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## CHINA AND IRAN: Mismatched Partners

BY JOHN CALABRESE

China and Iran are important geopolitical actors as well as major players in the global energy market.<sup>1</sup> In recent years, the Sino-Iranian relationship has broadened and deepened. Energy cooperation is the main axis around which this partnership revolves. As a result, China is a stakeholder in the outcome of the diplomatic crisis that has been brewing over the Iranian nuclear program. The relationship between China and Iran deserves careful scrutiny, not the least because their strategic motivations remain ambiguous and their dealings with each other lack transparency.

Yet this relationship is poorly understood. To be sure, a number of journal articles on Sino-Middle Eastern relations have been published in recent years. Several outline China's interests and activities in the Middle East,<sup>2</sup> while a handful cover a single aspect such as China's weapons sales in the region.<sup>3</sup> Still others focus on the growing commercial links between China and Middle Eastern countries in the energy sector.<sup>4</sup> However, very little has been written specifically about China and Iran.<sup>5</sup> When, from time to time, the Western press has taken the pulse of Sino-Iranian relations, these stories have seldom placed in context and explored from the vantage points of *both* actors the latest steps forward in Sino-Iranian cooperation. This has tended to yield an incomplete, if not distorted picture of their scale and significance.

The development of Sino-Iranian relations over the past two decades is part of the steady expansion of ties between China and the wider Middle East, and more broadly, between the countries of East and West Asia. At the same time, the Sino-Iranian relationship has distinctive origins and characteristics, not to mention potentially far-reaching implications. The relationship is rooted in shared historical experiences, in common outlooks and concerns about the current



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state of international and regional affairs, and in overlapping interests. But how extensive are the ties that bind China and Iran together? To what extent are Chinese and Iranian interests and perspectives congruent? Are China and Iran on a path towards establishing a full-blown strategic partnership aimed at countering the United States?

## CIVILIZATION, IDENTITY, AND POWER

Sino-Iranian relations spring from deep historical roots. China and Iran are the heirs to two great civilizations and centers of empire. During pre-Islamic times, Han envoys established contacts with the Parthians and later the Sassanids, laying the foundation for lucrative commercial ties between China and Persia. In Islamic times, the Silk Road served as the main thoroughfare through which Sino-Iranian cultural and trade relations flourished.

At every opportunity, officials from both countries invoke this ancient past relationship. These references should not be dismissed as empty rhetoric, for they are indicative of the way that in China as well as in Iran, history and culture inform present-day conceptions of both nations their view of their own power and status in the world. In this regard, the ancient Silk Road is associated with their respective past great achievements and wide-ranging influence. The determination to kindle their relationship with each other, therefore, reflects a common desire to recreate the past, not just commemorate it.

The past is also relevant insofar as both countries' historical experiences with other major players are concerned. Historical wounds, expressed in a profound sense of victimization and vulnerability, are deeply ingrained in Chinese and Iranian national consciousness. This is manifested in their commonly held preoccupation with issues of sovereignty and independence, in their desire to reclaim status and influence on the world stage, and in their aim of building a "just" international order (i.e., one not dominated by a hegemonic power). In short, what might be referred to as a "kinship of nationalisms" pervades the present-day Sino-Iranian relationship.

Yet it is important to emphasize that these affinities have never been potent enough to drive the relationship forward or to insulate it from the impact of divergent strategic outlooks or priorities. It is worth recalling that, in the contemporary era, Sino-Iranian relations have not always been cordial. During the 1950s and 1960s, Cold War strategy and politics trumped Third World solidarity. In 1955, Iran joined the Baghdad Pact, and the next year, established official ties with Taiwan, becoming progressively integrated into the Western regional security system. In the early 1960s, Beijing sheltered a faction of the Iranian communist Tudeh Party in Beijing.

Nevertheless, even during this period, Sino-Iranian relations were not overtly hostile. Beijing supported Iran's nationalization of the energy industry in 1951 and Prime Minister Muhammad Musaddiq's nationalist-populist agenda. In the lead up to the Bandung Conference in 1955, China sought, through the good offices of Pakistan, to open a friendly dialogue with Iran—an overture that the Shah of Iran nevertheless rebuffed. Though providing a refuge for Tudeh communists, Beijing held their activities closely in check. And from as early as 1960, China began to purchase modest quantities of crude oil from Iran.

A warming trend in Sino-Iranian relations began in the mid-1960s, against the backdrop of the Sino-Soviet split and incipient détente between the United States and Soviet Union. During this period, Beijing's outreach to Asian and African countries intensified. Meanwhile, the Shah sought to gain a greater degree of independence from the superpower rivalry by developing a wide array of external relationships. The major turning point in Sino-Iranian relations came in 1971 with the Shah's decision to recognize Beijing as the sole legal government of China, leading to the establishment of diplomatic relations.<sup>6</sup>

Thereafter, Iranian and Chinese interests began to converge, with Moscow emerging as a common

enemy.<sup>7</sup> China increasingly viewed Iran as a bulwark against Soviet ambitions in the Persian Gulf. The Shah of Iran, for his own purposes, willingly assumed this role. And for a time, China and Iran shared with each other, and with the United States, the strategic aim of countering the Soviet Union. During the 1970s, Sino-Iranian economic relations expanded but at a moderate pace. Trade climbed steadily, and Iran offered modest amounts of development assistance to China.<sup>8</sup>

Relations between China and Iran during the 1980s were framed by four important developments: (1) the political ascendancy of Deng Xiaoping and the launching of the Four Modernizations, (2) the normalization of relations between China and the United States, (3) the Iranian Revolution and the subsequent establishment of the Islamic Republic, and (4) the transformation of the U.S.-Iranian relationship from that of strategic allies to enemies. As a result, Chinese and Iranian domestic and external policies sharply diverged. China, emerging from the Cultural Revolution, embarked on a bold effort to open up its economy, invoked the principles of peaceful coexistence, and declared an “independent” foreign policy while maintaining a stable relationship with the United States. In contrast, the Islamic Republic of Iran exuded militant religious ideological fervor, embraced populist slogans and statist economic policies, waged a debilitating war with Iraq, and remained locked in a hostile relationship with the United States.

Given these differences, it seems remarkable that Sino-Iranian relations followed a positive trajectory. Yet, in Beijing’s initial response to the Iranian Revolution, one can find what has been a consistent and ultimately effective approach to dealing with Tehran. While China considered the seizure of the U.S. Embassy and American diplomats as a violation of international law and supported the UN Security Council resolution that called for their immediate release, it abstained from the vote to impose sanctions on Tehran. Thereafter, a combination of Iranian pragmatism and Chinese opportunism kept the relationship moving forward. The relationship was anchored in China’s sale of conventional arms and ballistic missiles to Iran.<sup>9</sup> It is noteworthy that the Islamic Republic of Iran struck these deals in spite of its hostility to “godless communism” and Beijing’s heavy-handed treatment of the Uyghur Muslim minority. Similarly, the Chinese leadership, wary of Iran’s fundamentalist Islamic message, nonetheless found it more prudent to engage than to confront Tehran, and sidestepped the issue of theocratic rule.

The Sino-Iranian commercial relationship progressed in spite of the two countries’ sharply diverging domestic political orientations. Nonetheless, the arms sales dimension of the relationship placed it squarely at the center of regional and global geopolitics. Here, the United States was the key actor, intent on isolating Iran and blunting the power of the Islamic revolution on the one hand, and seeking to prevent Beijing from establishing a foothold in the Middle East and from subverting U.S. non-proliferation goals on the other.

During the early 1990s, Iran faced pressing economic reconstruction needs, compounded by an acute foreign-exchange crisis and a severe deficiency in the level of domestic investment. To meet this challenge, Tehran introduced limited economic reforms that, among other things, facilitated the growth of low-cost imported industrial inputs. Meanwhile, Iran increased its oil production, generating much-needed export revenues, though at the cost of deepening the economy’s dependence on oil. On the international front, by the mid-1990s, Iran’s attempts to extend its presence and influence in Central Asia had proved largely unsuccessful. Relations with Western Europe sharply deteriorated, marked by the April 1997 suspension of the European Union’s (EU) “critical dialogue” with Tehran. The net effect of these developments was to reinforce Iranian efforts to look to East Asia for business partners and for political support.<sup>10</sup> This same period in 1993 marked the point when China became a net oil importer, Chinese firms (eager to expand exports of household appliances and capital goods) began to penetrate Middle Eastern markets, and U.S.-China relations frayed, the low point coming with the 1995-1996 Taiwan Strait crisis. These developments drew China and Iran closer together.

It is important to emphasize that over the years, the United States has been the pivotal third party in Sino-Iranian relations, serving as both an enabling and a complicating factor. The U.S. arms embargo and economic sanctions against Iran have indirectly benefited China. Pressure by Washington on its Western

allies and the possibility that they might one day accede to it has reinforced Tehran's inclination to "Look East" for both commercial and strategic partners. The prohibition on U.S. companies from doing business in Iran has created space, particularly in the energy sector, which Chinese enterprises along with other foreign firms (e.g., BP, Royal Dutch Shell, and ENI) have competed with one another to fill. As the Sino-Iranian relationship has advanced, the Chinese economy has also become deeply enmeshed with that of the United States, complicating Beijing's relationship with both countries. By seeking to expand and protect its economic interests, China has run afoul of U.S. efforts to isolate Iran.

The residual militancy of the Iranian regime, 27 years after the revolution, has itself proven to be a complicating factor for China, which has sought to cultivate the image of having become a "responsible stakeholder" in regional and global affairs. This problematic aspect receded somewhat during the Khatami presidency (1997-2001), when Iranian foreign policy the "dialogue of civilizations," the rapprochement with Saudi Arabia and other Gulf Arab states, and the diplomatic outreach to Western Europe tracked closely with China's interests and approach.

More recently, from the Chinese vantage point, Iran's loosening of restrictions to attract foreign capital, coupled with the consolidation of political power by the Conservative faction has been encouraging insofar as it indicates political stability and commercial access. At the same time, however, the nuclear issue has presented the most serious test of the resiliency of Sino-Iranian relations. But before considering this matter, it is first necessary to examine the scale and scope of Sino-Iranian relations.

## INDIVIDUALS LEAD – INSTITUTIONALIZATION FOLLOWS

China's efforts to cultivate ties with Iran subsumed in its global hunt for access to natural resources, expanded overseas market shares, and political influence have propelled Sino-Iranian relations forward. Yet it would be inaccurate to ascribe all that has been accomplished to Chinese initiative. On the contrary, Iranian officials have taken determined, consistent, and effective steps to woo China.

On the Iranian side, key individuals have played an important role in spurring and maintaining the positive momentum in Sino-Iranian relations. These individuals, who were pivotal figures in the revolution and have had their hands on the levers of power for years, have become *stakeholders* in the development of the bilateral relationship. The most prominent among them is Ali Hashemi Rafsanjani. In June 1985, while serving as Speaker of the Majlis, Rafsanjani, accompanied by Mustafa Muhammad-Najjar then the head of the Iranian Revolutionary Guard Corps (IRGC) Military Industries Organization and now Defense Minister traveled to Beijing. Following the visit, China and Iran set up a mechanism for expanding economic ties and signed their first bilateral nuclear cooperation agreement. While president (1989-1997), Rafsanjani spearheaded efforts to involve Chinese companies in large infrastructure building projects and to replenish stocks depleted during the Iran-Iraq war by locking in major arms deals with China.

The efforts made by Rafsanjani and those undertaken during his stewardship as president received the strong endorsement of Iran's Spiritual Guide Ali Khamenei. On the occasion of Deputy Premier Tian Jiyun's March 1989 visit to Iran, then-President Khamenei remarked, "In cooperating with other countries, we prefer to deal with countries for which our nation does not harbor bitter memories."<sup>11</sup> Khamenei's trip to China two months later occurring at a low point in Iran's relations with the West (sparked by Tehran's response to the publication of Salman Rushdie's *Satanic Verses*) and less than a month before the Tiananmen Square massacre and the death of Ayatollah Ruhollah Khomeini was hailed in the Iranian press as a "turning point" in the relationship. Thus, in spite of being political rivals and differing with one another on a number of policy issues, Khamenei and Rafsanjani were united in their determination to develop ties with East Asia, and specifically with China.<sup>12</sup>

The strategy of Looking East (including towards China) served Rafsanjani's ambitious program to rebuild



the Iranian economy. A key element of this program was to rehabilitate the country's physical infrastructure. In October 1991, when then-President Yang Shangkun visited Iran, Rafsanjani invited Chinese companies to take part in the bidding for the Tehran subway project a showcase project that came to be identified with not only Rafsanjani's economic agenda but his personal political prestige and ambitions as well as his family's business interests. The following year, the contract was awarded to China International Trust and Investment Corporation (CITIC), whose principal local partner in the Tehran metro construction venture was a company run by Mohsen Hashemi, Rafsanjani's eldest son.<sup>13</sup>

Since 1990, numerous official visits have taken place, including trips to Beijing by Majlis Speaker Mehdi Karrubi (December 1991), Rafsanjani (September 1992), Vice President Hasan Habibi (August 1994), Foreign Minister 'Ali Akbar Velayati (July 1996), Defense Minister Mohammad Foruzandeh (August 1996), President Muhammad Khatami (June 2000), Foreign Minister Kamal Kharrazi (August 2003), Foreign Minister Manoucher Mottaki (October 2005), and President Mahmud Ahmadinejad (June 2006) have traveled to China; and trips to Tehran by Premier Li Peng (July 1991), President Yang Shangkun (October 1991), Defense Minister Qin Jiwei (June 1993), Foreign Minister Qian Qichen (May 1993), State Council Vice Chairman Hu Jintao (January 2001), President Jiang Zemin (April 2002), and Foreign Minister Li Xiaoxing (November 2004).<sup>14</sup>

Building on these visits, there is now a *constituency* in government, business and industry, and to some extent in society as well—with vested interests in the advancement of the Sino-Iranian relationship. Following Rafsanjani's 1985 trip, the two countries set up the Joint Committee on Cooperation of Economy, Trade, Science and Technology. Since then, there has been regular communication at the working level while the Committee has met in plenary on a dozen separate occasions. The construction of the China Business and Trade Center in Tehran is nearing completion. Delegations from the Iranian Majlis and Chinese NPC Foreign Affairs Committee have exchanged visits and views. In February 2000, the two foreign affairs ministries put in place a political consultation mechanism. Three years later, Bank Tejarat became the first Iranian bank to open a Beijing branch, offering consulting and other services aimed at attracting Chinese investment and expediting implementation of development projects in Iran.<sup>15</sup>

Iranian domestic politics—specifically, the struggle over how to ensure a tight grip on political power while invigorating the economy—has been, on the whole, conducive to the further consolidation of Sino-Iranian relations. In 2001, Ayatollah Khamenei reportedly sent several of his closest foreign policy advisors (including former Foreign Minister Ali Akbar Velayati and Deputy Foreign Minister Abbas Maleki) on a fact-finding trip to China. Thereafter, there emerged within the Iranian political spectrum a “centrist consensus” in favor of portraying (some variation of) the “China model” as a viable option for the Islamic Republic.<sup>16</sup>

In the commercial sphere, leading Chinese and Iranian firms, including some that report to or are otherwise linked to state institutions, have been engaged in multimillion-dollar commercial activities. On the Chinese side, these include major energy enterprises such as China Petroleum and Chemical Corporation (Sinopec) and China National Petroleum Corporation (CNPC) the former China's largest refining entity and the latter China's biggest oil producer along with the previously mentioned engineering and construction giant CITIC. They also include the conglomerate NORINCO, which is a major supplier of mechanical and electronic goods to Iran, the shipbuilding firm Dalian, the China Petroleum Engineering and Construction Corporation (CPECC) and the Great Wall Drilling Company (GWDC).<sup>17</sup> Meetings between senior directors and middle managers of such firms are today the norm rather than the exception.<sup>18</sup> Major conferences with participants spanning government and industry have also been held, such as the February 18-19, 2006 meeting in Kish on “Iran-China Cooperation: Opportunities and Challenges in the Field of Energy, Oil, Gas, and Petrochemicals.”

Contact and cooperation in business and government has permeated from the national to the regional and local levels. There are an estimated 250 Chinese companies engaged in various projects or else selling low-cost consumer products in Iran.<sup>19</sup> Key national figures, such as President Mahmud Ahmadinejad, have

had experiences earlier in their careers that have paved the way for subsequent interactions. At his first press conference after taking office, Mr. Ahmadinejad, reflecting on his own experience, acknowledged this, saying, “I know China very well. During my term of office as Tehran mayor, I had frequent contacts with many Chinese companies cooperating with us, through which I have become quite familiar with China and the Chinese people.”<sup>20</sup>

Contributing to the widening network of personal and institutional ties are new contact points. A noteworthy example is the Economic Cooperation Organization (ECO), into which Tehran has sought to breathe new life in recent years and where China holds observer status. Another example is the Shanghai Cooperation Organization (SCO), whose fifth summit, held in Beijing in July 2005, was attended by First Vice President Mohammad Reza Aref. At the most recent meeting in June 2006, President Ahmadinejad urged members to join Iran in forging closer energy links.<sup>21</sup>

Bolstering the progressive development of ties between China and Iran have been strides in language training, foreign language radio broadcasting, and study and research groups.<sup>22</sup> Tourism, too, is on the rise. Iran is on the Chinese government’s “golden list” of countries approved as tourist destinations. In 2005, Iranian Ambassador to China Fereidoun Verdi-Nejad announced that the embassy in Beijing and consulate in Shanghai would provide more convenient visa procedure services for Chinese citizens; and that the five airports in Iran would begin to issue one-week stay visas for tourists, without the latter needing to apply beforehand.<sup>23</sup> All in all, these developments have resulted in a relationship that is multidimensional consisting of a complex network of personalized and institutionalized cooperation that, as the next sections demonstrate, have yielded benefits for both countries.

## ECONOMIC COOPERATION – ENERGY FIRST

Energy cooperation is the backbone of the Sino-Iranian economic relationship, though economic ties have been forged in other areas as well.<sup>24</sup> Trade in crude oil is the core of energy cooperation. In 2005, Iran was China’s third-leading foreign supplier (behind Saudi Arabia), satisfying about 14% of its import requirements.<sup>25</sup> In January 2006, Iran replaced Saudi Arabia as China’s number one source of imported oil. With respect to the benefits accrued to China, it is worth noting that Iranian crude oil not only helps meet skyrocketing Chinese consumption needs, but helps contain rising import costs through the purchase of the relatively cheap, heavy (sulfur-rich) oil that is plentiful in Iran (and Saudi Arabia).

China’s growing appetite for natural gas in the form of liquefied natural gas (LNG) has provided a second energy link with Iran, which has an estimated 15% of the world’s natural gas reserves.<sup>26</sup> In March 2004, the state-owned Zhuhai Zhenrong Corporation (a spin-off of NORINCO) agreed to import 110 million tons of Iranian liquid natural gas (LNG) over 25 years, a deal worth approximately \$20 billion.<sup>27</sup> According to the terms of the Yadavaran project agreement, Sinopec has committed to the purchase of 10 million tons per year of liquefied natural gas (LNG) over a period of 25 years, beginning in 2009. Iran’s Deputy Oil Minister Hadi Nejad-Hosseini estimates that gas exports to China will gradually increase to 40 million tons per annum.<sup>28</sup>

A third area of cooperation in the energy sector is upstream and downstream development. Participation by Chinese companies in such projects is part of the internationalization of their business operations and part of their global effort to obtain equity stakes in production, thereby enhancing long-term energy security. In August 2000, CNPC won its first drilling contract in Iran (to drill 19 gas wells in southern Iran) the first project of its kind put on international tender since the Iranian Revolution.<sup>29</sup> The most significant breakthrough in this area is the widely reported preliminary agreement (reached in October 2004) between the National Iranian Oil Company (NIOC) and Sinopec to develop the Yadavaran oil field, whereby NIOC would sell 150,000 barrels per day (bpd) of crude oil to China at market prices over a period of 25 years when the field becomes fully operational.<sup>30</sup> In June 2005, CNPC won a bid to develop the Khoudasht oil

block in western Iran.

For Iran, engaging Chinese companies in these ventures stems from a mixture of motives. The main commercial objectives are access to much-needed foreign investment capital and technology. These objectives dovetail with the strategic imperative of locking in an economic partnership with a major world power that holds a permanent seat on the UN Security Council—a potentially useful lever in countering U.S. and Western pressure. The commercial benefits are evident in the June 2006 deal between North Drilling Company (NDC) of Iran and China Oilfield Services Ltd. (COSL), a CNOOC subsidiary, which signed an oil exploration agreement for management, repair, and maintenance of the Alborz semi-floating platform being built by the Iranian Offshore Industries Company. This partnership will enable Iran to drill for oil in the Caspian Sea at depths that it otherwise would not have been able to.<sup>31</sup> The political support derived from such cooperation, as the next sections make clear, has been significant but is neither open-ended nor necessarily permanent.

In pursuing energy deals in Iran, Chinese companies have shown the same propensity for accepting a high level of risk as they have in other markets. For example, in March 2006 Japan's largest oil refiner, Nippon Oil, announced the decision to cut oil imports from Iran by 15% in order to reduce its exposure to risk. Yet Chinese firms have continued to soak up Iranian crude oil and pursue new business deals in the energy sector.

A fourth area of cooperation is the upgrading of Iranian refineries and the enhancement of oil recovery. CNPC is engaged in an oil recovery and extraction project to increase the production of Iran's Masjed Soleiman field based on a buy-back contract.<sup>32</sup> Iran and China also signed a preliminary agreement to construct a gas condensates refinery in Bandar Abbas, aimed at raising the production of gasoline, which currently constitutes 56% of the refinery's output. The deal stipulates that Iran will own the gasoline produced at the refinery while China will export other outputs; and that Iran will assume ownership of the refinery after 25 years.<sup>33</sup>

China and Iran have found common ground in a fifth area—the construction of oil and gas pipelines. Chinese companies are involved in projects that will enable Iran to augment the volume of its swap deals. The Neka-Sari pipeline, built by a consortium of Chinese companies led by Sinopec and CNPC (completed in 2003) carries Russian crude oil shipped from the Caspian ports of Astrakhan and Volgograd from the Iranian port of Neka farther into Iran. Another pipeline being built with Chinese participation will carry oil from the Neka terminal to a refinery on the southern outskirts of Tehran in the municipality of Ray.<sup>34</sup> China has an interest in expanding Iran's oil/gas pipeline network quite separate from whether or not its own firms help to build them. Consistent with its aim to develop alternative supply delivery networks,<sup>35</sup> Beijing hopes to receive the necessary guarantees from Tehran to build an oil pipeline from the Caspian Sea, at a length of 386 km, to another pipeline in Kazakhstan that will be connected to China.<sup>36</sup>

China and Iran have been working separately and jointly to augment their capacity to handle the increased volumes of oil, gas, and refined products moving from the Persian Gulf to East Asia. For example, in order to support the growth of LNG imports from Iran and other suppliers, China is building receiving terminals at Guangdong, Shanghai, and Fujian. Meanwhile, China's main shipbuilding enterprises have won contracts to supply Iran with oil tankers. In 2000, for example, the Export-Import Bank of China (Eximbank) agreed to lend \$370 million to the state-owned conglomerates Dalian Shipbuilding Industry Corp and China Shipbuilding Trading Company, Ltd., which had been contracted to build five oil tankers for Iran. At the time, this was the largest loan made by Eximbank since it was founded in 1994. Dalian recently delivered to Iran a fourth wide-bodied 300,000-ton VLCC oil tanker.<sup>37</sup>

It is perhaps useful to furnish some context for understanding Sino-Iranian cooperation in shipbuilding. The penetration of the Iranian market by Chinese shipbuilding firms is part of their broader efforts to compete internationally.<sup>38</sup> Iran, which is seeking to expand its fleet of tankers and cargo vessels, appears to regard Chinese firms not just as welcome partners but seem inclined to privilege them over their competitors



in recognition of the fact that China is likely to become a major LNG customer. The National Iranian Oil Tanker Company (NITC) plans to order another 35 vessels to be built by 2010, including 10 liquefied natural gas carriers, a more complex ship that costs almost twice as much as crude-oil tankers. NITC Planning Manager Abdol-Samad Taagol gave some indication of the role that Chinese companies might play in this effort when he remarked, “We’ll give priority to Chinese shipyards if China is to become our biggest consumer of gas,” though adding that Iran had made “no firm commitment yet.”<sup>39</sup> In April 2006, the Islamic Republic of Iran Shipping Lines (IRISL) awarded an estimated \$180 million contract to Sino-Pacific Heavy Industries to build six 53,000 dwt carriers (with the option of building four more) at the latter’s Dayang shipyard in Yangzhou.<sup>40</sup>

In addition to cooperation in the energy and shipbuilding sectors, Chinese and Iranian enterprises are working together in metallurgy, manufacturing, and transportation. CITIC was awarded a \$935 million engineering, procurement, and construction (EPC) contract for the South Aluminum Corporation (Salco) aluminum smelter at Bandar Abbas.<sup>41</sup> China’s Metallurgical Construction Company (MCC), along with its local partner Greco, recently tendered a bid for a \$300 million contract to build the new Arfa steel plant at Ardakan near Yazd.<sup>42</sup> In partnership with the Khodro Group, Chery Automobile Company, Ltd. opened its first overseas production plant in China in February 2003. This plant manufactures 30,000 Chery cars annually.<sup>43</sup>

Chinese companies have also been active participants in infrastructure projects ranging from the construction of dams and power plants to urban mass public transportation systems. The Taleqan reservoir dam located just south of the Alborz Mountains was built and financed jointly by Chinese and Iranian companies. In December 2001, China’s Eximbank extended a loan to the China Machinery Equipment Import and Export Company (CMEIC) and Shanghai Electric Group to support construction of an electric power plant in Iranian Azerbaijan.<sup>44</sup> The Tehran subway project, mentioned earlier, was undertaken by the NORINCO subsidiary China Wanbao Engineering Company, along with the Electric Engineering Bureau of the Railway Ministry, China Railway Locomotive and Coach Industry Company, Zhuzhou Electric Locomotive Plant, and Changchun Coach Plant participating in the construction.<sup>45</sup> In May 2004, NORINCO won the contract to construct the fourth subway line in Tehran.

## MILITARY COOPERATION – THE NUCLEAR ISSUE AT THE FOREFRONT

Over the years, China has transferred a wide assortment of weapons systems to Iran. As previously mentioned, China gained a foothold in the Iranian market during the Iran-Iraq War. Following the war, two major deals were struck, the first in 1992 and the second in 1996. These agreements were the basis for China’s emergence as Iran’s second-leading supplier of conventional arms (after Russia) for the period 1995-2005.<sup>46</sup> But this ranking is deceiving, for arms supplied by China during this period represented just 18% of the total value of Iran’s arms imports. Moreover, nothing that China sold to Iran has affected the conventional military balance in the region. Indeed, most of Iran’s hardware is still Western vintage. More valuable than the weapons themselves have been China’s contributions in the form of scientific expertise and dual-use technologies to Iran’s indigenous arms manufacturing capability.<sup>47</sup>

There are three areas of Sino-Iranian military cooperation that have long concerned U.S. policymakers. The first is China’s assistance in the development of Iran’s asymmetric capability, specifically of the kind that could interfere with Gulf shipping and/or disrupt and damage American naval operations. In 1987, Iran purchased Chinese Silkworm anti-ship missiles. Iran subsequently acquired from China C-802 anti-ship missiles<sup>48</sup> whose power and accuracy Washington considered a threat to the U.S. fleet in the Gulf and reportedly also acquired fast-attack boats to carry these missiles.<sup>49</sup>

The second area of concern has been China’s sale of battlefield and cruise missiles and production technology to Iran. Over the years, pressure by Washington on China has appeared to pay dividends. In

1992, Beijing pledged to abide by the original 1987 Missile Technology Control Regime (MTCR) Guidelines and Parameters. Two years later, China banned the export of ground-to-ground missiles and all MTCR-class missiles. In 1995, then-Foreign Minister Qian Qichen pledged to Secretary of State Madeleine Albright to halt new sales of cruise missiles. Subsequently, President Jiang Zemin and Defense Minister Chi Haotian reportedly gave their personal assurances that sales of cruise missiles to Iran had halted and that China would not assist Iran in upgrading its current missile inventory.<sup>50</sup> In 2000, Beijing for the first time issued export control laws governing missile technologies.<sup>51</sup>

Nevertheless, concerns about proliferation practices have persisted. *The Washington Times* reported in 1997 that the China Great Wall Industries Corporation (GWIC) had furnished Iran with “guidance, and solid propellant motor technology,” and a year later, alleged that the same company had supplied “telemetry infrastructure” for the Shahab-3 and Shahab-4 missile systems.<sup>52</sup> American officials have repeatedly issued protests and in a number of instances have applied sanctions against specific Chinese firms.<sup>53</sup> NORINCO and GWIC, both of which (as demonstrated earlier) have wide ranging business interests in Iran, are regarded by U.S. officials as serial violators of Chinese pledges to halt the transfer of sensitive technologies to Iran. The former was the target of U.S. sanctions on three occasions in 2003 alone.<sup>54</sup> In the most recent instances, the U.S. Treasury Department imposed sanctions on several Chinese entities, including GWIC, for supplying parts and technology for the Fateh 110 missile and Fajr rocket systems.<sup>55</sup>

The third area of concern has been China’s trade and cooperation relationship with Iran in the nuclear field. China reportedly trained Iranian nuclear technicians in the mid-1980s and helped to build the nuclear research facility at Isfahan. China had also planned to sell two 300-megawatt pressurized water reactors, though the deal was suspended in late 1995.<sup>56</sup> Since mid-2002, however, the central issue has been not the extent of the material assistance that China may have provided to the Iranian nuclear program in the past but the political support that Beijing has extended, or might provide, to Tehran in the face of growing pressure primarily by the United States and its European allies.

Chinese officials at various levels have been actively engaged in nuclear diplomacy: working behind the scenes in the UN and IAEA to advance Chinese positions; joining with other major powers, as in the May 2006 meetings in Vienna to discuss how to achieve a breakthrough; and conferring by telephone, as in President Hu Jintao’s conversations with German Chancellor Angela Merkel and President George W. Bush. Chinese diplomats have consulted closely with their Iranian counterparts as well.<sup>57</sup> At critical intervals, Chinese and Iranian officials have shuttled between capitals. Foreign Minister Li Zhaoxing traveled to Iran in early November 2004 to discuss the nuclear issue.<sup>58</sup> Just prior to the November 25, 2005 meeting of the IAEA Board of Governors, Iran’s envoy, Hoseyn Musavian, was dispatched to China for discussions.<sup>59</sup> Chinese Foreign Minister Li Zhaoxing conferred with Iranian Deputy Foreign Minister Abbas Araghchi in Beijing shortly after the Western incentives package was presented to Iran in May 2006.<sup>60</sup>

Throughout this period, China’s nuclear diplomacy has rested upon three broad principles: (1) no intervention in the domestic affairs of another country, (2) no nuclear proliferation, (3) and no disruption of energy supplies from the Middle East. Beijing has sought to balance its interests in the nuclear standoff by emphasizing both Iran’s rights and obligations under the NPT. In their public remarks, Chinese officials have made explicit their opposition to Iran’s acquiring nuclear weapons and have repeatedly called upon Tehran to honor its treaty commitments and to cooperate fully with the IAEA.<sup>61</sup> At the same time, they have strongly endorsed Tehran’s position that, as an NPT signatory, Iran is entitled to access to nuclear technology and to nuclear energy for peaceful purposes.<sup>62</sup>

Chinese officials have been quick to praise instances of cooperation by Tehran, as noted in President Hu Jintao’s remarks following his meeting with then-Foreign Minister Kamal Kharrazi in Beijing in August 2003.<sup>63</sup> At the same time, however, Beijing has urged Iran to clarify the details of its program.<sup>64</sup> China has consistently maintained that negotiation through dialogue and consultations is the best way to resolve the issue.<sup>65</sup> Chinese Foreign Ministry spokesmen have frequently expressed support for European and Russian

diplomatic initiatives, welcoming them as “constructive proposals.”<sup>66</sup> As frequently, they have insisted that the Iranian nuclear issue be addressed within the framework of the International Atomic Energy Agency (IAEA), and by implication, *not* within the UN Security Council.<sup>67</sup>

Yet, during the past eight months, China has found itself caught in a cycle of escalating Iranian defiance and mounting Western pressure. The Chinese response to this development has been measured and cautious. When in January 2006 Tehran removed UN seals on enrichment equipment, triggering the EU-3’s decision to suspend talks, Chinese officials urged restraint and pledged to promote the resumption of diplomatic negotiations.<sup>68</sup> While having previously resisted the U.S.-led effort to transfer the Iranian nuclear dossier to the UN Security Council, in February 2006, Beijing cast its vote with the majority of the IAEA Board of Governors members in favor of referral. The next month, Beijing also fell into line with other UN Security Council members, agreeing to a statement of “serious concern” and a deadline for further action.

However, Beijing does appear to have drawn a red line—stopping short of endorsing economic sanctions or leaving open the door to the possible use of military force to gain Iran’s compliance. Beijing, which has seemed quite comfortable in having Russia play a proactive role in resolving the nuclear crisis,<sup>69</sup> joined with Moscow in blocking the U.S.-led attempt in May 2006 to introduce a Chapter VII resolution at the United Nations.<sup>70</sup> This blocking maneuver, conducted in tandem with Russia, had the salutary effect of providing a breathing spell during which Western countries could explore an alternative approach. Indeed, China welcomed the incentives package subsequently presented to Iran by EU High Representative for the Common Foreign and Security Policy (CFSP) Javier Solana, though Chinese Ambassador to the United Nations Wang Guangya noted that the United States should set no preconditions and later cautioned against setting arbitrary deadlines for Iran to give an official response.<sup>71</sup>

Iran’s aim *vis-à-vis* China has been rather clear and straightforward from the beginning to win Beijing’s support and thus divide the major powers. In contrast, China’s position stems from *several* considerations. Though protecting its burgeoning energy interests in Iran is arguably the most important, China’s other concerns should not be discounted. The first is China’s longstanding opposition to “power politics.” Following from this is Beijing’s aversion to levying sanctions and its steadfast refusal to endorse military force to resolve international disputes. The second is China’s sympathy and solidarity with Iran, a developing country, in the face of Western pressure. The third is the conviction shared with Russia and Europe that exerting too much pressure on Tehran is likely to backfire, resulting in either Iran’s withdrawal from the NPT or unilateral military action by the United States. The fourth is cultivating an image and reputation as a “responsible stakeholder” of the international community and keeping its relationship with the United States on an even keel. Related to this is the fact that China has come to accept global arms control and non-proliferation norms, having joined the NPT in 1992. Last but not least is Beijing’s desire to ensure that support for Iran does not compromise its relationships with Iran’s Arab neighbors, all of which live in the shadow of Iranian power and with which China has developed profitable relationships. Illustrative of this concern is China’s support for a nuclear-free Middle East, which was spelled out in the communiqué issued at the second Ministerial Meeting of the China-Arab Cooperation Forum in May 2006.<sup>72</sup>

## ASIAN IDENTITY – AN IDENTITY OF INTERESTS?

As the previous sections have shown, Sino-Iranian relations are neither new nor inconsequential. Today, China and Iran enjoy a multifaceted and mutually advantageous relationship—the fruit of over two decades of contacts and cooperation. But how extensive, deep, and durable are Sino-Iranian relations?

There is a natural tendency, with good reason, to assess recent progress in Sino-Iranian relations at the macro or national level. But it is equally important to look at the micro- or company-level to note, for example, how the vitality and international competitiveness of major Chinese companies is driving and is in turn affected by commercial interaction with Iran. In the energy sector, Sinopec uses 10 million tons of

Iranian oil in its refinery system.<sup>73</sup> The Yadavaran agreement alone, valued at between \$70 billion and \$100 billion, could make Sinopec, within a short period of time, one of the major oil companies in the world.<sup>74</sup> The Tehran subway contract noted above, valued at approximately \$830 million, is the first overseas general metro contract undertaken by a Chinese company. According to CITIC Teheran Metro Headquarters Chief Executive Shao Xiquan, “The success of the project will help open a new market for China in the Middle East region.”<sup>75</sup> The Alborz Negin coke making and tar refinery plant project another venture led by CITIC was the first project of its kind to be tendered internationally.<sup>76</sup> The electrolytic aluminum plant construction venture, involving a CITIC-led consortium, is the first large overseas project under an EPC contract undertaken by a Chinese company.<sup>77</sup>

Examining Sino-Iranian relations at the micro level is illuminating for yet another reason: they call into question whether either government has the capacity to craft and implement a coherent and consistent strategy towards its counterpart. In Iran, perhaps even more so than in China, the extent of unified state control over the multiplicity of powerful economic actors is open to question. Iranian entities that conduct lucrative business with China run the gamut from the state-run National Iranian Oil Company to religious foundations (*bonyads*) and commercial enterprises run by the IRGC. In 1997, for example, the *Bonyad-e Mostaz'afan va Janbazan* (Foundation for the Oppressed and War Disabled) contracted to buy 10 cargo planes from the China Aero-Technology Import-Export Corporation.<sup>78</sup> Three years later the same foundation partnered with three subsidiaries of CNPC in an \$85 million oil-drilling project in southern Iran.<sup>79</sup> In the Chinese case, a number of major contracts have been awarded to NORINCO—a state-owned conglomerate with ties to the Chinese People’s Liberation Army that has a track record, as mentioned earlier, of transferring sensitive weapons technology to Iran. The complexity and opacity of these dealings make it difficult to decipher whether, besides narrow economic interests, some broader, and from the U.S. vantage point malevolent, strategic purpose is being served.

Returning to a macro level of analysis may offer some clues to how tightly entwined the Sino-Iranian bilateral relationship has become and, therefore, what level of risk this poses to U.S. interests and policies. Whereas Iran seems determined to develop a full-blown strategic partnership, China appears primarily interested in commerce and limited political-strategic engagement. Foreign Minister Manouchehr Mottaki’s statement reflects Iranian thinking: “China is seeking reliable energy and we are able to guarantee to supply it. In fact, a strategic phase is now being started in cooperation between the two countries.”<sup>80</sup> With Western pressure on Iran tightening, Iranian officials have, at every opportunity, sought to draw closer to China. According to Ali Larijani, Secretary of Iran’s National Security Council, China (along with Russia and India) “can play a balancing role.”<sup>81</sup> Similarly, President Ahmadinejad’s statements at the SCO summit in Beijing in June 2006 are illustrative of the way in which Tehran has attempted to use its energy assets as a political lifeline.<sup>82</sup> Echoing these statements, Dr. Ali Akbar Velayati, former foreign minister and now advisor to Spiritual Guide Ali Khamenei, referred to the SCO as a “political bloc.” In addition, he stated, “The Chinese know that both in view of securing a market for their goods, as well as ensuring their supply of energy, they are increasingly linked to the Middle East and the Persian Gulf region. These bonds will become increasingly stronger and more decisive as time goes by. Therefore, if today some of the officials of our friendly country, China, look with suspicion and caution at a comparison and weighing their interests with the West and with the Islamic world, especially with the Middle East and the Persian Gulf region and Iran, tomorrow [in the future] they will take strategic decisions about their future with greater resolve.”<sup>83</sup> It is perhaps telling that public reactions by Chinese officials to these entreaties have been polite but measured.

Iranian officials appear, at times, to underestimate how much the Sino-American relationship means to China and perhaps overestimate how far Beijing might be willing to go to support Tehran. In addition, to the extent that the Iranian leadership are enamored by the “Chinese model” and determined to apply an Islamic version of it, they appear to have conveniently omitted from their frame of reference the fact that China’s success has hinged on a dynamic economic relationship and a political *modus vivendi* with the West, particularly with the United States. Finally, by proclaiming China to be the “superpower of the new century” and implicitly tying Iran’s future to the latter’s coattails, Iranian officials run the risk of becoming prisoners



of their own wishful thinking, while the Chinese leadership, keenly aware of its present limitations *vis-à-vis* the United States, has been quite careful to avoid stumbling or being dragged into a direct confrontation with Washington.<sup>84</sup>

As the previous sections have shown, China and Iran have built a vibrant economic relationship. Yet, there are indications that much more has been expected especially from the Iranian side than thus far has been achieved. During his visit to Beijing in July 2005, Iranian Vice President M. Reza Aref remarked that there is huge *potential* for the two countries to expand relations. He added that Iran welcomes more Chinese enterprises to participate in the economic construction of the country.<sup>85</sup> This is a familiar refrain. So, too, are President Hu Jintao's comments that the economies are "highly complementary" and that economic relations are "very fruitful."<sup>86</sup> The 11<sup>th</sup> session of the Joint Committee in March 2002 was hailed as marking "a new developmental stage" in Sino-Iranian relations.<sup>87</sup> But the justification for making this statement was neither clear then, nor is it clear now.

In an effort to steer clear of the "hype trap," it is instructive to look at some of the shortcomings and uncertainties in the economic sphere. The mainstay of Sino-Iranian cooperation in the energy sector is the export of large and increasing quantities of Iranian crude oil to China. But the Iranian energy industry is badly in need of foreign investment and technology. Chinese investment in the energy sector has come in the form of a few big-ticket projects such as the Yadavaran deal—a deal, however, that has yet to be finalized. To date, China's investments are dwarfed by Iran's investment needs. Furthermore, in an effort to diversify, Chinese investment in overseas oil is widely dispersed, not heavily concentrated in Iran. In the first six months of 2006 alone, Chinese companies signed \$7 billion in deals to explore and develop oilfields in Kazakhstan, Nigeria, and Syria.<sup>88</sup> Chinese energy firms are increasingly shifting their investments towards Africa and Central Asia, perhaps reflecting the need to diversify, to the extent possible, away from the Persian Gulf, and thus from the risks and uncertainties associated with the deeply entrenched U.S. military power, local instability, and maritime transportation of oil supplies.

In terms of advanced energy technology, Chinese entities are well behind their Western counterparts. In fact, Chinese and Iranian partners are looking for third-country firms to join them, especially in complex LNG operations such as that contemplated in the Yadavaran project. Yet there are few international contractors able to build the required facilities, and those who are capable might be reluctant to participate even if the Iranian side permitted them to do so unless the client or off-taker has demonstrable LNG experience, which neither Sinopec nor the local partner NIOC does.<sup>89</sup>

Though Sino-Iranian trade has been developing rapidly, having grown from \$200 million in 1990 to \$10 billion in 2005, these numbers do not tell the whole story. Trade with Iran represents just a small fraction of China's overall trade. In contrast, China is Iran's second leading trade partner, after Japan. It is also useful to look at the structure and composition of Sino-Iranian trade, which reveal that the needs and priorities of the two countries are very different. Unsurprisingly, China's purchases are dominated by oil. Yet, Iran's arguably most dire need is to spur labor-intensive industrialization so as to create jobs. Here, China has been a positive but nonetheless relatively minor player. While there are about 100 projects in which Chinese entities have invested, there has been little progress made in drawing the capital to help activate small- and medium-sized Iranian industries or to invigorate Iran's free trade zones.<sup>90</sup> There are several reasons for this. First, Chinese authorities have opened only a limited window for outward foreign direct investment (FDI). Second, Chinese firms are fanning out, not focusing solely on Iran. Southeast Asia and Africa are the current main locations and preferred destinations for Chinese private sector investment. Third, potential Chinese investors generally perceive market conditions in the Middle East to be worse than those in China.<sup>91</sup> Finally, even within the Gulf itself, Chinese investments in non-energy sectors are widely spread—a pattern that is likely to continue.<sup>92</sup>

Iranian officials are plainly disappointed with the low level of private sector investment from China. According to head of Iran's Investments, Economic and Technical Assistance Organization Muhammad Khazaei, private sector investment is a meager \$9 million.<sup>93</sup> An additional source of friction is the push by



Chinese firms into the global market, which has resulted in a flood of cheap Chinese consumer goods into the Iranian market that have tended to crowd out local manufactures.<sup>94</sup>

The meager private sector investment in Iran is not just a function of Chinese investors deciding and being urged by their government to cast a wide net. It is also because of the political and other risk factors that make Iran a less attractive destination than many others in spite of its abundant energy resources. The bureaucratic and political roadblocks to conducting business are legion. Complicated bidding procedures and delays in sales and purchase agreements are some of the other hurdles to doing business in Iran. Of four major LNG deals launched in the past couple of years, for example, one (involving the United Kingdom-based BP and the India's Reliance) was cancelled. Petronas of Malaysia withdrew from a second project, indicating that it did not satisfy the company's financial criteria.<sup>95</sup> It is conceivable that CNPC, which has shown interest in these projects, might seek to exploit them as opportunities. But if so, then CNPC will have to contend with, among other things, the exasperating slow pace of project development.

There are other business-related snafus. Even a "model relationship," such as the one between NORINCO and TUSRC, has been beset by problems. The two partners were locked in a difficult struggle to renegotiate the \$680 million contract to build the fourth line of the Tehran metro. Chinese government intervened to bring financing for the project through a letter of credit (LoC). But there are obstacles that Beijing might not be able to help Chinese firms overcome. For example, the Majlis passed a law in September 2004 requiring the parliament to approve all contracts between foreign firms and government organs. Since then, a bloc of "new Conservatives" who are pushing a populist-Islamist agenda has emerged in the Majlis, seemingly determined to strictly limit, if not wall off foreign majority ownership.<sup>96</sup> It is far from clear whether economic actors such as the IRGC and the *bonyads*—seeking to preserve their monopolistic operations—would side with this bloc or, in the interest of preserving their business ties with China, oppose it. Some Iranian officials insist that gas production be directed solely towards meeting domestic demand. Even if this resistance is overcome and the advice to find gas export markets is heeded, an estimated \$5-7 billion per year in investments through 2016 is needed for Iran to reach 280 cm/year via LNG and pipelines.<sup>97</sup> It is not clear how much of an investment China could or would make to fill the gap. These protectionist sentiments and political uncertainties are potential impediments to more extensive Sino-Iranian economic cooperation.

## CONCLUSION

There are several reasons for the United States to be attentive to, indeed concerned about, the consolidation of Sino-Iranian relations. Iran's vast energy resources provide Tehran with leverage that it is clearly prepared to use not just for economic gain but also to advance broader strategic objectives. China is susceptible to these enticements both because of the perception in Beijing that the country is experiencing an acute energy crisis and because of uncertainty as to how long Chinese energy companies, in the quest to lock in long-term access to Iranian energy resources, will be able to exploit Tehran's rift with the West.

The deepening of Sino-Iranian energy cooperation poses several challenges for the United States. The first challenge stems from Chinese business practices in pursuing energy deals, at least some of which tend to distort the market. In the case of Iran, as well as in other countries where they have sought to secure equity oil, Chinese energy companies have displayed unusually high risk-taking behavior, including the willingness to pay substantially more than the going market rates. That said, Chinese energy entities should not be faulted for accepting levels of risk that their competitors have chosen to avoid. Iran has barred foreign oil companies from concession agreements and has restricted them to "buy back" contracts, in which they are repaid their development costs and given an agreed rate of return from initial production. Whereas many international oil companies are reluctant to enter projects on this basis, Chinese firms are not.

The second challenge stems from the lack of transparency that prevails in many of the commercial dealings between China and Iran. This is particularly disturbing in light of the fact that among the Chinese

enterprises most active in Iran are those that, besides being at least nominally state-owned and directed, have repeatedly violated the spirit, if not the letter, of China's pledges to halt the sale of missile and other sensitive weapons technologies to Iran.

The third challenge is Beijing's relatively high level of tolerance for Iran's non-compliance with NPT obligations, which tends to feed the Iranian perception that it can play for time and likely avoid the sting of punitive sanctions.

Nevertheless, as this study has shown, the Sino-Iranian relationship is anything but smooth sailing. There is a much stronger perceived need and desire in Tehran than in Beijing to forge a full-blown strategic partnership aimed at countering the United States. Even where Sino-Iranian links are the strongest—in the energy sector—problems and limitations abound. As shown, the under-performing Iranian energy industry is in dire need of foreign technology and investment. China can only partially ameliorate these problems. Furthermore, the prevailing business climate in Iran, which is marked by protectionist policies and political uncertainties, is bound to discourage Chinese private sector investment in the areas where Iran arguably needs it the most—in non-energy labor-intensive industries.

This brings us to the nexus between the high-stakes diplomatic maneuvering over the Iranian nuclear program and Sino-Iranian energy cooperation. More than four years have passed since Sinopec won the bid to develop the Yadavaran field. Officials from both sides have attributed the delay to technical obstacles—there are undoubtedly some, given the scope and complexity of the project. Yet there is reason to be skeptical about this explanation. Even with its propensity to assume high risk, Sinopec is not willing to sink billions of dollars into a project that could be destroyed in a potential military confrontation between the United States and Iran. That is why, oddly enough, China should have a stronger interest in supporting nuclear diplomacy rather than in subverting it. At some point this might require that Beijing choose to side either with Washington or with Tehran—a choice that until now Beijing has managed to avoid in the interest of cementing a less than perfect but nonetheless fruitful relationship with Iran.

## ENDNOTES

<sup>1</sup> According to 'Ali Akbar Vahidi Ale-Agha, Deputy Managing Director of Petroleum Engineering & Development, an National Iranian Oil Company subsidiary, "China and Iran are perfectly matched for each other ... China has the world's biggest market of customers and no secure resource for energy. We have a lot of energy, and we need foreign currency. And they have a lot of money to invest. It's a win-win situation." Quoted in Vivienne Walt, "Iran Looks East," *Fortune*, February 21, 2005.

<sup>2</sup> See, for example, Xiaodong Zhang, "China's Interests in the Middle East: Present and Future," *Middle East Policy* (February 1999) pg. 150-59; Guang Pan, "China's Success in the Middle East," *Middle East Quarterly*, 4:4 (1997), <http://www.meforum.org/article/373>

<sup>3</sup> Daniel Blumenthal, "China and the Middle East: Providing Arms," *Middle East Quarterly*, Spring 2005, pp. 11-19; Bates Gill, "Chinese Arms Exports to Iran," *Middle East Review of International Affairs*, 2:2 (May 1998); Yitzhak Shichor, "Mountains Out of Molehills: Arms Transfers in Sino-Middle Eastern Relations," *Middle East Review of International Affairs* 4:3 (2000), <http://meria.biu.ac.il/journal/2000/issue3/jv4n3a6.html>

<sup>4</sup> Xiaojie Xu, "China and the Middle East: Cross-investment in the Energy Sector," *Middle East Policy* (June 2000), pp. 122-36; John Calabrese, "Dragon by the Tail: China's Energy Quandary," *Middle East Institute Perspective*, March 23, 2004, [www.mideasti.org/pdfs/calabrese304.pdf](http://www.mideasti.org/pdfs/calabrese304.pdf); Jin Liangxiang, "China and the Middle East: Energy First," *Middle East Quarterly* (Spring 2005), pp. 3-10.

<sup>5</sup> See Jing-Dong Yuan, "China and the Iranian Nuclear Crisis," *China Brief*, 6:3 (February 1, 2006)

<sup>6</sup> See Maryam Daftari, "Sino-Iranian Relations and 'Encounters': Past and Present," *The Iranian Journal of International Affairs* 7, 4 (Winter 1996), pp. 865-76.

<sup>7</sup> See A.H.H. Abidi, *China, Iran, and the Persian Gulf* (New Delhi: Radiant Publishers, 1982), p. 288; and

Lillian Craig Harris, *China Considers the Middle East* (London, UK: I.B. Tauris, 1993), pp. 142-45.

<sup>8</sup> See Yitzhak Shichor, *The Middle East in China's Foreign Policy: 1949-1977* (Cambridge, UK: Cambridge University Press, 1979), pp. 171-75.

<sup>9</sup> The Iran-Iraq War erupted just as China was developing its arms export market. Moscow's decision to stop supplying weapons to the belligerents, coupled with the Western embargo on Iran, opened the door to Chinese sales. See, for example, Dennis Van Vrancken Kickey, "New Directions in China's Arms Export Policy: An Analysis of China's Military Ties with Iran," *Asian Affairs: An American Review*, 17:1 (1990), pp. 15-29.

<sup>10</sup> See, for example, Iranian Deputy Foreign Minister Alaeddin Boroujerdi's remarks on the need for Iran to shift its policy to "Look East," reported in "Iran to Pursue 'Look East' Policies," *Xinhua*, May 1, 1997.

<sup>11</sup> Quoted in "China and Iran Trade Warm Words," *Associated Press*, March 5, 1989.

<sup>12</sup> During the same period, Khamenei and Rafsanjani worked in tandem to woo Russia and North Korea.

<sup>13</sup> Mohsen Hashemi is Chairman and Managing Director of the Tehran Urban and Suburban Railway Company (TUSRC), which has run the Tehran metro system since 1999.

<sup>14</sup> This is a sample, not an exhaustive list.

<sup>15</sup> "Iran's Bank Tejarat Opens in China in Bid to Boost Investment," *Agence France Presse*, July 29, 2003.

<sup>16</sup> See, for example, Bijan Khajepour, "Protest and Regime Resilience in Iran," *Middle East Report (MERIP)*, November 12, 2002; Afshin Molavi, "Tehran Dispatches: Fine China," *The New Republic*, September 15, 2003; and Marc Gasiorowski, "Islamic Politics after the 2004 Parliamentary Elections," *Strategic Insights*, 3:6 (June 2004).

<sup>17</sup> "NORINCO secures contract to build express line in Iran," April 24, 2005. [http://www.norinco.com/c1024/chinese/newscenter/content\\_23.html](http://www.norinco.com/c1024/chinese/newscenter/content_23.html)

<sup>18</sup> See, for example, meetings between senior officials of CNPC and National Iranian South Oil Company, in Alexander's Oil & Gas Connection, March 23, 2005. <http://www.gasandoil.com/goc/company/cnm51271.htm> Nosratollah Espiari and Chen Geng.

<sup>19</sup> Kamal Nazer Yasin, "China and Iran: Unlikely Partners," *EurasiaNet*, April 4, 2006. <http://www.eurasianet.org/departments/business/articles/eav040406.shtml>

<sup>20</sup> Quoted in "Iran's President-Elect Expresses Willingness to Develop Ties with China," *Xinhua*, in U.S. Foreign Broadcast Information Service Daily Reports, China [hereafter FBIS-CHI], June 27, 2005.

<sup>21</sup> "PRC President Hu Jintao Says China Willing To Boost Ties With Iran 'China Ready To Boost Ties With Iran,' Says Chinese President," *Xinhua*, in FBIS-CHI, July 5, 2005.

<sup>22</sup> Zhu Mengkui, "Out of Keeping With the Times," *Renmin Ribao*, in FBIS-CHI, January 23, 1996.

<sup>23</sup> *Xinhua*, in FBIS-CHI, August 7, 2005.

<sup>24</sup> Lin Liangxiang, "Energy First: China in the Middle East," *Middle East Quarterly* 12, 2 (Spring 2005) <http://www.meforum.org/article/694>

<sup>25</sup> "Iran's Crude Oil Sales to China," *Mehr News Agency*, in FBIS-Near East and South Asia [hereafter FBIS-NES], April 12, 2005.

<sup>26</sup> *International Energy Outlook 2006*, U.S. Energy Information Agency (June 2006), Table 8 [http://www.eia.doe.gov/oiaf/ieo/nat\\_gas.html](http://www.eia.doe.gov/oiaf/ieo/nat_gas.html).

<sup>27</sup> *Associated Press*, March 19, 2004; *The Asian Wall Street Journal*, March 13, 2004.

<sup>28</sup> "Iran: Official Says Gas Exports to China To Start in 2009," *Mehr News Agency*, FBIS-NES, July 5, 2005.

<sup>29</sup> *People's Daily*, August 21, 2000.

<sup>30</sup> "China To Cooperate With Iran in Oil, Gas Sectors," *Islamic Republic News Agency* [hereafter IRNA], in FBIS-NES, December 27, 2004.

<sup>31</sup> *Mehr News*, in FBIS-NES, January 20, 2006.

<sup>32</sup> "China and Iran to Cooperate in Oil, Gas Sectors," *IRNA*, in FBIS-NES, December 27, 2004.

<sup>33</sup> *Ibid.*

<sup>34</sup> Hooman Pemani, "Russia Turns to Iran for Oil Exports," *Asia Times*, February 11, 2003.

<sup>35</sup> This is evident, for example, in the Chinese government's decision to finance about 80% of the estimated \$248 million cost of construction of the deep-sea port of Gwadar, and thus move oil overland through Pakistan to western China.

- <sup>36</sup> Hasan Bananaj, “Iran Behind the Great Wall of China,” *Sharq*, in FBIS-NES, November 30, 2004.
- <sup>37</sup> “China Delivers 4th Giant Oil Tanker to Iran,” *IRNA* in FBIS-NES, January 21, 2004.
- <sup>38</sup> Kuros Sediqi, “Shipbuilding Eyes Modernization,” *Iran Daily*, December 22, 2004.
- <sup>39</sup> *Iran Focus*, May 9, 2005, available at <http://www.iranfocus.com/modules/news/article.php?storyid=2042>
- <sup>40</sup> *Middle East Economic Digest [hereafter MEED]*, April 7, 2006.
- <sup>41</sup> *MEED*, December 2, 2005.
- <sup>42</sup> *MEED*, May 26, 2006.
- <sup>43</sup> Antoaneta Bezlova, “China-Iran Tango Threatens U.S. Leverage,” *Asia Times*, November 30, 2004.
- <sup>44</sup> “Eximbank Finances Iranian Power Plant,” *People’s Daily*, December 21, 2000.
- <sup>45</sup> “China Helps Build Tehran Subway Project,” *Renmin Ribao*, in FBIS-CHI, April 15, 1998.
- <sup>46</sup> SIPRI Arms Transfers Database, Imported Weapons to Iran, 1995-2005, March 2 2006, [http://www.sipri.org/contents/armstrad/TIV\\_imp\\_IRA\\_95-05.pdf](http://www.sipri.org/contents/armstrad/TIV_imp_IRA_95-05.pdf)
- <sup>47</sup> Bates Gill, “Chinese Arms Exports to Iran,” *Middle East Review of International Affairs*, Vol. 2, No. 2 (May 1998).
- <sup>48</sup> *Reuters*, October 12, 1994; *Executive News Service*, October 12, 1994; *Defense News*, 17-23 October 1994, p. 64; Gordon Jacobs and Tim McCarthy, “China’s Missile Sales – Few Changes for the Future,” *Jane’s Intelligence Review*, December 1992, p. 560.
- <sup>49</sup> For report of these sales, see ‘Ali Nuri-Zadeh: “Tehran Seeking To Purchase Additional Long-Range Missiles,” *Al-Sharq Al-Awsat* (London), in FBIS-NES, August 29, 1996.
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