

The Iran Nuclear Issue: The View from Beijing

I. OVERVIEW

The revelation in 2009 of nuclear facilities near Qom intensified international criticism of Iran's opaque nuclear development. As Western countries prepare to pursue tougher sanctions at the UN, China's acquiescence as a permanent Security Council member is vital but will be difficult to obtain. Beijing is reluctant to pursue further sanctions, insisting that a solution to the nuclear impasse must be sought first and foremost through diplomacy. It emphasises that as long as Iran honours its Nuclear Non-proliferation Treaty (NPT) commitments not to use nuclear technology for military purposes, it should not be obliged to forgo its rights, including enrichment, under that accord.

Beijing is unconvinced that Iran has the ability to develop nuclear weapons in the short term and does not share the West's sense of urgency about the possibility of a nuclear-armed Iran, despite the risks that this would present to China's long-term interests. Moreover, it does not believe the sanctions proposed by the West will bring about a solution to the issue, particularly given the failure of this approach so far. And while Beijing has stated that it supports a "nuclear-free" Middle East, it does not want to sacrifice its own energy interests in Iran. However, if China finds itself facing unanimous support for sanctions from other Security Council members, it will delay but not block a resolution, while seeking to weaken its punitive terms.

China has vested interests in a good relationship with Iran. Iran is China's third largest source of imported crude oil and possesses the abundant energy reserves that the rising power needs to sustain its rapid economic growth. China's thirst for energy and its vast foreign reserves are an ideal complement to Iran, which has the world's second-largest crude oil reserves but desperately needs investment to develop them. But China's priorities in Iran go beyond economic interests. Strong bilateral relations help to counter U.S. dominance in the Middle East and increase Beijing's strategic leverage. China sees Iran's influence in the Middle East and Central Asia as useful to advancing its political, economic and strategic agenda in that region. The two countries also share important historical and political affinities, shaped by suspicion towards the West

and reinforced by an experience of sanctions and a perception of U.S. interference in their domestic politics. At the same time, the condemnation by some Iranian clerics of Chinese actions following the July 2009 Xinjiang riots has also led Beijing to view the relationship through the lens of protecting its domestic stability.

Chinese officials have been pursuing a delay-and-weaken strategy with regard to UN sanctions by focusing on the importance of a negotiated settlement. Pursuit of the diplomatic track delays punitive action and maximises Beijing's bargaining power with regard to both Iran and the West. Nevertheless, if Russia finally supports sanctions, China will likely come on board to avoid diplomatic isolation. Ultimately, Beijing will not side with Iran at the expense of its relations with the U.S. Despite recent troubles in the Sino-U.S. relationship, China still values those ties more than its ties to Tehran. To protect its interests, however, it will negotiate strongly to weaken the terms of proposed sanctions.

This briefing examines the factors influencing China's policy towards Iran, the framework within which Beijing will ultimately make its decisions and the likely implications for international efforts to address the nuclear issue, particularly within the UN.

II. CONTEXT: CHINA'S STANCE ON IRAN'S NUCLEAR DEVELOPMENT¹

A. CHINESE POLICYMAKING ON IRAN

Within the Chinese government, the foreign ministry officially leads policymaking on the Iran nuclear issue, with responsibility distributed among three departments: Arms Control and Disarmament (non-proliferation), West Asian and North African Affairs (where the Iran Desk is located) and International Organisations and Conferences (responsible for UN negotiations). There is debate within the foreign policy circle regarding the danger of Iran's nuclear development and its implications for China's policy.² One school asserts that Tehran's behaviour could endanger peace and stability in the Middle East and is therefore detrimental to China's interests in the region.³ This school is concerned about the possibility of escalating tensions, particularly if the U.S. were to become part of any possible military confrontation. Proponents of this view believe that China should be alarmed about Tehran's moves and actively seek to mediate between it and Washington.

However, another school of thought in Beijing maintains that Iran's nuclear brinkmanship could continue without dire consequences and that the U.S. will prevent any military confrontation.⁴ To a large extent, this second faction is backed by state-owned oil and gas companies and their supporters in the government, for whom energy security is a more pressing concern than Iran's nuclear activities.⁵ Given their financial interest in avoiding sanctions, corporate actors have strong opinions on Chinese policy towards Iran.

¹For earlier Crisis Group reporting on the Iran nuclear crisis, see Crisis Group Middle East Reports N° 51, *Iran: Is There a Way Out of the Nuclear Impasse?*, 23 February 2006; and N°18, *Dealing with Iran's Nuclear Program*, 27 October 2003; and Crisis Group Middle East Briefings N°28, *U.S.-Iranian Engagement: The View from Tehran*, 2 June 2009; and N°15, *Iran: Where Next on the Nuclear Standoff?*, 24 November 2004. For earlier Crisis Group reporting on China's foreign policy, see Crisis Group Asia Reports N°179, *Shades of Red: China's Debate over North Korea*, 2 November 2009; N°177, *China's Myanmar Dilemma*, 14 September 2009; N°166, *China's Growing Role in UN Peacekeeping*, 17 April 2009; and N°153, *China's Thirst for Oil*, 9 June 2008.

²Crisis Group interviews, Beijing, December 2009 and January 2010.

³See Section IV.A below.

⁴See fn. 74 below.

⁵Crisis Group Report, *China's Thirst for Oil*, op. cit.

B. STANCE ON NON-PROLIFERATION

China formally supports nuclear non-proliferation and the authority of the International Atomic Energy Agency (IAEA), and opposes development of nuclear weapons by Iran.⁶ It is a signatory to the major conventions of the NPT regime and participates in relevant multilateral bodies including: the IAEA, the Conference on Disarmament of the UN General Assembly's First Committee and the Global Nuclear Energy Partnership. While China applies export restrictions on dual-use technologies and materials, government control has been decentralised as the economy has grown. This has made enforcement more difficult at the same time as traffickers have become more sophisticated and new dual-use items and materials increasingly difficult to identify.⁷

⁶U.S. diplomacy has been cited as a key factor behind China's shift from being a proliferator – having developed its own nuclear weapons – and outside the international treaty regime to signing the NPT in 1992 and the Comprehensive Nuclear Test Ban Treaty in 1996. According to U.S. political scientist Evan Medeiros, persistent and often coercive U.S. diplomacy over the course of a quarter-century counterbalanced China's financial and political incentives for proliferation, changed its view of its own strategic interest, and (with non-governmental involvement) helped it build the specialist community needed to implement its commitments. Evan Medeiros, *Reluctant Restraint: The Evolution of China's Nonproliferation Policies and Practices, 1980-2004* (Stanford, 2007). China stated its position clearly when it voted for three Security Council sanctions resolutions, 1696, 1737 and 1747; see UNSC S/2006/1696, 31 July 2006; UNSC S/2006/1737, 23 December 2006; and UNSC S/2007/1747, 24 March 2007. For a detailed discussion of China's non-proliferation policies, see Medeiros, op. cit.

⁷While China's nuclear trade with Iran formally ended in 1997, the U.S. has imposed unilateral sanctions on multiple Chinese companies since 2001 under the charge of exporting dual-use technologies to Iran. The 2000 Iran Nonproliferation Act authorises the president to take punitive action against organisations or individuals providing material aid to programs of weapons of mass destruction (WMD) in Iran. The U.S. government has named five Chinese companies as "serial proliferators" (defined as companies that have been sanctioned four times or more): China Great Wall Industry Corporation, China Precision Machinery Import/Export Corporation, China North Industries Corporation (NORINCO), Wha Cheong Tai Company, Ltd. and Zibo Chemical Equipment Plant. Chinese officials continue to express disappointment and anger over such sanctions, particularly in light of continued U.S. arms sales to Taiwan, which are seen as hypocritical behaviour that undermines China's national interest by promoting the independence of the island. "You want us to respect core U.S. values on exports, but you don't control your exports to a region of China, so there is conflict in your action". Crisis Group interview, Beijing, December 2009. "U.S. Nonproliferation

Beijing does not want its nuclear status to be diluted and believes that additional nuclear weapons-capable countries would alter the delicate balance of power.⁸ Furthermore, it thinks that smaller powers may not be “as responsible as big powers both technically and politically in nuclear development and application”.⁹ At the same time, China supports Iran’s legitimate right to peaceful nuclear energy and opposes using non-proven proliferation concerns as a pretext to limit it.¹⁰ On this basis, Beijing strongly advocates a diplomatic solution to the Iran nuclear issue, including in the immediate term a nuclear fuel swap agreement arranged under IAEA auspices that would allow additional time for negotiations.¹¹

C. PERCEPTION OF A NUCLEAR THREAT

Unlike many Western countries, China does not view Iran’s nuclear program as an immediate threat.¹² Most Chinese analysts are unconvinced that Iran will possess the ability to enhance LEU to the level sufficient for building nuclear weapons in the near future despite its claims to the contrary.¹³ They further note that Iran lacks

the technology to weaponise highly enriched uranium (to shape it into a warhead or to mount a nuclear warhead onto a missile delivery vehicle). According to General Zhang Zhaozhong of the National Defense University, “the enrichment technology of Iran is very primitive. ... Iran does not have large quantities of uranium ore. ... And it’s a very long process from processing nuclear materials to actually developing nuclear weapons. Iran does not have the required facilities, equipments or technology”.¹⁴ Chinese analysts also point out that because Iran has allowed the IAEA access to its declared sites, the issue is “political, not technical” and that the West is pressuring China to take a stronger position without providing concrete proof that Iran is pursuing a nuclear weapons program.¹⁵

While there is consensus in China that Iran is not yet close to developing nuclear weapons, some analysts and officials in Beijing do believe that this is Tehran’s ultimate aim.¹⁶ “We understand that Iran fundamentally desires to develop nuclear weapons, due to issues of pride and history, its security in the region, plus it is watching other powers get them”.¹⁷ Yet while analysts agreed that an Iranian nuclear weapon would be contrary to China’s interests, particularly if it set off a regional arms race,¹⁸ they did not feel that this necessarily obligated China to take immediate measures. “We do not want a nuclear[-weapon] Iran, but don’t feel there is a need to take action now”.¹⁹ Part of the reason is China’s opposition to the course the West proposes – the sanctions approach.²⁰

This stance is also rooted in an underlying belief that U.S. policy over many years bears significant responsibility for any Iranian determination to acquire nuclear weapons.²¹ One analyst, questioning the focus on China with

Sanctions against China and/or Chinese Entities”, Nuclear Threat Initiative, October 2009.

⁸ Crisis Group Report, *Shades of Red*, op. cit., p. 18.

⁹ Crisis Group interview, Beijing, July 2009.

¹⁰ “China’s Non-Proliferation Policy and Measures”, foreign ministry, 3 December 2003.

¹¹ A nuclear fuel swap was first suggested in 2009 during talks on the nuclear development program between Iran and the five permanent members of the Security Council plus Germany (P5+1). Under the terms of the draft deal brokered by the IAEA, Iran would send a large percentage of its low-enriched uranium (LEU) to Russia and France, where it would be converted into somewhat more highly enriched fuel for the Tehran Research Reactor and sent back in fuel rods that could not be turned into weapons material. By ensuring that Tehran would not have in its possession sufficient LEU in the short term to construct a bomb even if it were enriched to the much higher level needed for weaponisation, the West hopes to gain time to continue negotiations over Iran’s nuclear development program, while providing the fuel Iran requires to maintain production of medical isotopes. The P5+1 concept originated with collaboration between France, Germany, and the UK from 2003 to 2005 to offer Iran a number of proposals to resolve the nuclear issue and the decision by China, Russia and the U.S. to join them in 2006.

¹² Crisis Group interviews, Beijing, December 2009, January 2010.

¹³ Crisis Group interviews, Beijing, November, December 2009.

On 11 February 2010, President Ahmadinejad announced that Iran had the capacity to make weapons-grade nuclear fuel if it chose to do so, proclaiming the country a “nuclear state”. Michael Slackman, “On anniversary, Ahmadinejad boasts of Iran’s nuclear prowess”, *The New York Times*, 11 February 2010. In 2008, the IAEA announced that Iran had substantially improved the efficiency of its centrifuges that produce enriched uranium. “Implementation of the NPT Safeguards Agreement and relevant provisions of Security Council reso-

lutions 1737 (2006), 1747 (2007) and 1803 (2008) in the Islamic Republic of Iran”, IAEA, 15 September 2008. “Nuclear agency says Iran has improved enrichment”, *The New York Times*, 16 September 2008; Jamie Fly, “Iran’s Nuclear Program: Time is of the Essence”, The Foreign Policy Initiative, 8 October 2009.

¹⁴ 张召忠, [Zhang Zhaozhong], 下一场战争[*Next War*] (Huaxia Publishing House, November 2009), pp. 48-49.

¹⁵ Crisis Group interview, Beijing, February 2010.

¹⁶ Some Chinese scholars have noted that Iran sees China as a role model for developing nuclear weapons against all odds and achieving great power status. Crisis Group interviews, Beijing, November, December and January 2009.

¹⁷ Crisis Group interview, Beijing, January 2010.

¹⁸ See Section IV.A below.

¹⁹ Crisis Group interview, Beijing, January 2010.

²⁰ See Section V below.

²¹ China believes that the Iran nuclear issue is largely a problem created by a long string of U.S. policy mistakes, beginning with the CIA-backed ouster of Prime Minister Mohammed Mossadegh in 1953 and extensive support for the Pahlavi

regard to the Iran nuclear issue, said that the burden falls first on the U.S. (as the historical origin of the problem); then Europe (given its economic relationship with Iran); and Russia (a significant source of Tehran's arms).²² Analysts also had no qualms suggesting that China does not mind the issue tying up U.S. resources and attention.²³

When Beijing feels that proliferation does not pose a direct threat to its core interests, it tends to frame it as an issue falling within its bilateral relations with the U.S.²⁴ That non-proliferation is such a high priority on the U.S. foreign policy agenda (and one of the reasons President Obama won the 2009 Nobel Peace Prize) means to China that its bargaining position with the administration is strengthened, with regard to Iran as well as other bilateral issues.²⁵ With Washington due to host a global summit on nuclear security in April 2010, China may be even more sensitive to the benefits it stands to gain by meeting some U.S. expectations on Iran. Indeed, the U.S. is expending significant efforts to secure Chinese cooperation on the issue, including by offering various incentives (See Section V.C below). Although China has always engaged in issue linkage, in recent months it has done so more publicly. Responding to the U.S. announcement of arms sales to Taiwan, for example, the foreign ministry threatened lessened cooperation "on key international issues".²⁶

D. PERCEPTION OF WESTERN DOUBLE STANDARDS ON NUCLEAR DEVELOPMENT AND PEACEFUL USE

Beijing resents what it considers the West's apparent double standards on nuclear development and the right to peaceful use.²⁷ It sees hypocrisy in the lack of criti-

cism of Israel, which is widely believed to possess a nuclear arsenal but has not acceded to the NPT despite UN resolutions and IAEA statements calling upon it to join (in contrast to Iran which is a party).²⁸ China also perceives a double standard in the U.S.-India Peaceful Atomic Energy Cooperation Act (2008), which established India as the only non-NPT country with declared nuclear weapons allowed to conduct international nuclear trade.²⁹ Numerous arms control and Middle East analysts, as well as the International Commission on Nuclear Non-proliferation and Disarmament (ICNND), consider that the NPT is being undermined by the three nuclear armed states that persist in not joining the treaty (India, Pakistan and Israel).³⁰ To China, these examples demonstrate U.S. nuclear favouritism and show that under

与出路》[“Peaceful Use of Nuclear Power vs. Non-proliferation: The Dilemma and Way Out”], 国际问题研究[*International Studies*], vol. 6 (2006), p. 69. This perception of double standards is shared by numerous arms control experts. Mohamed El-Baradei, at the time the head of the IAEA, stated: “What compounds the problem is that the nuclear non-proliferation regime has lost its legitimacy in the eyes of Arab public opinion because of the perceived double-standards concerning Israel, the only state in the region outside the NPT and known to possess nuclear weapons”. “Israel seen undermining disarmament – ElBaradei”, Reuters, 16 February 2009. Former CIA officer and current Senior Fellow at the Brookings Institution Bruce Riedel commented: “If you’re really serious about a deal with Iran, Israel has to come out of the closet. A policy of fiction and double standards is bound to fail ...”; Jeffrey Lewis, “Twenty Two Cascades Under Vacuum”, Arms Control Wonk (www.armscontrolwonk.com/2442/twenty-two-cascades-under-vacuum), 28 August 2009.

²⁸“Nuclear Weapons: Who Has What at a Glance”, Arms Control Association, www.armscontrol.org; “Obama dodges question on Israeli nuclear capability”, The Huffington Post, 9 February 2009; UNSC S/487/1981, 19 June 1981; “Israel Nuclear Capabilities”, IAEA, GC(53)/RES/17, 18 September 2009.

²⁹ According to one official, “it is normal to draw a parallel between India and other proliferation cases, leading to the conclusion that under certain circumstances the non-proliferation regime will serve the political interest of some big powers. So people will naturally say that the NPT regime is not convincing because it is not using the same standards”. In addition to the double standard aspect, Beijing deeply regrets that India, a country with which it has open border disputes, is now a de facto nuclear power. “The U.S.-India nuclear deal exacerbated U.S.-China and China-India distrust, raising questions in China about U.S. and Indian motives”. Crisis Group interviews, Beijing, October and November 2009. “India energised by nuclear pacts”, Agence France-Presse, 1 October 2008. “Gareth Evans slams Indo-U.S. nuclear deal”, Press Trust of India, 26 January 2010. Gareth Evans is president emeritus of Crisis Group.

³⁰ Gareth Evans and Yoriko Kawaguchi, co-chairs of the International Commission on Nuclear Non-proliferation and Disarmament (ICNND), *Eliminating Nuclear Threats* (Cambridge, 2009), p. 35.

government until the 1979 Revolution, and exacerbated by subsequent U.S. actions including sanctions, a tilt against Iran in the Iran-Iraq War (1980-1988), labelling Iran part of an “axis of evil” in the George W. Bush administration and the naval presence in the Persian Gulf. Crisis Group interview, Beijing, January 2010; and Jon B. Alterman and John W. Garver, “The Vital Triangle: China, the United States, and the Middle East”, Center for Strategic and International Studies (CSIS), 20 May 2008, p. 45.

²² Crisis Group interview, Beijing, January 2010.

²³ Crisis Group interviews, Beijing, January 2010.

²⁴ According to a Chinese policy analyst, “while traditionally, China did not worry about proliferation, now we worry about how proliferation will affect our relations with the U.S”. Crisis Group interview, Beijing, October 2009.

²⁵ Crisis Group interview, Beijing, October 2009.

²⁶ “Beijing furious at arms sales to Taiwan”, *China Daily*, 1 February 2010.

²⁷ Crisis Group interviews, Beijing, December 2009, January 2010. 滕建群[Teng Jianqun], 《和平利用核能与防扩散的困境

certain circumstances, the NPT regime serves the political interests of a few major powers.³¹

China also sees hypocrisy in the West's opposition to Iran's national reprocessing and enrichment program despite Article IV of the NPT, which ensures the right to cooperation for peaceful nuclear use (technology).³² Insisting that any distinction between nuclear haves and have-nots is not legally justified by the treaty, and that Article IV entitles countries to have peaceful enrichment or reprocessing technologies, China rejects the position that Iran's record of secret activities has rendered it ineligible for virtually all such national activities.³³ Beijing further criticises the West for prioritising non-proliferation over both peaceful use and disarmament, asserting that the three are equal pillars of the NPT.³⁴ This partially explains why China continues to defend Iran's right to peaceful enrichment but not to develop nuclear weapons.

³¹ Crisis Group interview, Beijing, December 2009.

³² According to Article IV of the treaty, "Nothing in this Treaty shall be interpreted as affecting the inalienable right of all Parties to the Treaty to develop research, production and use of nuclear energy for peaceful purposes".

³³ To a certain extent, Iran's track record of secretiveness and unwillingness to sign the Additional Protocol that it signed in 2003 and that provides a greater right of international inspection still underpins the West's position on the nuclear issue, including the present pursuit of additional sanctions. Crisis Group email correspondence with non-proliferation expert, Washington DC, February 2010. The Bush administration insisted that Iran halt all enrichment. Given the large overlap between civilian and military applications of nuclear energy, some in the West see any meaningful national enrichment or reprocessing capability as enabling development of a nuclear weapons program and therefore dangerous. The Bush administration in particular pursued a tough line with Iran, repeatedly reminding that "all options remained on the table" if the government in Tehran did not comply with international demands. Dafna Linzer, "Iran defies deadline on nuclear program", *The Washington Post*, 1 September 2006. In a 2 June 2009 interview, President Obama conceded that the Iranian government may have some right to seek nuclear energy for civilian purposes, labelling these "legitimate aspirations", if Tehran could prove its peaceful intent by the end of the year. "Obama: Iran may have rights to civilian nuclear power", CBS news.com, 2 June 2009.

³⁴ According to an official, "the three pillars of non-proliferation are all important, and comprehensive and balanced advancement of them is necessary for the success of the NPT. ... but it seems there are certain countries that pay more attention to non-proliferation and continue to invest more in this area. We need to avoid double standards or imposing one's view on others". Crisis Group interview, Beijing, December 2009.

III. BILATERAL ENERGY, TRADE, AND INVESTMENT TIES

A. NEED FOR IRANIAN ENERGY

Continued economic growth is central to the Chinese government's legitimacy, which makes energy security a top priority.³⁵ Corporate interests, in particular the nationally-owned energy companies, play a leading role in policy towards Iran.³⁶ China's thirst for energy and vast foreign exchange reserves are ideally matched with Iran's abundant hydrocarbon resources and need for investment.³⁷ Iran profits financially from Chinese energy investments and politically from the demonstration that it can attract business partners despite sanctions. China also provides up to one third of Iran's petrol imports, a development encouraged by Tehran, which despite its rich crude oil reserves lacks sufficient refining capacity to meet domestic demand.³⁸

China now receives 11.4 per cent of its crude oil from Iran, making it Beijing's third largest supplier behind Saudi Arabia and Angola, and Chinese companies see the country's oil and gas reserves, the world's second-largest, as a key area for investment expansion.³⁹ Beijing

³⁵ See Crisis Group Report, *China's Thirst for Oil*, op. cit.; China experienced gas shortages in 2004, which intensified in 2005 and recurred in 2007. Gas shortages impact China's export-oriented economy and arouse popular dissatisfaction with the monopoly of state-owned oil companies and the centrally managed pricing system. "专家指出：警惕国内'体制性油荒'" [Experts: Be alerted on 'systematic gas drought' in China"], *Xinhua*, 22 October 2004; "2007年中国经济大事之一油荒" ["Main events of Chinese economy in 2007: gas drought"], China Economic Information Network, 27 December 2007. Oil prices reached a historic high of \$147.27 per barrel in July 2008. "Oil hits new high on Iran fears", BBC, 11 July 2008.

³⁶ For information on how energy interests can hijack and in some cases damage Chinese foreign policy, see Crisis Group Reports, *China's Thirst for Oil*, op. cit., and *China's Growing Role in UN Peacekeeping*, op. cit., pp. 14-17.

³⁷ Crisis Group Report, *China's Thirst for Oil*, op. cit.; China's foreign currency reserves rose to \$2.4 trillion at the end of 2009. "China's Foreign Exchange Reserves Jump in 2009", Reuters, 15 January 2010.

³⁸ International companies, including BP and Reliance of India, have recently stopped selling petrol to Iran due to pressure from U.S. officials. Given the unwillingness of China and Russia to agree to UN sanctions on petrol sales to Iran, the U.S. has undertaken a behind-the-scenes campaign to convince Western energy companies to abstain from such transactions. Javier Blas, Carola Hoyos, and Daniel Dombey, "Chinese begin petrol supplies to Iran", *Financial Times*, 22 September 2009.

³⁹ Chris Buckley, "Q+A – Where does China stand on Iran sanctions?", Reuters, 10 February 2010. "Statistical Review of World Energy", BP (www.bp.com), June 2009. China plans

is also particularly interested in Iranian liquefied natural gas (LNG), and its imports are on the rise.⁴⁰ In addition, Iran is one of the few Persian Gulf states that permit foreign companies to engage directly in the exploration and production sectors, making it especially attractive to Chinese investors.⁴¹

China has profited immensely from the economic vacuum created by Western sanctions, which ensure its companies face far less competition in Iranian markets than they would elsewhere.⁴² These include long-standing U.S. measures, both those that directly target Iran and those that are intended to inhibit outside investment in the oil sector and other financial dealings with Iranian entities.⁴³ Yet, Chinese companies are not immune from compli-

to continue to import large amounts of crude oil from Iran in 2010. "Oil: Iran's trump card", CNN, 30 September 2009; and, "珠海振戎明年继续从伊朗进口1200万吨原油" ["Zhuhai Zhenron continues to import 12 million tons of crude oil from Iran next year"], *Wangyi Economic and Financial News*, 18 December 2009.

⁴⁰In the first eleven months of 2009, China imported 1,038 million tons of LNG from Iran, 11.9 per cent of its total LNG imports. On 10 February 2010, it was announced that CNPC finalised a deal to develop phase 11 of Iran's South Pars gas project. Drilling will start as early as March 2010. China's natural gas consumption grew 11.5 per cent in 2009 and is estimated to grow an average of 5.4 per cent per year from 2006 to 2030. "Economy China's natural gas short of demand", *China Daily*, 14 February 2010., <中国09年前11个月液化气进口量同比增长65.2%> ["China's LNG import increased 62.5 per cent in the first eleven months of 2009"], General Administration of Chinese Customs, (www.customs.gov.cn/publish/portal0/), 14 January 2010; and Chen Aizhu, "CNPC in deal to develop Iran gas field", Reuters, 10 February 2010.

⁴¹John Garver, Flynt Leverett and Hillary Mann Leverett, "Moving (Slightly) Closer to Iran: China's shifting calculus for managing its 'Persian Gulf Dilemma'", Johns Hopkins School of Advanced International Studies (SAIS), October 2009.

⁴²In addition to Total's withdrawal in 2008, Shell pulled out of a buy-back agreement for the upstream portion of Phases 13 and 14 in South Pars amid U.S. congressional pressure. "Shell withdraws from South Pars phases 13 and 14", Information Handling Services (IHS), 19 May 2008. However, other Western oil companies have remained. Italian, German and Swiss oil companies are currently investing in projects worth a combined \$14.6 billion. "Factbox: Iran's major oil customers, energy partners", Reuters, 19 August 2009. Russia's Gazprom recently signed a memorandum of understanding with the National Iranian Oil Company (NIOC) to jointly develop the Azar and Shangle oil fields. "Gazprom Neft, NIOC to partner at Iran oilfields", Reuters, 11 November 2009.

⁴³Specific sanctions include Export-Import Bank assistance for exports to sanctioned persons, export sanctions, loans from U.S. financial institutions, prohibitions on financial institutions and prohibition on designation as primary dealer. "H.R. 3107, The Iran and Libya Sanction Act of 1996", U.S. House of Representatives, 18 June 1996.

cations associated with these sanctions.⁴⁴ The State Department has conducted several investigations on Chinese companies doing business in Iran, although so far it has not imposed any substantial penalties.⁴⁵

Nevertheless, Iran's operating environment presents a continual challenge to investors. Many of its oil and gas fields suffer from aging equipment and decreasing output, often requiring Chinese companies to spend hundreds of millions of dollars on upgrades.⁴⁶ Negotiations with the Iranian government and national oil companies are also often extremely difficult. Oil executives commented that Iranian companies "rarely follow their promises, even in writing, and they create additional new conditions during the implementation of agreements".⁴⁷ This can cause significant delays. Although Sinopec and the National Iranian Oil Company (NIOC) signed a preliminary agreement to develop the Yadavaran field in 2004, disagreement over terms continued for three years. Sinopec cited difficult negotiations as the main source of delay, while the Iranian government said Sinopec's fear of sanctions caused the holdup.⁴⁸ Analysts in Beijing noted that CNOOC's investment in the North Pars gas field has had the same complications.⁴⁹ The stringent

⁴⁴Chinese media speculated that the repeated delay in signing the agreement between CNOOC and NIOC on development of the North Pars gas field in 2008 was due to U.S. intervention; days before the signing ceremony, the State Department announced it would investigate whether the \$16 billion gas deal violated U.S. sanctions law., "中海油伊朗气田项目签约时间再次推迟" ["CNOOC's Iran gas project signing postponed again"], *Dong Fang Zao Bao*, 29 February 2008. "U.S. to see if CNOOC-Iran deal violates sanctions", Dow Jones Newswire, 27 February 2008.

⁴⁵"Moving (Slightly) Closer to Iran", op. cit., and Crisis Group interview, Beijing, December 2009.

⁴⁶For example, CNPC has reportedly spent \$150 million on rehabilitation of the old MIS oilfield. Crisis Group Report, *China's Thirst for Oil*, op. cit., p. 32. According to the IAEA, Iran needs \$160 billion over the next 25 years to revamp its energy infrastructure so as to increase output. Yang Guang, "伊朗的石油天然气工业和能源政策" ["Iran's Hydrocarbon Industry and Energy Policy"], "Development Report on Middle East and Africa no. 11", China Academy of Social Sciences, 2009, p. 78; "Surprise: Oil woes in Iran", *Business Week*, 11 December 2006; and "伊朗引外资发展能源产业的原因" ["The Reasons Iran Needs Foreign Investment to Develop Energy Industries"], *Chinese Investment Consulting*, 27 October 2009.

⁴⁷Crisis Group interviews, Beijing, December and January 2009. A representative comment was: "In our experience, the business environment and ethics in Iran are not very positive. It is easy for them to ignore the signed contract and ask for a better deal. This drags on the negotiation process indefinitely".

⁴⁸Crisis Group email correspondence with energy analyst, November 2009.

⁴⁹Crisis Group interviews, Beijing, December 2009 and January 2010.

requirements of Iran's buy-back contracts for foreign investment in its oil industry are also a deterrent to potential partners.⁵⁰

B. IRAN'S "BINDING STRATEGY"

Iran views Chinese companies, with their vast foreign reserves, as ideal partners for business, and pursues what some Chinese analysts describe as a "binding strategy" (捆绑战略) in their energy relationship.⁵¹ This entails the provision of incentives to deepen China's interests in the hydrocarbon industry. Underpinning this strategy is a belief that the more its companies are embedded in Iran, the more likely China will be to attempt to delay, weaken, or block sanctions. Moreover, Chinese investment in infrastructure, particularly in the construction of refineries, increases Iran's ability to produce its own petrol, minimising the potential impact of sanctions on that commodity.⁵²

Iran tightened bilateral energy bonds in 2009 by awarding multiple major oil and gas deals to Chinese companies.⁵³ It also actively sought deeper involvement in refining and distribution channels by offering Chinese companies tax breaks and discounts on raw materials purchased in Iran.⁵⁴ In November 2009, Sinopec signed a landmark agreement with NIOC to provide \$6.5 billion for the joint development of two refineries.⁵⁵ Chinese companies usually prefer to invest in exploration and production over refining and infrastructure, and Iran welcomes any type of investment.⁵⁶

⁵⁰The buy-back contract requires foreign investors to put in the full agreed amount and assume complete responsibility to develop the oil field. Foreign investors are compensated by NIOC with a percentage of the field's oil output and must eventually return ownership and operation rights to NIOC. "Yellow Book of the Middle East and Africa 2007-2008", Chinese Academy of Social Sciences (CASS), February 2009, p. 81. As service providers, foreign investors are required to grant more than 30 per cent of the service contract to Iranian companies. "Moving (Slightly) Closer to Iran", op. cit., p. 26.

⁵¹Crisis Group interview, Beijing, December 2009.

⁵²Erica Downs, "Beijing's Tehran Temptation," The Brookings Institution, 30 July 2010.

⁵³See Appendix C below.

⁵⁴In July 2009, Shahnazi Zadeh, Iranian deputy petroleum minister, led a delegation to Beijing to invite Chinese companies and banks to participate in a series of refining projects as part of Iran's twenty-year \$130 billion oil sector revitalisation plan. Aizhu Chen, "Iran seeks China investment to build refineries", Reuters, 13 July 2009.

⁵⁵This deal has not yet been finalised, however, despite a two-month timeframe given on 25 November 2009. Fredrik Dahl, "Sinopec in \$6.5 bln Iran refinery deal – Iranian media", Reuters, 25 November 2009.

⁵⁶Chinese companies worry that operating within Iran's heavily subsidised energy industry may be unprofitable, because the

C. CHINA'S NON-OIL AND GAS TRADE AND INVESTMENT

China's economic interests in Iran go beyond energy, with significant trade taking place in non-hydrocarbon sectors.⁵⁷ It supplies approximately 13 per cent of Iran's total imports, including substantial amounts of machinery and steel.⁵⁸ Iran also reports significant growth in its non-oil exports to China, stating a value of \$2.1 billion in the last eight months of 2009, an increase of 26.4 per cent over the same period in the previous year.⁵⁹

Chinese corporations likewise have major investments in non-hydrocarbon sectors. The automobile company Chery and Iran's Majmoeh Mazi Toos Company formed a joint venture and started manufacturing in 2007. A similar venture was established between Chinese LiFan and Iran's KMC Company in 2008.⁶⁰ China Metallurgical Group, the country's largest steel factory developer, is finalising plans to build a major plant in Yazd province.⁶¹ Non-oil and gas investment projects appear likely to continue and increase. At the May 2009 Iran-China Economic Cooperation Conference in Tehran, Chinese companies signed several long-term agreements to help build the railway system and develop the mining and construction sectors.⁶²

Iranian government pays domestic energy producers to maintain a low market price internally, thereby limiting the profit margin of both producers and refineries. Crisis Group interviews, Beijing, December 2009.

⁵⁷Europe also has significant investments in Iran's non-energy sectors, although 90 per cent of its imports from the country are oil related. The EU imported €1.25 billion worth of Iranian chemicals, textiles, machinery, agricultural products, and transportation equipment in 2008, the most recent statistical year available. "EU merchandise trade by product (2008)", European Commission Trade Department (http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf).

⁵⁸"Iran", CIA World Factbook; 2008 Inventory of Main Imports from China to Iran (2008年伊朗从中国进口主要商品目录), Iranian customs data, (<http://ir.mofcom.gov.cn/aarticle/zxhz/tjsj/200903/20090306110232.html>).

⁵⁹"Iran sees 40% rise in exports to China", Right Vision News, 19 January 2010; "Iran's exports to China up by 40%", Fars News Agency, 17 January 2010; and "\$10.4b non-oil exports in 8 months", *Tehran Times*, 31 December 2009.

⁶⁰"伊朗汽车工业现状及中伊汽车合作分析" ["Development of Iranian Automobile Industry and Sino-Iran Cooperation Analysis"], from "Machinery and Electric Products Export Guidance", commerce ministry, 2009.

⁶¹"Iran Inks €1.31bn Steel Deal with China", Fars News Agency, 5 June 2008. "Iran and China inked steel mill supply agreement", *China Mining*, 6 June 2008.

⁶²"Iran, China sign deals worth \$17B", Press TV, 18 May 2009.

IV. POLITICAL CALCULATIONS

A. IRAN'S REGIONAL SIGNIFICANCE TO CHINA

The Middle East and Central Asia – which China views as its “Grand Periphery”⁶³ – have become a priority focus in its geo-strategy. Beijing sees the region as key to its energy security and in particular fears that the U.S. could disrupt either the volume or the transport of its crude oil imports from the Persian Gulf.⁶⁴ Iran is a natural choice as a regional political partner since many other Middle Eastern countries, such as Saudi Arabia, the United Arab Emirates (UAE), Kuwait, Egypt, Bahrain, Israel and Qatar, are already U.S. allies or friends. In China's eyes, Iran's regional power will only expand in the future, meaning that good relations could serve its interests for years to come.⁶⁵

Iran is actively involved in Central Asian politics and shares close economic ties with countries in the region.⁶⁶

⁶³ “周边外交迈入新篇章” [“Peripheral diplomacy steps into a new era”], Xinhua, 4 April 2005.

⁶⁴ Zha Daojiong, “China's Energy Security: Domestic and International Issues”, *Survival*, vol. 48, no. 1, 2006; “Russia, China, Iran redraw energy map”, *Asia Times*, 8 January 2010; Erica Downs, “The Chinese Energy Security Debate”, *The China Quarterly*, vol. 177, 2004; “帝国主义控制中东石油资源” [“Imperialist powers control oil resources of Middle East”], *Can Kao Xiao Xi*, 14 November 2009; “中亚石油合作与中国能源安全战略” [“Oil cooperation in Central Asia and China's energy security strategy”], 16 November 2008; and Cindy Hurst, “China's Global Quest for Energy”, *The Institute for Analysis of Global Security*, January 2007, p. 13.

⁶⁵ Ray Takeyh, “The Rising Might of the Middle East Super Power”, Council on Foreign Relations, September 2006.

⁶⁶ Iran was granted observer status in the Shanghai Cooperation Organisation in 2005 and applied for full membership in April 2008. Its application has not yet been approved, reportedly because China and Russia are concerned that it may be intended as part of a diplomatic campaign to rally leverage and support in the event of confrontation with the U.S. over nuclear development plans. Crisis Group interview, Beijing, December 2009. Iran constructively mediated in Tajikistan's civil war and supported Armenia in its conflict with Azerbaijan in the early 1990s. “Iran gambles over Georgia crisis”, *Asia Times*, 16 August 2008. In 1992, Iran led the effort to bring Azerbaijan, Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan into the expanded Economic Cooperation Organisation. “Moving (Slightly) Closer to Iran”, op. cit. Iran's geographical location also enables it to partner with Central Asian countries to solve transportation constraints on energy exports. The inauguration of the Dauletabad-Sarakhs-Khangiran pipeline in January 2010, connecting Iran's northern Caspian region with Turkmenistan's gas fields, indicates the increasing closeness of its energy and economic ties with Central Asia.

China and Iran share an interest in balancing U.S. presence in the region, which has been on the rise, particularly since the 11 September 2001 terror attacks on New York and Washington.⁶⁷ Central Asia is vital to the stability and economic development of western China. Beijing also wishes to maintain close ties within the region to prevent support and sympathy for the Muslim Uyghurs in its Xinjiang province, who it asserts are unjustly seeking independence (see below).⁶⁸ Economically, Central Asia is a rising source of Chinese energy imports and a destination for its exports through Xinjiang.⁶⁹

Peace in the Middle East is necessary to pursue these goals. Chinese government officials were, therefore, extremely concerned in 2006, when rumours circulated that the Bush administration was considering military action in Iran.⁷⁰ They were relieved when the declassified summary of a U.S. National Intelligence Estimate (NIE) was released in December 2007, asserting that Iran had halted a secret nuclear weapons program in 2003.⁷¹ After the NIE was made public, focus shifted to the possibility of an Israeli airstrike on Iranian nuclear installations. If China perceived the threat of such an attack to be high, it would be greatly concerned.⁷² At this point, however, it believes that the U.S. is not optimistic airstrikes would be effective⁷³ and that it has both the motivation and capacity to restrain Israel.⁷⁴

“Russia, China, Iran redraw energy map”, *Asia Times*, January 8, 2010; Crisis Group interview, Beijing, December 2009; 刘强 [Liu Qiang], 伊朗：国际战略地位论 [Iran's International Strategic Position: A Global and Multi-perspective Analysis] (Beijing, 2007), p. 325.

⁶⁷ Crisis Group interview, Beijing, December 2009.

⁶⁸ 赵华胜 [Zhao Huasheng], 中国的中亚外交 [China's Central Asian Diplomacy], (Beijing, 2008), p. 135.

⁶⁹ In 2007, Li Xiangyang, deputy director of the Chinese Academy of Social Sciences Institute of World Economy and Politics, predicted that China would buy more oil from Russia and former Soviet states in Central Asia. “China Aims to Diversify Oil Sources”, *Asia Times*, 28 February 2007. China hopes to increase its natural gas imports from Central Asia to 40 billion cubic meters in a few years, half of its annual production in 2008, “中国-中亚天然气管道投产打开中国能源供应新局面” [“China-Central Asia gas pipeline is put into operation and begins new phase of China's energy supply”], Xinhua, 21 December 2010. “Xinjiang becomes bridgehead for trade ties with Central Asia”, Xinhua, 23 September 2005.

⁷⁰ Crisis Group interviews, Beijing, November 2007.

⁷¹ Sinopec inked the Yadavaran oil field agreement with Iran on 10 December 2007, a week after the NIE report was released.

⁷² Crisis Group interview, Stockholm, January 2010.

⁷³ U.S. Defence Secretary Robert Gates said in April 2009 that a military strike on Iran's nuclear program would not stop it from pursuing development of a nuclear weapon. “Gates: Persuasion better tack against Iran's nuclear pursuit”, CNN, 30 April 2009. In December 2009, he told U.S. troops in northern

China must also consider the concerns of other Middle Eastern countries about the dangers of Iran's nuclear development, which have been communicated to it repeatedly.⁷⁵ In particular, Saudi Arabia, China's top crude oil supplier for most of the past decade, has expressed concern to Beijing on multiple occasions.⁷⁶ Afraid of being caught between a nuclear Iran and a nuclear Israel, Gulf states including Saudi Arabia and the UAE have been collaborating closely with the U.S., purchasing American arms to strengthen regional defences.⁷⁷ Iran's development of nuclear weapons would possibly trigger a nuclear arms race in the region that in turn would produce instability and potentially jeopardise the free flow of oil.⁷⁸ Many Chinese analysts recognise that this would have a detrimental effect on their country's energy security. At the same time, they try to distance China as much as possible from the problem, asserting that an arms race would be fuelled just as much by Saudi Arabian and UAE concerns over Israel's nuclear capacity, as well as the U.S. role in arming them.⁷⁹

B. BALANCING THE WEST

As noted, China and Iran share an interest in balancing American influence in the Middle East and Central Asia. China views the West's political interests there as driven primarily by hegemonic intentions and the desire for a monopoly over oil.⁸⁰ U.S. Central Asia policy since 2001 has caused suspicion and insecurity in Beijing.⁸¹ Chinese

Iraq that military action against Iran would only delay its nuclear progress and instead urged a package of "incentives and disincentives". "Gates says Iran to face new sanctions", Reuters, 11 December 2009; and "Iran: Nuclear Intentions and Capabilities", National Intelligence Estimate (www.dni.gov/press_releases/20071203_release.pdf), November 2007.

⁷⁴ During their November 2009 visit to China, senior National Security Council officials Dennis Ross and Jeffrey Bader told Chinese leaders that the U.S. would not be able to stop an Israeli military attack on Iranian nuclear installations, because Israel considers a nuclear Iran to be an existential threat. The Chinese were not convinced. Crisis Group interviews, Beijing, December 2009. See also "China could block sanctions against Iran", *The Washington Post*, 4 February 2010.

⁷⁵ Crisis Group interview, Beijing, February 2010.

⁷⁶ Crisis Group interview, Beijing, February 2010.

⁷⁷ Joby Warrick, "U.S. steps up arms sales to Persian Gulf allies", *The Washington Post*, 31 January 2010.

⁷⁸ "Beijing's Tehran Temptation", op. cit.

⁷⁹ Crisis Group interview, Beijing, January 2010.

⁸⁰ Crisis Group Interview, Beijing, December 2009.

⁸¹ "中东, 中亚与中国的大周边能源战略" ["The Middle East, Central Asia, and China's 'Pan-Peripheral' Energy Strategy"], *Journal of Harbin Institute of Technology*, August 2006. Since the war began in Afghanistan, the U.S. military has increasingly cooperated with Central Asian countries such as Uzbekistan and Kyrgyzstan on its basing structure, use of airspace, ship-

leaders, therefore, see Iran's expanding regional role as useful to offset Washington's influence.⁸²

China's support for Iran's government is also linked with its worries about "colour revolutions" in Eastern Europe and Central Asia.⁸³ It has officially stated its preference for a "harmonious world" with a diversity of political and social systems⁸⁴ and would consider the disappearance of Iran's conservative government a loss. Beijing claims that colour revolutions are a "conspiracy of peaceful revolution" meant to produce strategic gains for the West.⁸⁵ After the violence following the June 2009 Iranian elections, Chinese state media warned the West that any "attempts to push the so-called colour revolution toward chaos will prove very dangerous".⁸⁶ China suspects that the U.S. effort to sanction Iran's leaders over the nuclear issue is linked to a strategy of regime change in Tehran.⁸⁷

Yet despite Beijing's sympathy with Tehran over U.S. intentions, its policy of prioritising good relations with Washington has led it to refrain from expanding political ties with Iran to an extent that would seriously threaten that relationship.⁸⁸ So far, it has managed to juggle the

ping, and troop transit. Olga Olikier and David A. Shlapak, "U.S. Interests in Central Asia", Rand, 2005. The State Department has paid special attention to economic and political developments in Central Asia, concerned that another failed state could destabilise a region that is already problematic for U.S. security. George A. Krol, deputy assistant secretary of state, testimony before the Senate Committee on Foreign Relations, Washington DC, 15 December 2009.

⁸² According to a Chinese Middle East scholar, since Iran is seen as a "troublemaker" for U.S. foreign policy, it is, therefore, "China's friend". Crisis Group interview, Beijing, November 2009.

⁸³ Georgia's "Rose Revolution" (2003), Ukraine's "Orange Revolution" (2005) and Kyrgyzstan's "Tulip Revolution" (2005).

⁸⁴ "Hu Jintao's Speech at the Meeting Marking the 30th Anniversary of Reform and Opening Up", China.org, 18 May 2009.

⁸⁵ "美国发动'颜色革命'的十种手法" ["Ten ways of U.S. launching colour revolutions"], *Liaowang News Weekly*, 20 December 2005.

⁸⁶ "A destabilised Iran is in nobody's interest if we want to maintain peace and stability in the Middle East and the world beyond". "For Peace in Iran", *China Daily*, 18 June 2009.

⁸⁷ Crisis Group interview, Beijing, January 2010. Chinese suspicions were piqued by President Obama's statement of support to the opposition in Iran. "Statement by the President on the Attempted Attack on Christmas Day and Recent Violence in Iran", Kaneohe Bay Marine Base, Kaneohe, Hawaii, 28 December 2009, www.whitehouse.gov/the-press-office/statement-president-attempted-attack-christmas-day-and-recent-violence-iran. See also Richard Haas, "Enough is enough: why we can no longer remain on the sidelines in the struggle for regime change in Iran", *Newsweek*, 22 January 2010.

⁸⁸ There has been a general disconnect between China's anti-hegemony rhetoric and its decisions not to stand too closely with those expressing similar rhetoric in the Middle East. In response to U.S. demands, China has repeatedly disengaged

issues surrounding Iran's nuclear development without causing significant damage to its relations with the West or with Israel.⁸⁹ In particular, China constantly strives to balance its interests in Iran with its more valued relations with the U.S.⁹⁰ By engaging in a hedging strategy whereby it alternately supports the U.S./Western countries and Middle Eastern countries on various regional issues, it seeks to gain benefits from both sides.⁹¹ This is central in understanding China's past (and potential future) support for UN sanctions.

C. HISTORICAL AND POLITICAL SOLIDARITY

Historical ties between China and Iran date to the second century BCE, when the Silk Road first became an avenue of commercial, religious and cultural exchange.⁹² Both nations trace their origins to powerful ancient civilisations that in effect were partitioned by Western powers during the nineteenth and early twentieth centuries.⁹³ Modern-day China and Iran emerged from radical revolutions led by charismatic leaders (Mao Zedong and Ayatollah Ruhollah Khomeini).⁹⁴ They share a sense of suspicion and hostility towards the West reinforced by sanctions and a

from various types of cooperation with Middle Eastern states. "The Vital Triangle", op. cit., p. 16.

⁸⁹ With regard to Israel, a Chinese analyst stated: "We have good relations with Israel; they were selling us sensitive technology, and China was kind to the Jewish people in World War II". Crisis Group interview, Beijing, January 2010.

⁹⁰ China has multiple, deep-seated interests in protecting its bilateral relationship with the U.S. From an energy security standpoint, it relies on the U.S. Navy to secure the sea lanes around the Persian Gulf, allowing Chinese tankers to export precious crude oil from the region. It also depends on the U.S. to restrain Israel from military action in the Persian Gulf that would undoubtedly hinder access to oil and create instability in the energy markets. John Alterman, "Audio: China's hard choices on Iran", CSIS (<http://csis.org/multimedia/audio-chinas-hard-choices-iran>), 27 October 2009. From a broader economic perspective, China relies on the U.S. as its top importer of goods (17.7 per cent of total exports go to the U.S.). "China", CIA World Factbook, updated 26 January 2010. Furthermore, China counts on U.S. cooperation on regional issues close to its borders, such as North Korea and Myanmar.

⁹¹ "Moving (Slightly) Closer to Iran", op. cit. Beijing has repeatedly exchanged its opposition to U.S. policy for U.S. concessions on other issues important to China. "The Vital Triangle", op. cit., p. 16.

⁹² John W. Garver, *China and Iran: Ancient Partners in a Post-Imperial World* (Seattle and London, 2006), pp. 13-17.

⁹³ Iran and China were both divided into spheres of influence by colonial powers – Iran by Russia and the UK in 1907 and China by the UK, France, Russia, the U.S. and Japan after the Second Opium War in 1856-1860.

⁹⁴ Willem van Kemenade, *Iran's Relations with China and the West: Cooperation and Confrontation in Asia* (Netherlands, 2009).

perceived U.S. interference in their internal politics.⁹⁵ Iran expresses appreciation for China's sensitivity towards its national pride and self-image, in contrast with a seemingly belittling attitude from the U.S.⁹⁶

D. RELATIONS WITH THE MUSLIM WORLD

China's domestic interests of national sovereignty and territorial integrity are linked to its relations with Iran, as its leaders seek to avoid falling out with the Muslim world over the administration of its north-western region, Xinjiang. It sees Xinjiang as a first-order issue of territorial integrity and considers any support to Uyghur Muslims or criticism of its policy there as unacceptable interference in internal affairs and a direct challenge to its sovereignty.

A senior foreign policy adviser asserted that in the wake of the violence after the 5 July 2009 riot in Xinjiang, worrying criticism of China came out of only two countries: Turkey and Iran.⁹⁷ While Iran's official reaction was milder – Turkey was the only government that condemned China – influential Iranian circles issued strongly critical statements. Turkey backed down after China expressed displeasure, but Tehran responded that the condemnations were issued by religious clerics and therefore beyond direct government control.⁹⁸ A senior adviser noted: "Xinjiang was a wake-up call. Our top priority is internal stability, so this is a top concern with regard to Iran".⁹⁹

⁹⁵ The U.S. has imposed unilateral sanctions on Iran since shortly after the 1979 revolution. China has been a target of economic sanctions, particularly after the events of 1989, and it is still subject to EU and U.S. arms embargos. Dianne E. Rennack, "China: U.S. Economic Sanctions", Congressional Research Service report 96-272 F, 1 October 1997; and "European Union's Arms Embargo on China: Implications and Options for U.S. Policy", Congressional Research Service Report RL 32870, 27 May 2005.

⁹⁶ Crisis Group interviews, Beijing, January 2010.

⁹⁷ Turkish Prime Minister Recep Tayyip Erdogan accused the Chinese government of genocide. "Be vigilant in Turkey, Foreign Ministry says", *China Daily*, 3 August 2009; and Crisis Group interviews, Beijing, January 2010.

⁹⁸ Crisis Group interview, Beijing, February 2010. In a 12 July 2009 statement a week after the Xinjiang riots, Ayatollahs Nasser Makarem Shirazi and Lotfollah Safi Golpaygani condemned the killing of Muslims and called on the Iranian foreign ministry to seriously pursue the issue. The Qom Seminary Teachers Society also issued a statement expressing regret over the events. Pressed by the clerics, Foreign Minister Manouchehr Mottaki told his Chinese counterpart, Yang Jiechi, that Muslim countries were concerned about the incident and asked him to provide information about the latest developments in Xinjiang. "Iran, China say security of Muslim Uyghurs must be maintained", *Tehran Times*, 13 July 2009.

⁹⁹ Crisis Group interview, Beijing, February 2010.

Convinced the strong negative reaction was due to biased Western reporting, Beijing undertook a comprehensive campaign to explain its handling of the riots to officials in Iran and other Muslim countries.¹⁰⁰ Since this was not the first time that Iranian Islamic organisations had attempted to support Uyghur Muslims, the incident was a warning to Beijing that it must exercise caution when dealing with Iran's political and religious elites.¹⁰¹

V. THE APPROACH TO SANCTIONS: DELAY AND WEAKEN

A. OPPOSITION TO SANCTIONS

With few exceptions, China has been consistent in its opposition to sanctions – whether unilateral or multilateral – for any purpose.¹⁰² This position derives in part from its own experience as a target of such measures.¹⁰³ It asserts that sanctions can entail severe negative humanitarian consequences for civilian populations.¹⁰⁴ It believes that they complicate negotiations and are more effective

¹⁰⁰ Crisis Group interview, Beijing, February 2010.

¹⁰¹ In the early period after the Islamic Revolution, some Iranian Islamic organisations attempted to support Uyghur Muslims in Xinjiang, primarily by constructing mosques and madrassas (Islamic schools). This sparked problems among the Chinese authorities, Xinjiang Muslims and the Iranian representatives in the region. Chinese officials conveyed their displeasure to the Iranian government, which halted the activities. Garver, *China and Iran*, op. cit., pp. 132-133.

¹⁰² See below for exceptions.

¹⁰³ China was targeted by the Soviet Union in the 1960s because of its nuclear program, by the U.S. until the 1970s and by the West after the 1989 Tiananmen Square events, as well as, in the 1990s, for missile sales to Pakistan. Crisis Group Report, *China's Myanmar Dilemma*, op. cit., pp. 3-4.

¹⁰⁴ In China's view, sanctions have often led to humanitarian and economic crises, citing the cases of Iraq and the former Yugoslavia. Crisis Group Reports, *China's Thirst for Oil* and *China's Growing Role in UN Peacekeeping*, both op. cit.; and “联合国近年制裁过谁” [“Who has been sanctioned by the UN in recent years”], *Global Times*, 20 October 2006. It is more difficult today to make a categorical humanitarian argument against sanctions due to a recent trend within the UN to target them more effectively against leaders rather than populations. Since the late 1990s, a UN working group has devoted substantial time and effort to studying “smart sanctions” and collaborated closely with specialists involved in the Interlaken Process, a series of expert seminars on “Targeting UN Financial Sanctions”. “Major Initiatives”, UN Working Group on General Issues on Sanctions (www.un.org/Docs/sc/committees/sanctions/initiatives.htm); and “Smart sanctions-targeted sanctions”, State Secretariat for Economic Affairs SECO (Switzerland) (www.seco.admin.ch/themen/00513/00620/00639/index.html?lang=en).

as threats than when actually applied.¹⁰⁵ Chinese analysts assert that sanctions can backfire, leading to hardened positions and loss of channels for communication, citing as an example North Korea's first nuclear test, which occurred days after Beijing halted oil deliveries in September 2006.¹⁰⁶ Sanctions are also seen as a violation of the principle of non-interference.¹⁰⁷ In the case of Iran, China believes sanctions are particularly unlikely to produce results given their failure to stop the nuclear development program to date.¹⁰⁸

¹⁰⁵ Foreign Minister Yang Jiechi stated on 4 February 2010 that Iran sanctions “complicate the situation and might stand in the way of finding a diplomatic solution”. Sophie Taylor, “Discussing Iran sanctions hinders diplomacy: China”, Reuters, 4 February 2010; and Dingli Shen, “Can Sanctions Stop Proliferation?”, *The Washington Quarterly*, vol. 31, no. 3 (Summer 2008), pp. 89-100.

¹⁰⁶ Hui Zhang, “Do Not Let the Rocket Launch Block North Korean Denuclearisation”, The Nautilus Institute, 14 April 2009. See also Joseph Kahn, “China cut off oil to North Korea”, *The New York Times*, 30 October 2006.

¹⁰⁷ An emphasis on sovereignty and non-intervention has long been a key theme of China's foreign relations. Its “Five Principles of Peaceful Co-existence” (和平共处五项原则), which date from the 1950s, reject interference in other states' sovereign affairs. These principles were central to critiques of Soviet intervention in Eastern Europe as well as the U.S.-led NATO intervention in the former Yugoslavia, which China denounced as “hegemonist”. Beijing has often expressed distaste for milder means of trying to alter other states' domestic policies. It has deviated from a non-interference policy in practice on a number of occasions in recent years. Crisis Group Reports, *China's Thirst for Oil* and *China's Growing Role in UN Peacekeeping*, both op. cit.

¹⁰⁸ Crisis Group interviews, Beijing, December 2009, January 2010. Former U.S. Ambassadors Thomas Pickering and William Luers, along with international security expert Jim Walsh, argue that the Iranian nuclear case presents a particularly tough challenge for sanctions for several reasons: Iran is a regional power and an oil supplier likely to continue to sell to various countries given declining global supply; its government has made a very public commitment to the nuclear program, and experience has shown it can build centrifuges faster than others can impose sanctions; it is a proud country with a cultivated abhorrence of outside interference; sanctions can impose costs, but their loud and accusatory character make them as likely to induce resistance as compliance. “Iran and the Problem of Tactical Myopia”, Arms Control Association (www.armscontrol.org/print/3981), December 2009. Ambassador Pickering is co-chair of the Crisis Group Board of Trustees. See also, Flynt Leverett and Hillary Mann Leverett, “China moves strategically while the U.S. remains stuck on Iran”, The Race for Iran (www.theraceforiran.com), 10 February 2010.

B. SUPPORT FOR PREVIOUS UN SANCTIONS

Nevertheless, China supported a series of UN sanctions resolutions on Iran from 2006 to 2008.¹⁰⁹ It did so because Iran had indisputably violated its obligations to the IAEA and the UN, but also because vetoing them would have damaged the Sino-American relationship. President George W. Bush made a personal appeal to President Hu Jintao to support sanctions, a move that helped Hu override strong objections in Beijing.¹¹⁰ At the same time, China managed to delay, deflect, and weaken the measures, first by opposing the issue's referral to the Security Council and then by engaging in lengthy negotiations on the resolutions' content.¹¹¹

In addition to its insistence on Iran's right to peaceful use and the necessity of exhausting all diplomatic options, China was able to delay sanctions by focusing on the interpretation of what would constitute a positive step from Iran sufficient to re-establish confidence in the ci-

¹⁰⁹ On 31 July 2006, China voted in favour of Security Council Resolution 1696 demanding the suspension of Iran's uranium enrichment activities and threatening sanctions if it did not comply. After five months of negotiations, it voted for Resolution 1737 limiting the sale of nuclear equipment and technologies to Iran, prohibiting investment in its nuclear sector and freezing assets of individuals and entities associated with the nuclear program. In March 2007, China supported Resolution 1747 widening the scope of sanctions by banning arms purchases from Iran, freezing the assets of additional individuals and entities and calling upon states to prevent the travel of such individuals abroad. In March 2008, China voted for Security Council Resolution 1803, which approved a new round of sanctions against Iran for refusing to suspend uranium enrichment and heavy-water-related projects, as had been required by Resolutions 1696, 1737, and 1747. UNSC S/1696/2006, 31 July 2006; UNSC S/1737/2006, 23 December 2006; UNSC S/1747/2007, 24 March 2007; UNSC/S/1803/2008, 3 March 2008; and "FATF (Financial Action Task Force) Statement on Iran", 11 October 2007.

¹¹⁰ Crisis Group interview, Beijing, December 2008.

¹¹¹ When China finally agreed to endorse Security Council Resolution 1696 in July 2006, it only agreed to "the Council's willingness to consider taking appropriate measures against Iran", rather than authorising actual sanctions. See S/RES/1696 (2006). Along with Russia, it helped ensure that negotiations on Resolution 1737 dragged on for five months, although at the time the Russians were more at the forefront, with the Chinese supporting and hiding behind them. When it voted for Resolution 1737 calling on states to restrict technology transfer and provision of support that would aid Iran's ability to enrich uranium, reprocess spent nuclear fuel, operate heavy-water reactors or develop nuclear-weapons delivery systems, it ensured that the resolution allows individual states to determine which technologies meet these criteria. "Moving (Slightly) Closer to Iran", *op. cit.*

vilian nature of its nuclear program.¹¹² China and Russia both insisted on very different interpretations from the rest of the P5+1¹¹³ on the point at which their "dual-track" approach was stalling.¹¹⁴ When Beijing finally signed on to sanctions, it also ensured that they were framed as a means to urge Iran to return to negotiations and insisted on inclusion of conditions under which the Council would suspend and terminate them.¹¹⁵

C. CURRENT CRISIS

In Beijing's view, the latest round of the crisis, though set in motion by the September 2009 revelation of the secret facilities near Qom, stems more fundamentally from

¹¹² The IAEA demands have included not only a temporary freeze of uranium enrichment, but also a series of measures, in particular, responses to specific questions about illegal and undeclared nuclear activities (to resolve the "outstanding issues") and, more importantly, the ratification and implementation of the IAEA Additional Protocol. In 2007, Iran and the IAEA agreed on a "work plan to resolve the outstanding issues", considered by many a positive step toward re-establishment of international confidence in the nuclear program. Despite several months of Iranian delay on implementing the work plan, China insisted that another round of sanctions would be detrimental to resolving the outstanding issues and cautioned that if new sanctions were adopted, Iran would never implement the Additional Protocol, so the IAEA would not obtain more extensive rights to monitor and inspect its nuclear activities than in the existing Safeguards agreement. The Chinese also went a step further, informally supporting Iran's position that since the problem of confidence started with the unresolved issues with the IAEA, removing those (through full implementation of the work plan), would re-establish confidence and thus remove the Iranian nuclear issue as well. Crisis Group email correspondence with UN official, February 2010.

¹¹³ See fn. 11 above.

¹¹⁴ The dual-track approach consists of pursuing negotiations to convince Iran to freeze uranium enrichment as a first step to re-opening discussions with the P5+1 on how to re-establish international confidence in the civilian nature of its nuclear program. At one point the P5+1 decided to offer – in lieu of a unilateral requirement on Iran to suspend uranium enrichment as a pre-condition to start negotiations – a simultaneous process that would include a freeze of UN sanctions. *Ibid.*

¹¹⁵ For example, in Resolution 1737, Clause 24 (b) states "that it shall terminate the measures specified in paragraphs 3, 4, 5, 6, 7, 10 and 12 of this resolution as soon as it determines that Iran has fully complied with its obligations under the relevant resolutions of the Security Council and met the requirements of the IAEA Board of Governors, as confirmed by the IAEA Board"; UNSC/S/1737, 23 December 2006. For a full analysis of Chinese attempts to delay and soften sanctions in 2006-2008, see "The Vital Triangle", *op. cit.*, pp. 42-44. China employed a similar delay-and-weaken strategy during negotiations on Security Council Resolution 1874 imposing sanctions on Pyongyang in the wake of its May 2009 nuclear test. See Crisis Group Report, *Shades of Red*, *op. cit.*, pp. 12-15.

unresolved issues in previous UN resolutions calling on Tehran to cease uranium enrichment.¹¹⁶ Qom caught China by surprise, so it was unable to mount a meaningful defence of Iran at the IAEA.¹¹⁷ The IAEA's determination that Iran had violated its obligations was followed by a position adjustment in Moscow on support for the resolution, causing China to be isolated. Obama also asked Hu Jintao to support the IAEA resolution during his November 2009 visit to China, framing the issue as a "core" U.S. interest.¹¹⁸ China voted to criticise Iran's secretive conduct on 27 November 2009, in a resolution that demanded construction at Qom be suspended immediately. Beijing knew the vote had few real consequences for Iran, because the resolution contained no sanctions. It framed the resolution as part of an effort to encourage Tehran to do the nuclear fuel swap, pointing out that the impending sanctions could damage both countries' economic interests.¹¹⁹

¹¹⁶ Crisis Group interviews, Beijing, December 2009. That Beijing had not prioritised the Iran nuclear issue before then may be suggested by the fact that it was reportedly not even on the meeting agenda when Chinese Middle Eastern envoy Wu Sike visited Tehran at the beginning of August. The agenda, according to Xinhua News Agency, included bilateral relations, China's relations with the Islamic world and regional/global issues of common concern, though the topic could certainly have been taken up under one of those broad items. "我中东问题特使访问伊朗" ["Chinese Middle East envoy visits Iran"], *People's Daily*, 3 August 2009. Three months later, when Assistant Foreign Minister Zhai Jun visited, the issue was referred to explicitly as a component of his meetings. "外交部部长助理翟隽率团访问伊朗" ["Assistant Foreign Minister Zhai Jun Led Delegation to Iran"], foreign ministry, 21 November 2009.

¹¹⁷ Crisis Group interview, Beijing, February 2010. The revelation came during the G20 summit in Pittsburgh, putting President Hu Jintao on the spot in front of Obama and other leaders. Vice Foreign Minister He Yafei quickly issued a strong statement expressing China's concern about the news – a step that suggested Hu himself did not want the issue to dampen summit goodwill.

¹¹⁸ Jon Pomfret and Joby Warrick, "China's backing on Iran followed dire predictions", *The Washington Post*, 26 November 2009; Caren Bohan and Patricia Zengerle, "Obama says China agrees on Iran nuclear transparency", Reuters, 17 November 2009.

¹¹⁹ "IAEA statement on Proposal to Supply Nuclear Fuel to Iranian Research Reactor", IAEA, 23 October 2009. Vice Foreign Minister He Yafei stated that China viewed the resolution as encouraging Iran to accept the nuclear fuel swap deal. "We hope that the IAEA can send a signal that Iran should indeed respond to the IAEA proposal as soon as possible. At the same time, we hope that this issue can be resolved through consultation". "China 'considering' support for IAEA Iran resolution", Press TV, 26 November 2009. On 6 February 2010 Foreign Minister Yang Jiechi stated: "We believe Iran has not totally shut the door on the IAEA proposal on nuclear fuel supply.... We believe this issue should best be solved through diplomatic means so as to maintain peace and stability in the Gulf

Beijing sees the IAEA nuclear fuel swap deal as the best way to defuse the current crisis, because it would decrease the possibility of Security Council action. Chinese officials, therefore, pursue a delay-and-weaken strategy with regard to UN sanctions by focusing their rhetoric almost entirely on the importance of diplomacy.¹²⁰ Ambassador to the UN Zhang Yesui stated at the beginning of January 2010 that China would not support sanctions, which was widely interpreted as notice that it would not facilitate any consideration of them during its Security Council presidency that month.¹²¹ Beijing also sent only a mid-level official to a January meeting on Iran of otherwise senior P5+1 foreign ministry officials (political directors) in New York, forcing the West to postpone serious discussions about sanctions.¹²²

Tehran and Beijing seem to have established a complementary routine – an increase in Western pressure leads to a statement from Iran implying that it might be ready to accept the fuel swap deal; Beijing then uses the statement as an opportunity to reiterate its insistence on a diplomatic solution. In late November 2009 (when the IAEA resolution was passed) and again in early February 2010 (when France ramped up pressure as it assumed the Security Council presidency), Iran indicated six times that the possibility of a swap deal remained. On average, Beijing issued a response statement within four days, each time strongly calling for stepped-up diplomacy.¹²³

region". William Maclean, "Iran has not closed off nuke exchange plan – China", Reuters, 6 February 2010.

¹²⁰ In the eleven times that the Iran nuclear issue was raised at press conferences at the foreign ministry between October 2009 and January 2010, the messages Beijing gave were almost identical: "China always advocates the peaceful resolution of the Iran nuclear issue through negotiations to protect the integrity of [the] international non-proliferation regime and the peace and stability of [the] Middle East. China hopes related parties will maximise diplomatic efforts to pursue the dialogue and actively seek ways to comprehensively and appropriately solve the nuclear issue". Press conferences, 27 October 2009, 17 November 2009, 1 December 2009, 3 December 2009, 8 December 2009, 24 December 2009, 5 January 2010, 11 January 2010, 19 January 2010, 21 January 2010, 27 January 2010.

¹²¹ Louis Charbonneau, "China rules out new U.N. sanctions on Iran for now", Reuters, 5 January 2010. Because of the 31 December deadline, China knew that pressure would be high for sanctions in January, the month of its Security Council presidency.

¹²² Kang Yong, counsellor at the Chinese permanent mission to the UN, was the official. "Six-power Iran meet takes no decision on sanctions", Reuters, 16 January 2010.

¹²³ On 24 November 2009, 24 December 2009, 10 January 2010, 20 January 2010, 29 January 2010 and 3 February 2010, Iran said it was not opposed to a nuclear swap deal. China followed on 1 December 2009, 24 December 2009, 19 January 2010, 21 January 2010, 2 February 2010, and 4 February 2010 with calls for further diplomatic action. "Iran says not opposed to uranium swap deal", Press TV, 24 November 2009; "Iran

In response, the U.S. has undertaken additional measures to demonstrate to China that diplomatic measures will not necessarily result in Iranian compliance.¹²⁴

China's pursuit of the diplomatic track maximises its bargaining power, since it leads both sides to offer incentives for its support. While Tehran, as noted, has been pursuing efforts to bind China into a tighter energy relationship, the U.S. has been encouraging key Arab states to boost oil exports to China in an attempt to decrease reliance on Iranian oil and secure agreement to sanctions. In early 2009, one of President Obama's Iran advisers, Dennis Ross, floated the idea of an increase in the quota of oil China could purchase from Saudi Arabia.¹²⁵ China did not pursue this, citing technical differences between Saudi and Iranian crude. Beijing also does not feel comfortable relying on supply agreements that implicitly give Washington leverage.¹²⁶ However, in October 2009, it accepted a U.S.-brokered deal to boost oil exports from the UAE from 50,000 barrels a day to between 150,000 to 200,000 barrels a day by mid-2010.¹²⁷ Iraq, Kuwait and Saudi Arabia have agreed to increase their 2010 oil exports to China by 100 per cent, 50 per cent and 12 per cent respectively.¹²⁸

accepted nuclear fuel swap in Turkey", *The Guardian*, 24 December 2009; "Iran offers nuke fuel deal", Politico (www.politico.com/news/stories/0110/31334.html), 10 January 2010; "Iran still awaits West's response to swap deal", *China Daily*, 20 January 2010; "Iran responds to fuel swap deal, rejects key component", Fox News, 29 January 2010; "Iran ready for nuclear swap deal", *The Wall Street Journal*, 3 February 2010; "China calls for stepped up diplomacy on Iran", Agence France-Presse, 1 December 2009; "China says sanctions not key on Iran nuclear issue", Xinhua, 24 December 2009; "China urges flexibility on Iran", *Today Beijing*, 19 January 2010; "China supports dual track approach", Sohu News (<http://news.sohu.com/20100121/n269750722.shtml>), 21 January 2010; "Speech from Ma Zhaoxu", foreign ministry (www.fmprc.gov.cn/chn/pds/wjdt/fyrbt/t655470.htm), 2 February 2010; and "Yang Jiechi blocks future sanctions", *The New York Times*, 4 February 2010.

¹²⁴ Chinese insistence that there is still room for further negotiations with Iran and on Iran's need for uranium enrichment for the production of medical isotopes played a role in the 9 February 2010 Obama administration offer to assist Iran with the purchase of medical isotopes on the international market (a deal rejected immediately by Tehran). Glenn Kessler, "U.S. unveils offer to help Iran purchase medical isotopes", *The Washington Post*, 10 February 2010. "Iran rejects U.S. offer over medical isotopes," Press TV, 10 February 2010.

¹²⁵ Crisis Group interview, Beijing, December 2009; and "Moving (Slightly) Closer to Iran", op. cit., p. 53.

¹²⁶ Crisis Group interview, Beijing, January 2010.

¹²⁷ "U.S. enlists oil to sway Beijing's stance on Tehran", *The Wall Street Journal*, 20 October 2009.

¹²⁸ "Oil-thirsty China to raise Kuwaiti imports by 50 pct", *Asharq Alawsat*, 30 December 2009.

As diplomacy fails to yield meaningful results, the Iran nuclear issue is further straining China's ties with the West.¹²⁹ China does not want to jeopardise its relationship with the U.S., which, as previously noted, it values more than the one with Iran. Yet, China is arguably less sensitive to U.S. pressure now than in 2006 and 2007, when it took steps to impose modest sanctions on Iran and North Korea and leaned on the Sudanese government to accept a peacekeeping force in Darfur.¹³⁰ Currently Beijing is pursuing a more assertive foreign policy, whereby it feels less need to cooperate with the West on global issues.¹³¹ This increased self-confidence can be traced to changing perceptions of power relations, since China has been

¹²⁹ U.S. Secretary of State Hillary Clinton threatened China with "diplomatic isolation and disruption of energy supplies". "Clinton: China risks isolation over Iran", *The Washington Post*, 29 January 2010; "Patience with Iran running out", Reuters, 4 December 2009.

¹³⁰ For information on China's role in supporting a peacekeeping force in Sudan, see Crisis Group Reports, *China's Thirst for Oil*, op. cit., pp. 21-30, and *China's Growing Role in UN Peacekeeping*, op. cit., pp. 16-18. For information on its support to sanctions on North Korea, see Crisis Group Report, *Shades of Red*, op. cit. For information on China's role in Sudan, North Korea, Zimbabwe, Myanmar and Iran, see Stephanie Kleine-Ahlbrandt and Andrew Small, "China's New Dictatorship Diplomacy: Is Beijing Parting with Pariahs?", *Foreign Affairs*, vol. 87, no. 1 (January-February 2008), pp. 38-56.

¹³¹ In recent months, Beijing has been notably assertive towards the West on issues such as climate change, maritime matters, internet security and control, trade regulations and its national sovereignty. Specific examples include: Chinese officials' strict opposition at the December 2009 Copenhagen conference to a push from Western countries to allow outside parties to verify carbon emission reductions; its threat for the first time to impose sanctions on American companies participating in the recently announced U.S. arms sale to Taiwan; increased patrols in the South China Sea; a stronger response to criticisms of Internet censorship; and increased willingness to challenge other countries on trade issues (evidenced by its recently filed complaints at the World Trade Organisation against imported U.S. chicken products and the European Union's anti-dumping tariffs on Chinese shoe imports). With regard to the U.S. in particular, in early 2010, Beijing made extremely clear its disapproval of Washington's handling of the Google pullout threat, the new arms sale to Taiwan and the planned meeting between President Obama and the Dalai Lama. Aaron Back and Ting-I Tsai, "China vows sanctions over U.S. defense sales to Taiwan", *The Wall Street Journal*, 3 February 2010; "Choppy waters east and south, China makes a splash", *Economist*, 21 January 2010; Jamil Anderlini and Joshua Chaffin, "China takes EU shoe complaint to WTO", *Financial Times*, 4 February 2010; Geoff Dyer, "China to impose duties on U.S. chicken", *Financial Times*, 5 February 2010; "Relations between America and China may chill over a meeting with the Dalai Lama", *Economist*, 15 February 2010; Geoff Dyer and Edward Luce, "China warns U.S. about Dalai Lama", *Financial Times*, 2 February 2010.

navigating the global economic crisis with markedly less difficulty than the major Western countries.¹³²

The Obama administration has asked for Chinese cooperation on a long list of issues, from continued investment in Treasury bonds to climate change and foreign policy problem areas, including North Korea, Afghanistan, Sudan and Pakistan, as well as Iran.¹³³ Beijing's perceived strengthened negotiating position has left it more assertively pursuing its own goals, linking U.S. requests to quid pro quos and frequently delaying its response for long periods.¹³⁴ The Chinese threat that it may reduce bilateral cooperation on key international issues following the latest announcement of U.S. arms sales to Taiwan reflects Beijing's traditionally strong feelings over the island; it may also be an attempt to increase the price for eventual and limited cooperation on Iranian sanctions.¹³⁵

Russia's position is also a key factor in China's calculations on the Iran nuclear issue. Beijing seeks to minimise the opprobrium costs of its actions and sees isolation in the Security Council as something to be strictly avoided.¹³⁶ It takes a cautious approach to its role in the Council and as a result has used its veto far less than the other permanent members.¹³⁷ Though it often abstains from

Security Council votes on decisions it dislikes, it is far less willing to use its veto if Russia backs a resolution. Given their common interests in non-intervention and limiting American unilateralism, China's and Russia's positions have traditionally been complementary, often allowing them to shield each other from diplomatic isolation. Of Beijing's six vetoes, three were cast in tandem with Russia (most recently on Myanmar and Zimbabwe).¹³⁸

Though Moscow and Beijing had made a joint commitment to resolve the Iranian nuclear issue through diplomatic means, Russia's stance has shifted in recent months toward the West's.¹³⁹ This contrasts with the most

Soviet Union (and later the Russian Federation) 125 times in total and seventeen times since December 1971. "Changing Patterns in the Use of the Veto in the Security Council", Global Policy Forum, www.globalpolicy.org/security-council/tables-and-charts-on-the-security-council-0-82/use-of-the-veto.html. The term veto does not appear in the UN Charter, but Article 27 stipulates that passage of a Security Council resolution on a substantive matter requires the affirmative vote of nine of the fifteen members and the concurring votes – that is non-negative votes – of the permanent members.

¹³⁸China and Russia have cast double vetoes in three instances: on a resolution on the situation in Myanmar on 12 January 2007; a resolution on Zimbabwe on 11 July 2008; and a resolution on Palestine in 1972. China's three other vetoes were unilateral: against a 1972 resolution regarding Bangladesh joining the UN; a 1997 resolution on Guatemala and a 1999 resolution on Macedonia. The latter two vetoes were cast against the establishment and extension of UN peacekeeping missions in states that had diplomatic relations with Taiwan. See Crisis Group Reports, *China's Thirst for Oil, China's Growing Role in UN Peacekeeping*, pp. 17-19, and *China's Myanmar Dilemma*, all op. cit.

¹³⁹"胡锦涛和普京在莫斯科签署中俄联合声明" ["Hu Jintao and Putin sign joint announcement in Moscow"], Xinhua, 27 March 2007. A shift in Moscow's position came one week after U.S. President Obama dropped plans for a missile defence shield in Poland and the Czech Republic, and it solidified after the announcement of Iran's nuclear facilities at Qom. "Russia 're-thinks' Iran sanctions", BBC, 24 September 2009; "Obama: U.S., Russia agree Iran may face new sanctions", Reuters, 23 September 2009; and "Russia: Security Council may discuss Iran", Reuters, 5 February 2010. On 12 February 2010, the Russian ambassador to the IAEA, along with the French and U.S. ambassadors, addressed a letter to the director general of the agency stating that the "escalation" of Iran's enrichment up to 20 per cent "would raise new concern about Iran's nuclear intentions" and "further undermine the confidence of the international community in Iran's actions". Letter dated 12 February 2010 to the IAEA Director General Yukiya Amano from the ambassadors of France, Russia, and the U.S. On 9 February 2010, Nikolai Patrushev, head of Russia's Security Council, stated that Iran's recent actions "have raised doubts among other nations, and these doubts are quite well-founded". Christopher Bodeen, "Renewed focus on China position on Iran sanctions", Associated Press, 11 February 2010.

¹³²Nationalist public opinion, insecurity at home and perceived U.S. weakness also play a part. Steps intended as conciliatory – such as Secretary Clinton's statement on human rights and the deferral of President Obama's meeting with the Dalai Lama – were treated as signs of weakness rather than goodwill. Andrew Small, "Dealing with a More Assertive China", Transatlantic Take, German Marshall Fund of the United States, 8 February 2010.

¹³³Chinese diplomats have stated that they carefully consider all U.S. requests and try to go at least part way to meet them. Crisis Group interviews, Beijing, September, October 2009. However, the number and nature of those requests in the past year have left them giving more selective satisfaction. For a list of the U.S. requests of China on foreign policy issues, see Stephanie T. Kleine-Ahlbrandt, "Beijing, Global Free Rider", *Foreign Policy*, 12 November 2009, www.foreignpolicy.com/articles/2009/11/12/beijing_globalfree_rider.

¹³⁴Interestingly, however, as tension has increased with Washington, China has acted to guard against a similar downturn in ties with Europe, reaching out to France, the UK and Germany. Crisis Group interviews, Stockholm, January 2010.

¹³⁵"Beijing furious at arms sales to Taiwan", *China Daily*, 1 February 2010.

¹³⁶See Crisis Group Report, *China's Myanmar Dilemma*, op. cit., p. 5; and Alastair Iain Johnston, *Social States: China in International Institutions 1980-2000* (Princeton, 2007), pp. 131, 136.

¹³⁷Beijing has used its veto only six times since the People's Republic assumed China's seat on the Security Council in December 1971. The U.S., which did not veto in the UN's first quarter century, has cast a negative vote (veto) 76 times; the UK has done so 32 times, France eighteen times and the

recent phase of sanctions against Iran, in 2008, when the Russians were at the forefront of opposition, with the Chinese supporting their position and in effect hiding behind them.¹⁴⁰ Beijing continues to monitor Moscow's position closely. Despite rising confidence in its international stature that suggests it may now feel less need to align positions, a decision by Russia to endorse or abstain from proposed new Security Council sanctions could still potentially lead China to adopt a similar response.¹⁴¹ The more important question would then become how strong the proposed sanctions would be and whether they break into new territory, such as energy. In the past, China and Russia have managed to weaken the scope of the eventual resolution so much that in the end it had little effect on the situation. This may very well be the case again, and the process could take several months.

While the details of the proposed Security Council sanctions are not yet public, they will likely include targeted measures focusing on the Iranian Revolutionary Guard Corps (IRGC). Beijing may be willing to accept travel bans and asset freezes on individuals whose involvement in the nuclear program can be confirmed. However, depending on which IRGC-controlled or affiliated entities are included in the draft, Beijing will likely reject sanctions on those with whom Chinese entities have significant business. The IRGC has a growing presence in Iran's financial and commercial sectors as well as in oil, defence and construction industries, making it likely that Beijing has business relationships with IRGC-connected companies. China will insist on strong, indisputable evidence of a connection to military nuclear development and/or proliferation. Broader sanctions on Iran's energy sector would be highly unlikely to gain China's support, given the direct influence they would have on specific Chinese companies as well as overall Chinese investment in that sector.

VI. CONCLUSION

Beijing's position on the Iran nuclear issue, including its opposition to sanctions, is often said to be motivated purely by a need for energy. While the economic factor

is crucial, the relationship with Iran is also shaped by broader foreign and domestic policy calculations. Strong bilateral ties help China to strengthen its position in the Middle East and Central Asia and to balance U.S. regional influence. Beneath policy towards Iran lies a strong sense of historical and political solidarity deriving from shared experience of division and exploitation by Western powers, sanctions and resentment of perceived American interference in domestic politics.

China lacks the West's sense of fundamental urgency about the Iran nuclear issue. It is yet to be convinced that Tehran is on the cusp of achieving the capability to highly enrich or weaponise its uranium, or that there is an imminent threat of military confrontation in the Middle East. Beijing's belief that the West practices a double standard on nuclear development strengthens its conviction that non-proliferation should not be used as the justification to deprive Tehran of its right to peaceful nuclear energy use. Moreover, as it looks at a history of what it considers to be decades of Washington's missteps in Tehran, it regards the nuclear issue as one the U.S. should take primary responsibility for addressing. Indeed, many in China view Iran's nuclear development not as a real threat, but as providing China with strategic leverage in its relations with Western countries.

As support grows in the Security Council for further sanctions, China increasingly employs a delay-and-weaken strategy as part of an effort to balance its relationships between the West and Iran. This approach reflects consistent historical opposition to sanctions, a doubt about their efficacy and a tactical hedge – by giving both sides part, but not all, of what they want, China maximises benefits from each. Beijing will persistently advocate more patient diplomacy, but it will not ultimately side with Iran at the expense of its relationship with the U.S. It still values its relations with Washington more than its ties to Tehran, and if it finds itself facing unanimous support for sanctions from other Security Council members, it can be expected to focus its efforts on negotiating for the weakest terms.

Beijing/Brussels, 17 February 2010

¹⁴⁰ Crisis Group interview, New York, June 2009.

¹⁴¹ While Russia and China do work together, they have voted differently many times, when there is a lack of common interest. For example, Russia vetoed and China voted in favour of a 2004 resolution on the eve of the reunification referendum in Cyprus (outlining new UN security arrangements that would take effect in the event the referendum was successful). China abstained on the 23 December 2009 Security Council Resolution 1907 imposing sanctions on Eritrea; Russia voted in favour. In June 2009, China abstained on a Georgia-related resolution that Russia vetoed.

APPENDIX A MAP OF IRAN



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APPENDIX B

MAIN CHINESE OIL FIRMS OPERATING IN IRAN

China National Petroleum Corporation (CNPC)

CNPC entered the Iran market in 2004. Its primary investments are in the MIS Oilfield (75 per cent holding with the remaining stake held by Naftgaran Engineering Services Company (NESCO).¹⁴² The exploration of MIS started with Block 3 (Kuhdasht Block) in 2007.¹⁴³ CNPC also won the tender for the South Pars liquefied natural gas (LNG) project in 2006 to provide offshore well logging and perforating services under a three-year contract.¹⁴⁴

China Petroleum & Chemical Corporation (Sinopec)

Sinopec has operated in Iran since 2001.¹⁴⁵ It started exploring the Zavareh-Kashan block that year and the Garmsar block in 2005.¹⁴⁶ In 2004, it signed a memorandum of understanding with the National Iranian Oil Company (NIOC) to jointly develop the Yadavaran oil field and purchase ten tons of LNG annually for 25 years.¹⁴⁷

China National Offshore Oil Corporation (CNOOC)

CNOOC inked its first major deal with Iran in 2006, a memorandum of understanding with NIOC to participate in upstream development of the North Pars gas field and related LNG projects.¹⁴⁸ It finalised the development plan for North Pars in 2008, investing \$16 billion in the project.¹⁴⁹

¹⁴² On 20 August 2007, CNPC received a notice from the National Iranian Oil Company (NIOC) approving the Supplementary Agreement of the Iran MIS oilfield contract. This marked the beginning of the MIS project. Drilling of well V-1, the project's first exploration well, started in November 2007. "CNPC in Iran", CNPC website, www.cnpc.com.cn/en/cnpcworldwide/iran/.

¹⁴³ In May 2005, in the first round of overseas bidding, CNPC won the tender for Block 3, an integrated exploration and development project with a buy-back contract mode. The contract officially came into force in June 2005 and 2D seismic data acquisition began thereafter. In 2007, the Block-3 exploration project saw a daily oil output test of 1,250 barrels from the first exploration well, BAB-1. Ibid.

¹⁴⁴ Ibid.

¹⁴⁵ "Sinopec actively participates in bidding for Iranian oil fields, has eyes on Middle East energy", *Global Times*, 9 February 2004.

¹⁴⁶ "Sinopec in deal to explore Iran oil block", Agence France-Presse, 22 June 2006.

¹⁴⁷ "China's Sinopec, Iran ink Yadavaran deal", *USA Today*, 10 December 2007.

¹⁴⁸ "CNOOC to develop Iranian gas field", *China Daily*, 22 December 2006.

¹⁴⁹ "CNOOC inks new Iran gas deal, commits to drilling", Dow Jones, 28 May 2009.

APPENDIX C

MAJOR CHINESE INVESTMENTS IN IRAN IN 2009

January

CNPC and NIOC signed a \$2 billion development deal for the North Azadegan oilfield.¹⁵⁰

March

A Chinese consortium was reported to have signed a \$3.39 billion deal with NIOC to produce LNG in South Pars Phase 12, the world's largest gas field.¹⁵¹

June

CNPC and NIOC signed a \$4.7 billion natural gas development and purchase agreement for the South Pars gas field Phase 11.¹⁵²

October

CNPC and NIOC signed a \$2.5 billion agreement on the South Azadegan field, one of the world's largest oilfields.¹⁵³

November

Sinopec signed a memorandum of understanding with NIOC to help develop two oil refineries, a deal worth \$6.5 billion.¹⁵⁴

¹⁵⁰“Factbox: Iran's major oil customers, energy partners”, Reuters, 19 August 2010.

¹⁵¹South Pars is regarded as the world's largest gas field, with a reserve of more than 1,900 trillion cubic feet. “China signs U.S. \$3.2 billion natural gas contract with Iran”, China Knowledge, 18 March 2009; and “Iran, China firms sign 3 bln dollar LNG deal: report”, Agence France-Presse, 15 March 2009.

¹⁵²“Factbox”, op. cit.

¹⁵³Ibid.

¹⁵⁴“Sinopec in \$6.5 billion Iran refinery deal: Iranian media”, Reuters, 25 November 2009.



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