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14. ABSTRACT On July 29, 2010, CNA China Studies hosted a half-day roundtable to discuss China's relations with and activities in Iran (See Appendix for the roundtable itinerary). Participants, who included academics and analysts from think-tanks in Washington, were asked to address the following issues: • the interests and actors involved in the China-Iran economic relationship; • security issues in China-Iran relations; • the larger context of China-Iran relations; and, • the implications of this relationship for the U.S. and regional security. This CNA report is based primarily on the presentations, findings, and discussions at the roundtable. It summarizes key themes heard at this event and does not represent a fully coordinated consensus of the roundtable participants. Points based on independent research are footnoted; points raised by participants or in the discussion are attributed to the roundtable in the text.						
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A Closer Look at China-Iran Relations

Roundtable Report

Peter Mackenzie

CNA CHINA  STUDIES



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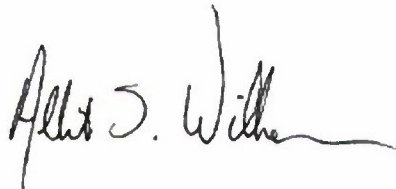
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September 2010

A handwritten signature in black ink, appearing to read "Albert S. Willner", with a long horizontal flourish extending to the right.

Albert S. Willner, Ph.D.
Director
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A Closer Look at China – Iran Relations

Roundtable Report

Executive Summary

On July 29, 2010, CNA China Studies hosted a half-day roundtable to discuss China's relations with and activities in Iran (See Appendix for the roundtable itinerary). Participants, who included academics and analysts from think-tanks in Washington, were asked to address the following issues:

- the interests and actors involved in the China-Iran economic relationship;
- security issues in China-Iran relations;
- the larger context of China-Iran relations; and,
- the implications of this relationship for the U.S. and regional security.

This CNA report is based primarily on the presentations, findings, and discussions at the roundtable. It summarizes key themes heard at this event and does not represent a fully coordinated consensus of the roundtable participants. Points based on independent research are footnoted; points raised by participants or in the discussion are attributed to the roundtable in the text.

Key Themes

China has become the dominant external player in Iran's economy. China is now Iran's largest trade partner, its largest oil purchaser, and its largest foreign investor.

Iran holds great geostrategic significance for China. Iran is not only one of China's largest oil providers, but also a key potential energy transport hub between the Middle East, Central Asia, and Europe. The relationship is asymmetrical, though: due largely to its economic isolation, Iran needs China more than China needs Iran.

China and Iran should be viewed not as "strategic partners," but as "fair-weather business partners." Their relationship is highly pragmatic, and although they now share many strategic interests, in the long run China's need to maintain good relations with Western powers may affect China's relationship with Iran.

Economic sanctions against Iran have driven the development of greater China-Iran economic ties. Having been cut off from the West by sanctions, Iran has engaged in a "Look East" economic strategy. China has been a major beneficiary.

China may be developing a new "Silk Road" strategy in which Iran plays an important role. Such a strategy would seek to build an integrated system to transport energy between Asia and the Middle East.

The United States should continue to closely observe the military dimensions of China-Iran relations. These include China's support for Iran's missile program and

possible sales of dual-use technologies. This evolving security relationship will have important implications for the United States and its friends and allies.

The China-Iran relationship should be understood as part of a larger multilateral web of relationships spanning East Asia, South Asia, and the Persian Gulf. Iran has notable economic ties with other Asian countries such as Japan, and China's relations with key countries like India, Israel, and Saudi Arabia may also affect China-Iran relations.

The China-Iran relationship could detract from China's efforts to enhance its international image as a responsible player. The more isolated Iran becomes, the more danger exists that China will be seen as an outlier due to its ties with Iran.

U.S. coordination with China and other powers in the Persian Gulf will shape the China-Iran relationship. The panelists argued that the United States remains a critical and, in some ways, dominant actor in the region.

A Closer Look at China-Iran Relations

Introduction

Since diplomatic ties between China and Iran were established in 1971, the two countries have developed complex political, economic, and military relations. China has provided much-needed trade and investment to Iran, and as Iran has become increasingly isolated, China has gradually become the dominant external player in Iran's economy. Chinese companies have played a particularly important role in developing Iran's energy sector through oil purchases and major investments in resource extraction and infrastructure. Though China rarely trumpets its relationship with Iran, it maintains strong political ties with Tehran, and since the 1980s it has helped strengthen the country's military with arms sales and military exchanges.

Iran and China's Historical Relationship

Imperial China and Ancient Persia

Participants discussed China and Iran's historical relationship. China maintained trade ties with ancient Persia via the Silk Road for thousands of years. This relationship also had a maritime dimension during the Ming Dynasty. The strongest symbol of this was the multiple visits to Persia by the Chinese imperial fleet during the famous voyages commanded by eunuch admiral Zheng He.¹ One participant noted that later in the Ming dynasty, China ended its maritime presence virtually overnight, and with it the maritime dimension of its relationship with Persia.

The Result of Two Revolutions: Renewed Strategic Ties

Participants pointed out that after imperial China gave up its maritime presence and Silk Road trade declined, China did not re-emerge as a player in the Middle East until after the Communist victory in the Chinese Revolution. In its early years, one participant observed, the People's Republic of China (PRC) "put its money" on the communist parties of the Middle East, particularly in the Arab world. These parties never achieved widespread popularity and were despised by Arab nationalists. Their lack of success impeded the progress of PRC relationship-building in the Middle East.

Iran and China established diplomatic relations in 1971. Despite modest early interactions, another participant argued, it was a long time before China acquired substantial vested interests in the region and with Iran specifically. At the time,

¹ For more on these voyages, see Levathes, Louise, *When China Ruled the Seas: The Treasure Fleet of the Dragon Throne, 1405-1433* (New York: Oxford University Press, 1994).

China did not have the financial means or the diplomatic or political heft to promote and protect its interests in the region.

The year 1979 was a major turning point in the China-Iran relationship. At that time, one participant asserted, China could be characterized as having been on the wrong side of history. Prior to the Iranian Revolution, China was viewed in the region as a revolutionary power, giving its support to local communist parties; at the same time, Iran under the Shah was seen as a status quo power. By 1979, China had stopped supporting local Communist parties and appeared to be emerging as a status quo player in the region, while Iran was clearly a revolutionary power.

Western Arms Embargoes and Iran's Purchases from China

Western arms embargoes were placed on the Iranians in 1979 and 1980 following the return of Ayatollah Khomeini and the establishment of the Islamic Republic of Iran. They proved extraordinarily effective, keeping the Iranians from purchasing modern, advanced equipment from European or American firms. In reaction, the Iranian government began to seek out and rely upon arms deals with non-Western countries, including Russia, China, and North Korea.

Conference participants discussed Iran's arms purchases from China in the 1980s as a milestone in the development of the two countries' bilateral economic and military relationship. The participants spoke about China's sale of Silkworm missiles to Iran during the Iran-Iraq War; one participant alluded to a recent claim by a defector from the Islamic Revolutionary Guard Corps (IRGC) that the Chinese People's Liberation Army secretly trained IRGC members to operate these missiles at Chinese land and naval bases.²

During the 1980s, China supplied arms to both Iran and Iraq, as well as Saudi Arabia, garnering serious U.S. attention, for the first time, to China's role in the Middle East. At that time, one participant recalled, China provided Saudi Arabia with a long-range missile system. China also stepped in when the United States refused to sell fuel tanks to Saudi Arabia for its F-15 fighters because of Israeli concerns about the Saudis' long-range capabilities. According to one participant, "[the United States] suddenly woke up to the fact that the Chinese were there."

² The participant cited Reza Kahlili, *A Time to Betray: The Astonishing Double Life of a CIA Agent inside the Revolutionary Guards of Iran* New York: Threshold Editions, 2010, p.131, 183, 185, 275); Policy Forum, "Inside Iran's Revolutionary Guard: A Defector Speaks," The Washington Institute, 9 July 2010.

Strategic and Political Foundations of the Modern China-Iran Relationship

China's Iran Strategy

According to roundtable participants, China has long been attuned to the Middle East's geopolitical significance. It is also aware of Iran's geostrategic location within the region, its crucial role in the global energy market, and its aspirations to become a regional power. Panelists related their sense that Chinese policy-makers and analysts have consistently tied developments in the Persian Gulf to great-power rivalry and the global balance of power.

Participants discussed China's strategic calculus toward Iran. One referred to a recent speech given by Chinese Middle East scholar Wu Bingbing at the Wilson Center, in which he summed up China's strategy in the Persian Gulf region as follows:

1. Refuse any single power's unilateral control of the region
2. Prevent the emergence of any anti-Chinese regime in the region
3. Oppose formal support of Taiwan independence forces or other separatist forces in China by Gulf countries
4. Pursue potential support from the Gulf region for China's foreign policy.

This strategy is aimed at supporting China's regional economic, trade, and energy interests. One participant asserted that Iran is the country of greatest significance for China's Persian Gulf strategy, while other participants argued that Saudi Arabia may be of equal importance to China.

Political Similarities

One participant observed that there are certain notable similarities between China and Iran with regard to the political milieu in which the relationship takes place. From a political standpoint, both countries' leaders have the same paramount objective: regime survival. In China's case, this means the continued rule of a "permanent party"; for Iran, it refers to the power of the "clerical security establishment." For both, regime survival depends on economic prosperity, which depends largely on energy: China must secure enough energy to fuel rapid economic growth, and Iran must find a market for its abundant energy resources.

The two countries are also similar in that both are aspiring powers: China aspires to become a world power, while Iran aspires to be the predominant player in its region.

A “Strategic” or “Fair-Weather” Partnership?

Roundtable participants noted that observers of China-Iran relations have a tendency to focus exclusively on China’s energy interests. However, participants argued, even if energy is taken out of the picture, there are still a number of strategic factors linking the two countries, including Iran’s key location as a node for infrastructural connections between Europe, Central Asia, and the Middle East.

One participant cautioned, however, that although the two countries share many long-term strategic interests, at present they should not be viewed as “strategic partners” but rather as “fair-weather business partners,” and it should not be taken for granted that this relationship is sustainable. In the long run, larger interests for China, such as the need to maintain a good relationship with Western powers, may impact China-Iran relations.

Energy: Backbone of Growing Economic Ties

China and the Transformation of Global Energy Markets

Since the 1980s, China’s relationship with Iran has evolved from one centered around arms sales to one in which ensuring the supply of energy resources to support China’s economic growth is paramount. According to participants, this shift can be attributed to several factors. The first is the economic sanctions levied on Iran by the United States and other Western powers, which have forced Iran to look east for markets for its abundant energy resources.

At the same time, participants pointed out, there has been a structural transformation in global energy markets in recent years. Many energy analysts have indicated that the geopolitics of oil has shifted from West to East. The reason, one panelist argued, is that incremental growth on the demand side is being generated by three different actors, and none of them are in the West: China, India, and the Middle East as a whole. The result has been a gradual increase in energy interdependence between Asia and the Gulf.

China Jumps In

In its search for energy resources to fuel development, China has often sought to exploit opportunities in places that others have neglected or decided to withdraw from. Iran is a good example of this, with one participant asserting that “whenever and wherever Indian companies, Japanese companies, European companies, and American companies have been squeezed out, or have been withdrawn, or have abandoned Iran, the Chinese have jumped in.”

Both the Chinese and Iranian governments have played a strong role in cementing the energy relationship. According to participants, Iran recognizes that Chinese companies have cash to spend, and the government offers incentives to attract their

investment. On the other side, Chinese state-owned oil companies have a relationship with Beijing that enables them to operate with more lenient restrictions, less red tape, and below-market project financing rates that other international corporations are not able to match.

One participant also noted that in 2009, China surpassed Japan to become Iran's number one oil customer. China has made significant efforts to diversify its sources of oil, developing resources in Russia, Central Asia, Africa, and Latin America. However, for the last seven or eight years, Iran has consistently been among China's top three oil providers, along with Angola and Saudi Arabia, and this is likely to continue for the foreseeable future.

Chinese Oil Investments in Iran

China has not only bought crude oil from Iran but also become significantly involved in its upstream and downstream production processes through significant investment.

According to one participant, most of the big-ticket investments to which China has committed are in "upstream development," which refers to crude oil exploration and production. China and Iran have signed seven major upstream agreements in the energy sector since 2005, involving all three of China's leading state-owned energy companies: the China National Petroleum Corporations (CNPC), Sinopec, and the China National Offshore Oil Corporation.

Regarding investments in downstream development, which refers to the refining and distribution of crude oil products, this participant added that Chinese companies have committed to building a refinery in Hormuz and possibly expanding, by roughly 29 percent, the capacity of the existing refinery in Abadan. These projects are of great importance to Iran, which currently imports 40 percent of its gasoline. The participant reported that as other gasoline providers have been frozen out by sanctions, most of the slack has been taken up by Chinese and Turkish companies.

One participant emphasized that not all of these investments in Iran have borne fruit. In a few notable cases, Sinopec and CNPC have made major investments that have so far yielded little in the way of commercial oil production to date. He asserted that projects announced by the two countries often receive excessive concern in Washington, where many jump to the conclusion that these projects have already been completed. To the contrary, many of these projects, including the Yadavaran oil field project in which Sinopec is involved, can have a time horizon as long as 59 months, and often run far behind schedule.

Implications for Regional Security

One participant argued that China is signing deals with Iran with a larger regional security strategy in mind, and cited a 2000 article by Tang Shiping in China's influential *Strategy and Management* journal. According to this article, the United States already controls the west bank of the Persian Gulf through its proxy states, including Saudi Arabia and its smaller Gulf neighbors. This makes the Persian Gulf, in effect, an "internal sea" for the United States. Shiping argues, however, that if China and Russia were to build an "axis" of relations with Iran, they could maintain a "minimum balance" to thwart U.S. moves to embargo or control energy flows from the Gulf, since the success of such actions would require control over both the west and east banks.

Non-Energy Facets of China-Iran Economic Relations

One participant argued that, while energy is clearly the most important business in the China-Iran economic relationship, too many observers are "under the misimpression that energy business is the only business." In fact, China's economic involvement in Iran goes beyond energy, encompassing a wide range of sectors.

A Major New Player in Iran's Economy

In general, one participant said, three broad points can be made about the China-Iran economic relationship—it is extensive, it is growing, and this growth has accelerated over the last decade.

In 2009, a participant reported, China overtook the European Union as Iran's leading trade partner, with a bilateral trade volume of more than \$21 billion. Even this figure may be severely understated. The United Arab Emirates plays an important entrepôt role in the relationship, and if the trade between China and Iran via the United Arab Emirates were added, the participant claimed, it could double the official figure.

One participant stated that China and Iran are making significant money and striking significant deals in non-energy trading sectors. One example is industrial goods, including the large volumes of machine tools and factory goods being exported from China into Iran.

China's Non-Oil Investments in Iran

In addition to its large trade volume, China is also the largest foreign investor in Iran. One participant reported that there are over 100 Chinese companies registered with a significant presence in Iran.

In addition to petroleum, Chinese companies have invested in many of Iran's other extractive industries, including aluminum, copper, and coal. One participant noted

that much of the coal that Chinese companies extract in Iran is not exported to China, but rather sold on the Iranian market.

The second major area of Chinese investment discussed by participants was infrastructure development. In the 1980s and early 1990s, when China began its foreign investment push, it made a reputation for generating lucrative labor contracts. One participant stated, however, that "They don't do just labor contracts anymore. They do the whole nine yards of construction, from design through project management, and labor's just a piece of it."

In Iran, Chinese companies have built bridges, highways, and metro rail systems. They may also be building shipyards and liquid natural gas tankers.

Participants argued that although Iran clearly has a strategy of drawing on trade and investment from China, so far Iran has done little to mirror the Chinese model of economic growth. The main difference between the two economies is that while China is becoming increasingly enmeshed in the global economy, Iran is becoming increasingly isolated.

Participants emphasized that the economic aspects of the China-Iran relationship are inseparable from the two countries' pursuit of political objectives and geopolitical objectives. According to one participant, "it's almost fruitless to talk about economic relations in a vacuum."

Looking East to the New "Silk Road"

Iran occupies a strategic location at the narrowest point of the Persian Gulf, connecting the Arabian Sea and the Indian Ocean. Iran is also a littoral state of the Caspian Sea, which is at the center of another energy-rich region. According to one participant, Iran is an important node on overland road, rail, and pipeline routes.

This participant cited a January 2010 *Georgian Daily* article describing China's "Silk Road Strategy" of building gas pipelines and railways through the Central Asian member states of the Shanghai Cooperation Organization (SCO).³ These would connect with rail networks in Iran and Turkey, and onward to Europe. One potential stumbling block to this initiative is that China, Iran, Turkey, and Europe all use a different rail gauge from the former-Soviet SCO countries in Central Asia. Consequently, China is negotiating with these states to change their rail gauges to facilitate the shipment of goods between Europe and China.

This participant described the SCO as "China's enabling mechanism for regional integration and regional hegemony in Central Eurasia" and further cited a recent

³ Member states of the SCO, which was formed at a summit in Shanghai in 2001, include China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan.

article by Guo Xuetao in *Eurasia Forum* that argues for strengthening the role of the SCO in energy cooperation. Iran is currently an observer state in the SCO, and Guo argues that a deepening of SCO-Iran ties would further promote integration via infrastructure projects that may be coordinated through the SCO, such as a proposed oil pipeline from Kazakhstan to Iran via Turkmenistan.

An Iran-Syria Nexus at the End of the “Silk Road”?

One participant observed that China’s development of a new “Silk Road” may also bode well for Syria. Since 2009, Syrian President Bashar Assad has promoted a “Four Seas Strategy” that would transform Damascus into a hub for trade and energy transport among the Black, Mediterranean, Arabian, and Caspian Seas. Syria was a terminal node in China’s ancient Silk Road.

Iran is a key component in this “Four Seas Strategy,” given that its landmass connects the Persian Gulf and the Caspian Sea. As a result, this participant said, an Iran-Syria nexus is becoming an important feature of the regional security architecture. The participant quoted Syria’s Assad as saying in 2009 that ‘Once the economic space between Syria, Turkey, Iraq and Iran becomes integrated, we would link the Mediterranean, Caspian, Black Sea, and the Persian Gulf...Once we link these four seas, we become the compulsory intersection of the whole world in investment, transport, and more.’’

In August 2009, Assad presented this strategy to Iranian supreme leader Ali Khamenei and received his blessing.⁴

The participant drew a connection between this emerging Iran-Syria strategic nexus and Iran’s “Look East” policy, which has implications for Iran’s ties to China. In terms of energy transport, Iran is seeking to link up with the Nabucco Pipeline from Turkey to Austria, which will also connect with the Arab Gas Pipeline linking Egypt, Jordan, Lebanon, and Syria. Iran hopes to use this expansion to transport Middle Eastern and Caspian gas to Europe; in the other direction, it seeks to connect to China via a pipeline through Turkmenistan. In this way, China’s “Silk Road” strategy of westward-bound development meets Iran’s “Look East” policy toward Asia and Syria’s “Four Seas Strategy.”

Implications for Regional Security

Building on the above discussion of a juncture between China’s “Silk Road” development strategy and Iran’s “Look East” policy, one participant stated that Iran appears to be assembling an axis to create a regional security architecture aimed at marginalizing the United States in the Greater Middle East. As a result, the participant said, “we are seeing a consolidation of anti-U.S. and anti-western forces

⁴ The participant cited IRNA, 19 August 2009. N Mozes, “Syria regains pivotal regional, international role—the triumph of the ‘course of resistance’,” MEMRI, Report No 583, 29 January 2010.

in the region" that is further enabled by China's military relationship with and arms sales to Iran.

Military Aspects of China-Iran Relations

The panel also discussed military aspects of the growing China-Iran relationship, and the security concerns that it could engender.

Militarization of China's Energy Policy

One participant asserted that China's simultaneous strategies of acquiring energy resources abroad and building a new "Silk Road" for energy transit across Central Asia are supported by a "militarization" of China's energy security policy.

Some observers have portrayed China as carrying out a "string of pearls" strategy, seeking access to ports along strategic maritime thoroughfares between China and the Middle East.⁵ One participant reported that in December 2009, Chinese Rear Admiral Yin Zhou expressed Chinese intentions to establish a naval base near the Gulf of Aden, where the PLA Navy is currently supporting anti-piracy efforts.⁶

Although the Admiral did not specify where such a base could be established, the participant speculated that Iran may be a potential site, and suggested that recent China-Iran energy security cooperation and Iran's expressed willingness to allow Chinese naval port calls may be a prelude to more extensive agreements to provide a small Chinese naval outpost on one of Iran's Persian Gulf islands.⁷

PLA Involvement in Iran

One participant described a growing relationship between the PLA and the IRGC that has included sponsorship by China of a missile plant enabling Iran to expand its supply of Nasr anti-ship missiles (identical to China's C-704 missiles), which could enable the Iranian navy and the IRGC to exert a great degree of control over the Persian Gulf.

While one participant expressed concern about China's "military footprint" in the Persian Gulf and other areas of the world, another participant was more skeptical. He said that there has been no indication that the Chinese military would involve itself abroad, with the exception of minor support for UN peace-keeping operations.

⁵ The phrase "String of Pearls" is not an officially announced strategy, nor is this phrase used in official Chinese sources.

⁶ Currently, the participant noted, Chinese warships are using a French naval base at Djibouti for re-supply.

⁷ The participant cited Kaveh L Afrasiabi, "A China Base in Iran?" *Asia Times Online*, 29 January 2008.

As for whether China may see the need to protect Chinese workers as a rationale for future military deployments abroad, this participant pointed out that a number of Chinese engineers have been killed in Pakistan in recent years, but China has shown no sign that they are considering PLA involvement. The participant said he has seen no evidence that the Chinese are “coming in with a big stick as distinct from money.”

Taiwan Linkages

One participant also pointed out that China sees a link between its relations with Iran and the Taiwan issue. According to this participant, whenever the U.S. demarches China on weapons proliferation to Iran, China ripostes that the United States is selling weapons to Taiwan. In this way, Chinese officials have repeatedly evoked the Taiwan-Iran linkage to justify continued arms sales to Iran.

The participant cited Professor Wu Bingbing, who has written that China’s sale of nuclear materials to Iran in the 1980s was intended in part as a “counterattack” to U.S. arms sales to Taiwan under the Taiwan Relations Act.

The participant described an additional Iran-Taiwan linkage, stating that China’s alignment with Iran in the Persian Gulf is in part a result of China’s fear that in the event of a conflict over Taiwan, the U.S. Navy would block China’s energy imports from the Persian Gulf. If China, Russia, and Iran aligned to control the Gulf’s “east bank,” such a blockade would be unlikely to succeed.

Proliferation Concerns

One participant examined the ways in which the China-Iran economic relationship could potentially impact the Iranian effort to develop its nuclear capability. The participant noted that Iran imports a large volume of Chinese machine tools and factory goods, and that “this raises the question of what machine tools, and what factory goods? And what potential proliferation risks are there, or might there be?” Since there is very little transparency in the trade relationship, it is difficult to divine and decipher the information needed to answer these questions.

This participant also suggested that U.S. policy-makers should closely observe the actions of Iranian engineering companies. These companies could be involved in seeking to procure dual-use equipment from Chinese companies, including vacuum pumps that could be used in uranium enrichment. He doubted that the Chinese are knowingly making these deals for the purpose of proliferation, but believed that the United States should be aware of the “full range and the full spectrum of actors.”

Linkages Affecting the China-Iran Relationship

A key takeaway from the roundtable was that China-Iran ties should not be understood simply as a bilateral relationship, but rather as part of a much more extensive and complicated set of economic relationships binding East Asia, South Asia, and the Persian Gulf. If we neglect emerging cross-regional linkages, one participant warned, we run the risk of “thinking in a very compartmentalized way.” Another participant agreed, arguing that China, though an important player, is only one of a number of key Asian countries who are playing a “flamboyant and assertive role” in the Middle East and Iran.

Economic Linkages

Participants pointed out that other Asian countries have become significantly involved in Iran’s economy. Japan, for instance, was Iran’s largest oil customer until 2009, and continues to sell a large number of products to Iran. One participant speculated that being economically overtaken by China in Iran has “got to be worrying the Japanese a little bit, the fact that they’re squeezed out or could be squeezed out, or have to compete in ways that they’re unaccustomed to.”

Some discussion also focused on South Korean investment and Indian expatriate labor in the Middle East, though without specific reference to these countries’ economic interests in Iran.

Security Linkages

In addition to the many countries with an economic presence in Iran and elsewhere in the Gulf region, there are a number of countries whose security interests factor into the China-Iran relationship:

- **India.** One participant argued that India has exhibited more concern about China’s “string of pearls” strategy than any other country. This perceived strategy, which some commentators have speculated may include basing rights for China in Iranian ports, could affect India’s aspiration to be the predominant power in the Indian Ocean. In fact, the “string of pearls” scenario has been used by the Indian Navy to press for greater funding. The participant expressed some concern that this could lead to an “Asian maritime arms race.”
- **Israel.** One participant pointed out that China has achieved the impressive feat of maintaining close diplomatic and military ties with both Iran and Iran’s greatest enemy in the region: Israel. The participant observed that China and all other countries dependent on imported oil are particularly concerned about the impact of potential Israeli military action against Iran over its nuclear development, which could not only drive up oil prices but could obviously have other severe implications.

- **Saudi Arabia.** Two participants pointed out that China has a strong economic relationship with Saudi Arabia, perhaps even stronger than its relationship with Iran. Not only is Saudi Arabia one of China's largest oil providers, but the Saudis have also made significant investments in downstream operations in China. Saudi Arabia, one participant stated, has been very publicly "wringing its hands" about the prospect of an Iranian "hegemon" in the Gulf with an emerging nuclear capability. This has also been a concern for smaller Gulf States. Saudi Arabia was a factor in the recent discussions in New York that led to new economic sanctions on Iran, which will be discussed in a later section.

Future Paths for China-Iran Relations

Having provided a detailed description of many aspects of China-Iran relations, the participants presented their views on where the relationship may be headed in the future.

A Pragmatic, but Asymmetrical, Relationship

As noted before, one participant felt that China and Iran, despite their strong relationship and shared interests, should not be viewed as "strategic partners" but rather as "fair-weather business partners." Another participant agreed, asserting that the hallmark of China-Iran relations is pragmatism. Although the two states have divergent ideological orientations and approaches to regional and international affairs, their relationship has grown steadily based on a pragmatic understanding of shared economic interests.

However, despite these shared interests, it is an asymmetric relationship. As one participant put it, "Though they need each other economically, and especially with respect to energy...the Iranians need the Chinese more than the Chinese need the Iranians." Although the Chinese have strong economic relations with scores of countries around the world and have cultivated many sources of energy, Iran is largely isolated. As a result of economic sanctions, Iran has become economically reliant on countries to the east, which it sees as more amicable to do business with, particularly because these countries are less likely to meddle in Iran's domestic affairs.

Challenges for Future China-Iran Relations

The participants presented several factors that could bode ill for a solid, sustainable China-Iran relationship. One is that Iran has proven exceedingly difficult to work with. One participant reported that the Chinese have found the Iranian business environment to be characterized by uncertainty—the price they pay for goods and the terms of business agreements can change with little notice. Another participant indicated that in acquiring energy resources, China may begin to shift away from

Iran and toward Saudi Arabia, merely because the Iranians are "so terrible to do business with...everyone dislikes doing business with them."

One participant noted that China (along with other players like India, Japan, and South Korea) has benefitted from its ability to "remain friends with everyone" in the Middle East. The main reason for this has been China's lack of "colonial baggage." European countries have a great deal of such baggage, and the United States has "the stigma of being the hegemon right now," but because China has been present in the region for such a short period of time, it lacks these negative perceptions.

However, the participant argued, "you can't go on forever being friends with everybody if you're going to become more deeply involved."

As China's activities in the region continue to increase, its ties with Iran will inevitably have an effect on the interests of other regional powers, including countries with which China enjoys strong relationships.

China-Iran Relations and China as a Responsible International Player

China will have to engage in a balancing act in the coming years, seeking to benefit from its relationship with Iran without offending the United States and others. One participant pointed out that whenever a major agreement is signed between Iran and China, the Iranians celebrate it with great fanfare, seeking to leverage it for political value. On the other hand, the Chinese are much more low-key and not eager to advertise their business dealings with Iran, due in part to the latter's pariah status in the international community.

The Iranians, according to another participant, "like to talk about their close ties with China, and this is where they think the future lies." However, China may not be such a "willing suitor." One reason is China's wariness about potential damage that this relationship may cause to the image it is trying to cultivate internationally.

One participant argued that Chinese policy-makers are striving for China to be viewed as a "responsible rather than irresponsible player on the world stage." Whenever China is exposed as a "rogue actor," it is profoundly embarrassing to leaders in Beijing and can become a setback to China's pursuit of its global interests.

Another participant raised the example of the international activism directed at China several years ago over its close relationship with the government of Sudan, including a push by activists to label the 2008 Olympics in Beijing the "genocide games."

Such embarrassments, according to this participant, occur whenever China's critics portray it as "cynically supporting dictatorships, irrespective of what the dictatorship is up to, as long as they can do business."

China's Difficult Position in the UN Security Council Sanctions Resolution

Two participants used the recent discussions within the UN Security Council that resulted in new sanctions against Iran to illustrate the limits of China-Iran relations.

One noted that both China and Russia ultimately supported these sanctions; this had to be painful for Iran, which "considers itself so important and is establishing such close ties with the east. This participant noted that the sanctions were watered down significantly to obtain Chinese and Russian support. In particular, he said, the new sanctions have minimal effect on the energy sector. The participant argued, however, that the mere fact that China and Russia finally acquiesced "is a very telling indicator of where the compass is pointing."

One participant indicated that one factor drawing China toward approving these sanctions was the desire not to be isolated. He noted that largely due to changes in U.S.-Russia relations, the Russians gravitated toward the United States and European Union position relatively quickly, which "hung the Chinese out to dry."

China did not want to be viewed as the one permanent member of the UN Security Council that was holding out and defending Iran.

One participant pointed out that China may have also been influenced by other Middle Eastern countries with an interest in limiting Iran's power. As the last round of sanctions was debated in New York, he pointed out, both a Saudi delegation and an Israeli delegation visited China. In the run-up to the final vote, the Saudis publicly announced that they would ramp up oil production and exports to China.

The participant cautioned against viewing China's ultimate position on the sanctions as a radical departure in its approach to Iran, but maintained that it was certainly an adjustment. It remains to be seen what future "adjustments" the Chinese will make in order to promote a responsible image and maintain strong ties with Western powers.

Implications for the United States

Finally, the panel discussed how the emerging China-Iran relationship might affect the strategic future of the United States in the Middle East and Persian Gulf region.

Still the Key Player

The development of China-Iran relations has clearly resulted in an increased Chinese economic presence in the Persian Gulf. The panelists discussed whether

the United States should view China as an emerging competitor for power in this region. Despite China's increasing regional involvement, participants agreed that the U.S. will remain the most important external player in the foreseeable future.

Nevertheless, participants pointed out, other countries, especially China, are gaining power and influence. In the future, one participant asserted, the success of U.S. policy toward the Middle East will increasingly depend upon our ability to work much more closely with the key Asian countries, particularly in the area of maritime security. One important balancing role the United States will have to play, according to the participant, is in pursuing shared interests with both China and India as these countries further develop their relationships with Iran and other countries.

The United States and China: Shared Regional Interests

Cooperation with China in the region, participants emphasized, should be based on the recognition of shared strategic interests. In the short run, one participant argued, there are many such interests: "We both want stability, we want to see minimal terrorism, we want to control piracy, we want to play down radicalism, and we want to stop proliferation." Where there are differences of opinion, this participant argued, they have mostly been about how to achieve these goals.

Another participant argued that one positive dimension of China-Iran relations for the United States is that the Chinese currently appear to put a much higher premium on their relations with the United States than they do with Iran. Another participant agreed, adding that in strategic and economic terms, "There is no question that China-U.S. relations dwarf China-Iranian relations."

If "push came to shove," said this participant, and China was forced to choose between the two, "I have no doubt that they would choose the United States." He noted, however, that "I don't think that [the Chinese have] ever been in that situation, and therefore they've managed to avoid having to make really tough decisions."

Appendix: Agenda of the CNA Roundtable Discussion



CNA Roundtable Discussion

China's Relations with Iran

July 29, 2010

Agenda

1:30 – 2:45 Panel Discussion

- **Kerry Dumbaugh**, China Analyst, CNA China Studies (moderator)
- **John Calabrese**, Professor, U.S. Foreign Policy, American University

Topic: China-Iran economic interests and actors

- **Christina Lin**, Visiting Fellow, Washington Institute for Near East Policy

Topic: security issues in China-Iran relations

- **Geoffrey Kemp**, Director, Regional Strategic Programs, Nixon Center

Topic: the larger context of China-Iran relations, and the implications for the United States and for regional stability

2:45 – 3:00 Closing Remarks



Cover photo: REUTERS/Mark Ralston/Pool (China)

Iran's President Mahmoud Ahmadinejad (L) meets China's President Hu Jintao before their bilateral meeting at the Xijiao State Guest House in Shanghai June 16, 2006.