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OCCASIONAL PAPER

China and Iran

Economic, Political, and Military Relations

Scott Harold • Alireza Nader



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The research described in this report was conducted within the RAND Center for Middle East Public Policy (CMEPP) under the auspices of the International Programs of the RAND Corporation.

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Published 2012 by the RAND Corporation
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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.