were one to come about in the future, may view a close relationship with Iran as less attractive, allowing the mobilization of greater international pressure on the Islamic Republic regarding the nuclear program.

The Chinese-Iranian partnership may be stronger than Iran's relationship with Russia, but it is not a partnership based on special cultural, religious, or ideological affinity, and it is therefore strongly affected by international and domestic Iranian and Chinese circumstances. Changes in both nations, and their relations with the United States, can fundamentally change the nature of the Chinese-Iranian relationship and provide a strong point of leverage for U.S. policy.

⁹¹ Calabrese, 2006.

⁹² Tabnak News, "Baresi e vazir pishnehadi e bazargani [The Investigation of the Nominated Minister of Commerce]," August 31, 2009.

⁹³ "Iran Blocks Cheap Chinese Imports," *PressTV*, July 10, 2011.

⁹⁴ Loretta Chao and Chuin-Wei Yap, "Business Tensions Play Out Between China and Iran," *Wall Street Journal*, December 23, 2011.

⁹⁵ Mehr News Agency, "Iran May Cancel \$5b Gas Deal with China," June 17, 2011.

13. Conclusion and Policy Options

Relations between Iran and China have broadened and deepened relatively consistently over the past three decades, overcoming the obstacles posed by ideology, differing geostrategic interests, and changing leadership priorities. One implication of this assessment is that, barring major disruptive changes, such as a military confrontation between Iran and the United States, relations between Beijing and Tehran are likely to continue to steadily grow closer or at least remain stable.

Opposition to U.S. “hegemony” and some shared antipathy toward the West over its efforts to promote democracy and human rights unite Beijing and Tehran. Leading politicians and state functionaries from both China and Iran believe that their countries have their own unique histories and cultural values and a level of sophistication that gives them the right to determine their own social system and development model, irrespective of foreign criticism. Iran supports China’s stated right to govern its people as the Chinese Communist Party sees fit, while China supports Iranian sovereignty, which often translates into its right to suppress opposition groups.

It is unlikely that the United States will be able to fundamentally reshape either Iran’s or China’s interests. Washington’s leverage with Iran is fairly limited due to the lack of diplomatic and political ties, and increased U.S. pressure on Iran has the potential to drive Tehran further into Beijing’s arms.

The United States has greater leverage over China and may have policy options that could convince Beijing to at least reduce its cooperation with and commitment to Iran. These include offering enhanced cooperation between China and the United States across a range of issues of importance to China; applying diplomatic pressure on China while sanctioning Chinese firms that invest in Iran; encouraging energy producers other than Iran to increase petroleum exports to China, thereby altering Beijing’s relative dependence on Iran; and building a global coalition of partners that would put pressure on China to not undermine efforts to sanction Iran.

The United States has attempted to improve relations with China; one reason for this has been to weaken China’s relations with Iran. The United States has also attempted to frame the Iranian nuclear program as an issue of mutual concern and argue that it is in China’s own interest to cease cooperation with Iran so as to lend credibility and weight to the sanctions regime.

However, given China’s interests regarding Iran, any inducements meant to separate Beijing from Tehran would have to be quite substantial. Possible options include dramatically raising the level of cooperation in U.S.-China relations; demonstrating greater acceptance of China’s role in world affairs and perceived national security interests, such as its position on the South China Sea; cooperation with Beijing on cross-Strait issues; and providing continued or greater access to U.S. high-technology exports.

The United States has been open to improved relations and greater cooperation with China for many years. For example, in early 2005, Deputy Secretary of State Robert Zoellick gave a major policy speech seeking to reframe the U.S.-China relationship in which he stated that the United States welcomed China’s role as a “responsible stakeholder,” explicitly tying U.S. assessments of the “seriousness of China’s commitment to nonproliferation” to its “actions

on Iran's nuclear program."⁹⁶ Additionally, some have proposed that the United States offer Beijing the opportunity to form a "Group of 2" nations that would manage global challenges, such as ensuring the health of the world economy and addressing the nuclear proliferation challenges posed by North Korea and Iran.⁹⁷

Under the Obama administration, the United States has acknowledged China's "core interests" in the November 2009 Joint Statement issued during President Obama's visit to China, while eliciting a promise from Beijing that, together with the United States, it would call on Iran to "engage constructively with the P5+1 [China, France, Germany, Russia, the United Kingdom, and the United States] and to cooperate fully with the IAEA [International Atomic Energy Agency] to facilitate a satisfactory outcome."⁹⁸ In September 2010, National Security Advisor Tom Donilon and National Economic Council Director Larry Summers delivered a similar message of U.S. openness to expanded cooperation if China would work with the administration on such issues as currency revaluation, North Korea, and Iran.⁹⁹ Indeed, acceptance of China's greater role in world affairs, including management of the proliferation question, was a key feature of the Obama administration's initial policy outreach to Beijing and formed the centerpiece of both the administration's proposal for a Strategic and Economic Dialogue and the 2009 Joint Statement.

Unfortunately, efforts to reassure Beijing that Washington acknowledges its importance and accepts it as a critical player in world affairs do not appear to have been sufficient to win its cooperation on Iran and may indeed have backfired, as they were perceived by some Chinese analysts as a plot to get Beijing to carry Washington's water for it, while other Chinese observers saw these as a sign of Washington's weakness and need for China's help, thus encouraging Beijing to drive an even harder bargain.

If merely welcoming China to play a greater role in international organizations and world affairs and acknowledging China's core interests is not enough, perhaps a more substantial outreach on Taiwan might convince Beijing to reduce its cooperation with Iran. A number of analysts and observers have suggested adopting such a policy in the past two years, suggesting that Washington start "treating China as a friend";¹⁰⁰ that the U.S. build better relations with China by supporting the "Finlandization" of Taiwan, through steps such as "significantly" scaling back on arms sales to the island;¹⁰¹ and that American foreign policy should begin "backing away from its commitment to Taiwan."¹⁰²

Analyses arguing in favor of extending greater "trust" to China and advocating linking Chinese cooperation on Iran to U.S. abandonment of Taiwan have not explained how U.S. officials can simply "trust" Beijing when many of its actions appear to American observers to be both threatening and contrary to U.S. interests and values. Likewise, advocates of "Finland-

⁹⁶ Robert B. Zoellick, "Whither China: From Membership to Responsibility?" remarks to the National Committee on U.S.-China Relations, September 21, 2005.

⁹⁷ Zbigniew Brzezinski, "The Group of Two That Could Change the World," *Financial Times*, January 14, 2009.

⁹⁸ The White House, Office of the Press Secretary, "U.S.-China Joint Statement," November 17, 2009.

⁹⁹ Abby Philip, "Larry Summers's Tough Words for China," *Politico*, September 5, 2010.

¹⁰⁰ Bill Owens, "America Must Start Treating China as a Friend," *Financial Times*, November 17, 2009.

¹⁰¹ Bruce Gilley, "Not So Dire Straits," *Foreign Affairs*, Vol. 89, No. 1, January/February 2010, pp. 44–60.

¹⁰² Charles Glaser, "Will China's Rise Lead to War? Why Realism Does Not Mean Pessimism," *Foreign Affairs*, Vol. 90, No. 2, March/April 2011, pp. 80–92.

izing” or reducing U.S. defense assistance to Taiwan overlook the fact that the U.S. executive branch is bound by the Taiwan Relations Act of 1979 (Pub. L. 96-8) to support Taiwan.¹⁰³ As such, the United States policy could not legally “trade” Taiwan to China in exchange for cooperation on Iran unless Congress were to repeal the act, a step it is unlikely to take.

Another inducement for China to reduce cooperation with Iran might be to liberalize U.S. trade restrictions on high-technology goods and defense articles. China would very much like to gain access to sensitive military and industrial technologies, which could help further its defense and economic modernization drive. However, the lifting of restrictions on sensitive defense technology exports to the PRC could greatly benefit a country routinely identified by U.S. analysts as the only possible “near-peer competitor” capable of one day matching U.S. military power. Moreover, the executive branch would bump up against the congressionally mandated restrictions on defense technology exports to China that were enacted after the 1989 Tiananmen Square massacre. At present, Congress does not appear willing to lift such restrictions.

If carrots are out, what about sticks? It seems reasonable to think that the United States might consider the use of punitive measures against China if positive inducements, which are mostly politically unpalatable, appear unlikely to succeed. This would include sanctions against Chinese defense and energy firms conducting business with Iran.

Because punitive measures against Chinese firms entail trade-offs for the broader U.S.-Chinese relationship, any sanctions should be crafted in such a way as to preserve the possibility of inducing cooperation rather than encouraging confrontation. As Erica Downs and Suzanne Maloney have noted, the United States could “fall into an unintended trade war with China or see relations between the two countries deteriorate” in the absence of a carefully crafted strategy for how to deal with China on the Iran issue.¹⁰⁴ If not well calibrated, China may take actions in response to any U.S. sanctions by reducing its cooperation on North Korea, cutting off military-military ties again, or attempting to punish U.S. firms operating in China.

To mitigate these risks, the United States is sanctioning Chinese firms in a piecemeal fashion rather than moving quickly to punish a large number of firms at the same time. In 2010, China and the United States agreed that Washington would not sanction Chinese energy development firms for their previous investments if they agreed to make no further investments.¹⁰⁵ The United States has also threatened to sanction Chinese banks over their payments to insurance firms dealing with Iranian shipping.¹⁰⁶

Recently, the United States announced it would apply sanctions to Chinese state energy trading firm Zhuhai Zhenrong over that company’s sale of refined petroleum products into

¹⁰³The act specifically considers

any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States . . . [and to] make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability. (Pub. L. 96-8)

¹⁰⁴Erica S. Downs and Suzanne Maloney, “Getting China to Sanction Iran,” *Foreign Affairs*, Vol. 90, No. 2, March/April 2011.

¹⁰⁵See Slavin, 2011; also see Matthew Lee, “US Sanctions Slew of Companies on Iran Trade,” Associated Press, May 24, 2011; Reuters, “Exclusive: China Curbs Iran Energy Work,” September 2, 2011. Note that the sanctions applied to Zhuhai Zhenrong were for its sales of refined petroleum products to Iran, not for investments in Iranian energy development.

¹⁰⁶Agence-France Presse, “US Threatens Sanctions on China Banks Over Iran,” September 28, 2011.

the Iranian market. This move has not yet resulted in the Chinese government doing more than expressing its “strong dissatisfaction and adamant opposition” to the “unreasonable” U.S. sanctions, but it could contribute to worsening bilateral relations between Washington and Beijing.¹⁰⁷

The United States has also encouraged friendly oil-producing countries, such as Saudi Arabia, to export more oil to China in an effort to reduce the PRC’s dependence on Iranian oil.¹⁰⁸ Initially, Chinese oil imports appeared to shift somewhat from mid-2009 onward as the United States urged Saudi Arabia to export more oil to China in order to wean it off of Iranian oil (see Table 13.1). However, according to media reports citing official Chinese statistics, PRC imports of Iranian crude oil rose more than 31 percent in 2011, to 560,000 barrels per day, suggesting that Beijing’s shift away from Iranian oil in 2010 was only temporary and was more than made up for by expanded sales in 2011.¹⁰⁹ China’s purchases of Iranian oil under direct contract did decrease in January 2012, but it remains to be seen if this is a temporary occurrence rather than a long-term trend.¹¹⁰ Still, initial signs in 2012 appear to be that Beijing is cutting back on its purchases of Iranian crude and turning to other sources, even as its overall crude imports soar.¹¹¹

Table 13.1
China’s Crude Oil Imports, by Source, 2009–2010

Country	2009 Imports (thousands of barrels per day)	2010 Imports (thousands of barrels per day)	Difference
Saudi Arabia	839	893	54
Angola	644	788	144
Iran	463	426	-37
Oman	233	317	84
Russia	306	284	-22
Sudan	244	252	8
Iraq	143	225	82
Kuwait	142	197	55
Kazakhstan	120	184	64
Brazil	–	151	–
Libya	127	148	21
Venezuela	105	–	–
Others	711	922	211

SOURCE: FACTS Global Energy, 2011.

¹⁰⁷“China Angry at US Sanctions on Oil Firm Zhuhai Zhenrong,” *BBC News*, January 15, 2012.

¹⁰⁸Author’s interview, Shanghai-based academic, April 8, 2011.

¹⁰⁹“China Rejects Linking Trade and Iranian Nukes Ahead of Geithner Visit to Lobby for Sanctions,” *Washington Post*, January 9, 2012.

¹¹⁰Christopher Johnson, “Iran Sanctions Already Hitting Oil Trade Flows: IEA,” Reuters, February 10, 2012.

¹¹¹Reuters, “China Crude Spree to Last Into March, April Easing,” March 13, 2012.

In general, China's imports of Iranian crude have grown despite the fact that international sanctions against Iran have made payments by China more difficult, forcing the two countries to find ways around this through barter trade.¹¹² China's continued economic expansion, combined with the high intensity of Chinese growth, is helping to fuel its demand for overseas energy.

In all likelihood, the failure of U.S. efforts to reshape China's approach to Iran reflects the fact that Beijing's relationship with the Islamic Republic is multifaceted and has moved beyond energy ties. As John Garver has argued, changing China's "long standing policy [approach on relations with Iran] is probably very difficult."¹¹³ Indeed, a change in China's policy may require something as dramatic as a change of regime in Beijing or a major upsurge in the level of confrontation between Washington and Tehran, such that it becomes too costly for Beijing to pursue strong ties with Iran.

In the absence of such changes, China is likely to continue to oppose sanctions against Iran while supporting engagement and dialogue, which have thus far failed to resolve the nuclear impasse. In addition, China will most likely seek to delay and/or dilute any future sanctions against Iran by the United Nations as much as possible. A particular emphasis on a "diplomatic solution" may indicate the Chinese government's willingness to let the nuclear issue simmer, as long as it does not lead to full-scale conflict between Iran and the United States (and perhaps Israel).

In sum, the U.S. ability to fundamentally reshape China's relationship with Iran through positive or negative inducements is fairly limited, though Washington does have some levers. China's perception that it is moving toward an intensifying rivalry with the United States, together with its deep economic involvement with Iran, give Beijing reason to maintain its cooperative relationship with the Islamic Republic and possibly even broaden and/or deepen relations in the future.

At the same time, if Chinese leaders come to perceive the risks of conflict between the United States and Iran as too great, they may begin to dial back China's exposure to Iran so as to minimize the risks to Chinese investments. Alternatively, if U.S.-Chinese tensions grow, cooperation on Iran, including a freeze on new investment or a drawdown in oil imports, could be one way that Beijing might seek to improve relations with the United States at Iran's expense. While Beijing will not formally or fully support strong international sanctions on Iran, it could begin to downplay its relations in ways that are less visible and pose less risk to long-term Chinese-Iranian relations but nonetheless carry strategic implications.¹¹⁴

Finally, potential social and political changes in Iran or China could lead one or both actors to dramatically reevaluate the bilateral relationship. As noted previously, the interests of Iran and China do not always coincide. In addition, neither country is destined to remain an authoritarian state forever. Democratic forces in either country could precipitate the emergence of a more democratic and secular Iran that may not seek nuclear weapons or a China less hostile to U.S. interests because it is not governed by a one-party communist dictatorship. Of course, such changes may come slowly and are hardly guaranteed. In the meantime, the United States should continue to deploy a set of national and international strategies to try to

¹¹²Najmeh Bozorgmerh, "China and Iran Plan Oil Barter," *Financial Times*, July 24, 2011.

¹¹³Garver, 2007.

¹¹⁴"China Expected to Resist Oil Shift," *Wall Street Journal*, January 10, 2012.

prevent an Iranian nuclear weapons capability and use a combination of bilateral and multilateral diplomatic pressure and incentives to convince China to reduce ties to Iran.

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