



ISSUE BRIEF

No. 62

September 2015

China-Iran Cooperation: Propinquity and Geo-Strategy at Play



Dr. **Monika Chansoria** is a Senior Fellow and Head of the China-study Programme at the Centre for Land Warfare Studies (CLAWS), New Delhi.

The foundation of China's proximity to the Islamic Republic of Iran has unequivocally been founded on energy ties. However, it does not necessarily limit itself to that. China had for long resisted extreme and tough measures against Iran during the phase of Tehran's international isolation over its nuclear pursuit because of strategic considerations and commercial interests. These highlighted the political and strategic overtones to the Beijing-Tehran axis that proved to be mutually beneficial where China indulged Iran for its energy needs and Tehran, in turn, used that 'energy card' to garner crucial Chinese support while countering international sequestration. Although energy and trade links between Beijing and Tehran constitute the core of the relationship, Beijing deftly chose the Iran factor to additionally 'balance' its complicated relationship with Washington – much before the breakthrough in the Iran nuclear deal came through.¹ It would not be imprudent to state that China remained the lynchpin during the phase of the international sanctions regime against Iran – where China chose to adhere to the letter of Resolution 1929, which contains no explicit restrictions on energy investment or trade.

Key Points

1. Although energy and trade links between Beijing and Tehran constitute the core of the relationship, Beijing deftly chose the Iran factor to additionally 'balance' its complicated relationship with Washington – much before the breakthrough in the Iran nuclear deal came through.
2. Tehran is Beijing's third largest supplier of crude oil, providing it with roughly 12 per cent of its total annual oil consumption – nearly one million barrels per day.
3. While Tehran strengthens the security of China's oil supply, it simultaneously provides China with a westward source of oil, by straying through the Strait of Hormuz.
4. China is pushing forward its strategy of 'going westward' and its future scope of activities includes regions such as the Indian Ocean and the Persian Gulf, which are also China's maritime energy supply lifelines.
5. However, with the signing of the Iranian nuclear deal in July 2015, China appears to have emerged among the biggest winners vis-à-vis its larger geo-strategic balancing against the United States – by offsetting US power in West Asia, while, at the same time, expanding its geo-strategic footprint and influence in the region

The Centre for Land Warfare Studies (CLAWS), New Delhi, is an autonomous think-tank dealing with national security and conceptual aspects of land warfare, including conventional and sub-conventional conflict and terrorism. CLAWS conducts research that is futuristic in outlook and policy-oriented in approach.

China-Iran Cooperation ...

The 'Pivot' of Oil and Energy

Tehran is Beijing's third largest supplier of crude oil, providing it with roughly 12 per cent of its total annual oil consumption – nearly one million barrels per day.² In the medium term, the Organization of Petroleum Exporting Countries (OPEC's) *World Oil Outlook 2012* had forecast that over the period 2011–16, global oil demand will add 5.1 million of barrels per day (mb/d) to reach 92.9 mb/d, with over 41 per cent (2.1 mb/d) of that increase occurring in China alone. Being the second-largest oil importer globally, China imported a record amount of crude oil from Iran in the first half of 2014 amid a loosening of sanctions against Tehran – further increasing Beijing's reliance on oil supplies from West Asia. Customs data released by China displays that Iranian oil imports in the first six months of 2014 were 630,000 barrels a day – up 48 per cent from the same period in 2013.

Heavy crude oil is harder to produce, refine, and sell than light crude oil, which has a lower density – and almost 60 per cent of Iran's oil reserves are believed to be of the heavy crude variety. Notwithstanding that Iran possesses the world's second largest proven oil reserves, the production remained well below pre-1979 levels owing to deficiencies in domestic refining capacity, offshore gas reserves remaining underdeveloped, and subsidies on fuel products sending domestic energy consumption skyrocketing. Resultantly, Iran was reliant on gasoline imports and has always been on the lookout for investment and technology to develop these reserves, and Beijing's assistance herein has proven instrumental,³ especially since international sanctions that were levied until recently, precluded Iran from accessing foreign technology. China has signed an estimated \$120 billion worth of oil deals with Iran in the past decade, and this has brought substantially profitable benefits for three major national oil companies of the People Republic of China (PRC):

China: National Petroleum Corporation, Sinopec, and China National Off-Shore Oil Corporation.

- The China National Petroleum Corp (CNPC) signed a contract with the National Iranian Oil Company (NIOC) for the development of Iran's South Azadegan oilfield, and was expected to buy a 70 per cent share of the whole project, slated to produce 260,000 barrels of crude oil per day, with development cost totalling \$2.5 billion. Significantly, this field runs along the Iraqi border and holds reserves estimated at approximately 42 billion barrels of oil – labelled as the world's largest find in the past three decades. It should also be recalled that back in 2008, the CNPC signed a \$1.76 billion deal with the NIOC to tap Iran's North Azadegan oil field, which according to estimates had pumped 75,000 barrels of oil a day by 2012.⁴
- China's state-owned oil giant Sinopec and the National Iranian Oil Company drafted a memorandum of understanding for the development of the Yadavaran oil field, worth \$70 billion, in November 2004. According to the US Department of Energy, this field on completion, would likely produce 300,000 barrels a day.⁵
- In March 2009, the two nations signed a \$3.2 billion, three-year pact, to develop Phase 11 of the South Pars gas field beneath the Persian Gulf—an underwater cavity that might just be the world's largest source of natural gas. This is in addition to a deal to develop Iran's Azadegan oil field into a 120,000-barrel per day field, estimated at a cost of \$2 billion.⁶ However, China's pace in developing Iranian natural gas reserves has, at times, left the Iranian government infuriated, with warnings to the China National Petroleum Corporation of cancellation of the \$5 billion contract to develop Phase 11 of the South Pars field if the Chinese firm did not accelerate its pace of exploration.⁷

- Reportedly, Iran has also invited China to develop the Jask facility, overlooking the Arabian Sea, as a major Iranian oil terminal. It is being estimated that in the long run, Jask could be used as a forward support facility for the People's Liberation of Army (PLA) Navy (PLAN) during conflict situations either, in the Persian Gulf, or the Indian Ocean.

In his published memoirs, China's long-time Ambassador to Tehran and later Distinguished Fellow at the China Institute of International Studies (CIIS), Hua Liming, admitted that Chinese diplomacy had entirely been dictated by energy politics since the time China became an oil importer in the early 1990s. Besides, China has become Iran's largest market for petrochemical exports, especially methanol. President of Iran's Petrochemical Commercial Company Reza Hamzelou stated that Iran has surpassed Saudi Arabia as the biggest methanol exporter to China, and Chinese companies are negotiating for the construction of a \$5 billion methanol plant in the city of Mahshahr.⁸ Chinese Ambassador to Tehran Yu Hongyang told the Islamic Republic News Agency (IRNA) that nearly 70 Chinese companies were active in Iran currently.

Iran's economic reliance on China is not limited to the energy sector alone. In fact, non-energy trade and investments form a substantial component of bilateral economic ties. According to figures released by the Heritage Foundation's *China Global Investment Tracker*, from 2005-12, Iran was the sixth-largest recipient (and the largest in West Asia) of Chinese non-bond investment of \$16.8 billion. That notwithstanding, Chinese-Iranian economic ties did create the backlash and dissatisfaction, with an increasing numbers of Iranians appearing to perceive the economic ties as largely consisting of Beijing buying Iranian oil, gas, and raw materials while flooding the Iranian market with low-priced and inferior Chinese manufactured goods at the expense of Iran's industrial development.⁹

Budding Military and Strategic Ties

Having the second largest territory as per landmass in the region, Iranian influence in the Chinese calculus most certainly plays a vital role in aiding Beijing to expand its influence in the Gulf and beyond, given Iran's strategic location between the Caspian Sea and the Gulf. While Tehran strengthens the security of China's oil supply, it simultaneously provides China with a westward source of oil, by straying through the Strait of Hormuz. These strategic considerations have found manifestation in the present military collaboration between Iran and China. Working under the imperative of embracing "new historic missions," China's PLA and PLAN have expanded their area of operations in far-flung waters to match China's growing national interests. The 17th escort task force under the PLAN, carrying out missions in the waters of the Gulf of Aden, docked at the port of Bandar Abbas in southern Iran on September 20, 2014, for a five-day visit – the PLAN warship's first visit to Iran. The guided missile destroyer *Changchun*, a Type 052C Luyang II Chinese guided-missile destroyer, and a Type 054A Jiangkai II guided missile frigate, *Changzhou*, participated in a joint maritime exercise, *Velayat 3*, in the Persian Gulf. The *Ming Pao Daily News* quoted that China is pushing forward its strategy of 'going westward' and its future scope of activities includes regions such as the Indian Ocean and the Persian Gulf, which are also China's maritime energy supply lifelines.¹⁰

Iran is seeking to extend its energy delivery network to China as per Xi Jinping's signature "One Belt, One Road" initiative launched in 2013. Ali Asghar Khaji, Iran's Ambassador to China, said Iran would expand its railways, roads, ports, and telecom sector and energy security under a five-year development plan. Commenting on the "One Belt, One Road" initiative, Khaji said that Iran could support the construction of a natural gas pipeline from Iran, Iraq and Syria to Europe – a project that observers say is in doubt

because of the Syrian civil war and financial sanctions on Syria and until recently, on Iran.¹¹ Besides, the Iranian *Payvand News* reported in February 2011 that the Iranian Construction and Development of Transportation Infrastructures Company, in collaboration with China, is constructing a railroad network extending 5,300 km (3,293 miles), consisting of eight rail lines. The deal, signed at Rial 130 trillion (around \$13 billion) includes the Tehran-Mashhad line (over 900 km), Tehran-Qom-Esfahan line (410 km), Qazvin-Rasht-Anzali-Astara line (more than 370 km), Arak-Kermanshah-Khosravi line (569 km), Chabahar-Zahedan-Mashhad line (1,340 km), Gorgan-Bojnourd-Mashhad line (646 km), Tehran-Hamedan-Sanandaj line (408 km), and the Sari-Rasht line (366 km).¹²

Transcending the realms of military cooperation, the Chinese-Iranian relationship has been robust in the field of arms trade as well. As per the *SIPRI Arms Transfer Database*, between 2010-13, China transferred the following major conventional weapons to Iran:

- WZ-501/Type-86 armoured personnel carrier.
- C-802/CSS-N-8 anti-ship missile.
- FL-6 anti-ship missile.
- TL-10/FL-8 anti-ship missile.
- C-704 anti-ship missile.
- C-801/CSS-N-4 anti-ship missile.
- QW-11 Portable Surface-to-Air Missile (SAM)

Besides, it is only too well known that to a large extent, Iranian military modernisation has been facilitated by China directly and through third-party sale/transfers carried out via North Korea. China supplied Iran with tactical ballistic and anti-ship cruise missiles (Silkworm missiles). Chinese design and technology is visible in many Iranian missile

series, from the short-range Oghab and Nazeat missiles to the long-range Shahab 3.¹³ For that matter, Iran has also developed its anti-ship cruise missile Nasr (reportedly being nearly identical to the Chinese C-704).

Conclusion

Given the heavy Chinese investments injected into Iran, Beijing always resisted implementation of any proposal, which, in turn, would prove detrimental to its energy and economic ties with Iran. These were the primary drivers nudging Beijing to press for diplomacy over stringent sanctions against Iran – thus, highlighting the importance of the evident political and strategic give and take.¹⁴ The aforesaid realities of Beijing's Iran dilemma provide a coherent picture in so far as two opposing, however, equally buttressing facts are concerned. Firstly, Beijing aims to project itself as a dependable stakeholder on the international stage. Upholding the debate against nuclear proliferation provided the perfect platform to do so – visible when China, time and again, voted in favour of punitive UN resolutions against Iran. Nevertheless, on the other hand, in its own limited way, China managed to provide a sense of reprieve to Iran. Beijing continued to struggle in the complex oscillation between its desire for an escalating demand of Iranian oil and natural gas and an aspiration to become a decisive focal point in the sphere of global diplomacy.¹⁵ However, with the signing of the Iranian nuclear deal in July 2015, China appears to have emerged among the biggest winners vis-à-vis its larger geo-strategic balancing against the United States – by offsetting US power in West Asia, while, at the same time, expanding its geo-strategic footprint and influence in the region.

... Propinquity and Geo-Strategy at Play

Notes

1. For more details, see Monika Chansoria, "China-Iran Cooperation," CLAWS Article 571, May 02, 2011; also see, "China's Stakes in the Iranian High-Risk Game," CLAWS Article 446, November 10, 2010; and see, "Energising Politics: Evaluating China's Equation with Iran," CLAWS Article 264, November 07, 2009.
2. *Reuters*, "Iran Has 85 Billion Barrels Heavy Oil Reserve: Report," August 30, 2008.
3. Chansoria, n. 1.
4. Dorraj, Manochehr and Carrie L. Currier, "Lubricated with Oil: Iran-China Relations in a Changing World," *Middle East Policy Council Journal*, Vol. 15, No. 2, Summer 2007.
5. *Fars News Agency*, "China Expects \$40 bn Trade Exchange with Iran in 2011," July 11, 2011; also see, *Mehr News Agency*, "Iran, China Sign 6 Industrial, Mineral Deals Worth \$20B," May 10, 2011.
6. China's Request to Develop Iran's Heavy Oil Fields," *Abrar Eghtesadi*, January 21, 2010.
7. For more details, see Scott Harold and Alireza Nader, "China and Iran: Economic, Political, and Military Relations," Occasional Paper, Centre For Middle East Public Policy, RAND Corporation, 2012, Santa Monica, CA.
8. "China's Participation in Iran's Five Billion Dollar Petrochemical Plan," *Abrar Eghtesadi*, May 22, 2011; also see, Tehran Emrouz, "Iran Jay e Arabistan Ra Gereft (Iran Took Saudi Arabia's Place)," November 01, 2010.
9. Harold and Nader, n. 7.
10. For more details, see an edited report by Yao Jianing, "First China-Iran Joint Military Exercise Attracts Attention," *China Military Online*, September 23, 2014.
11. Teddy Ng, "Iran Backs Pipeline to China Under 'One Belt, One Road' Initiative: Ambassador," *South China Morning Post*, April 23, 2015.
12. Chansoria, n. 1.
13. According to *Jane's Strategic Weapons Systems*, Vol. 100, 101.
14. Chansoria, n. 1.
15. *Ibid.*

The contents of this Issue Brief are based on the analysis of material accessed from open sources and are the personal views of the author. It may not be quoted as representing the views or policy of the Government of India or Integrated Headquarters of MoD (Army).



CENTRE FOR LAND WARFARE STUDIES (CLAWS)

RPSO Complex, Parade Road, Delhi Cantt, New Delhi 110010

Tel.: +91-11-25691308, Fax: +91-11-25692347, Email: landwarfare@gmail.com

Website: www.claws.in

CLAWS Army No. 33098