

PolicyWatch 2435

Iran Seen from Beijing

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China views Iran as a central element in its much-touted Silk Road Economic Belt, which aims to extend Beijing's influence overland through Central Asia to the Persian Gulf and Europe.

Although China has long been Iran's largest oil customer, international sanctions recently relegated the Islamic Republic from third to sixth place among Beijing's suppliers -- a list consistently topped by Iranian rival Saudi Arabia. Similarly, while China's bilateral trade with Iran reportedly expanded to around \$50 billion by late 2014, it remains dwarfed nearly elevenfold by its trade with the United States.

Given these figures, why does Iran play a seemingly disproportionate role in Beijing's regional calculus, often to the puzzlement of its much larger energy and trade partners in Riyadh and Washington? Diplomatic brinkmanship aside, much of the answer lies in Iran's geostrategic value as a key hub in China's westward overland thrust, which Beijing views as essential to countering both Washington's eastward pivot and U.S. naval superiority.

BACKGROUND

China and Iran's durable ties stretch back as far as the Han and Parthian empires, when the two civilizations were trade partners on the ancient Silk Road. When the Arabs invaded Iranshahr in the seventh century, Peroz III, scion of the swansong Sassanian monarch Yazdgird III, sought and was offered refuge in Tang China by the Emperor Gaozong. In modern times, despite substantive ideological differences, Ruhollah Khomeini and Mao Zedong instilled both countries with revolutionary legacies that rejected imperial hegemony and foreign exploitation, putting them on the same side against the U.S.-led status quo.

Over time, China has become Iran's least unreliable -- not to say most reliable -- major power ally and a key pivot for counterbalancing the United States. During Iran's withering eight-year war with Iraq, Beijing was the only major power to supply Tehran with arms (though it did the same for Baghdad). And in 1985, the two governments signed a stealth nuclear cooperation deal during a visit by then parliamentary speaker Akbar Hashemi Rafsanjani. Cooperation went from strength to strength until 1997, when U.S. pressure over the previous year's Taiwan Strait crisis spurred China to suspend nuclear and missile assistance to Tehran. By then, however, years of Chinese and North Korean technical assistance had already helped Iran establish a homegrown missile production industry, a key pillar of its defense posture.

On the economic front, Beijing has reduced its oil imports from Iran in recent years to preserve the U.S. sanctions waivers it enjoys. Owing to Iran's sanctions-induced reductions, however, it continues to buy half of Iran's crude exports. In addition to the lower prices Tehran is offering because of sanctions, Iranian supplies matter greatly to Beijing because the Gulf's other major energy producers are U.S. partners.

EMPHASIZING THE EURASIAN HEARTLAND

China has been pushing west in the context of the Silk Road Economic Belt (*Sichouzilu jingjida*) introduced by President Xi Jinping in September 2013. This "westward march" had already been advocated in 2011 by Wang Jisi, one of the country's most lucid strategic minds, with the aim of meeting and counterbalancing President Obama's eastward pivot. Under the Xi administration, Beijing's immediate Silk Road priorities appear to be threefold:

1. Securing the overland flow of energy from neighboring Central Asia (and Russia) to offset the risk of maritime interdiction, especially at two sensitive waterways: the Strait of Malacca (through which 80 percent of Chinese oil transits) and the Strait of Hormuz (through which about two-fifths of its oil imports pass).
2. Leveraging development projects to pacify the restive but energy-rich western province of Xinjiang, where Uyghur separatists advocating the establishment of an East Turkestan state have repeatedly taken up arms against the Han Chinese.
3. Encouraging greater regional stability and integration by locking China's western neighbors into a zone of prosperity extending to Europe, with Beijing at its political and economic nexus.

China is the world's largest net importer of oil. Given the risks of maritime interdiction, the need for overland energy conduits is particularly important. Accordingly, two new pipelines came onstream in 2006 and late 2009. The first pumps oil mostly from Kazakhstan's northern Caspian region of Atyrau through China's Xinjiang province

and toward the coast, amounting to roughly 4 percent of the 6.2 million barrels per day that China imported in 2014. The other pipeline brings natural gas mainly from the Saman-Depe field in Turkmenistan, which has been China's largest supplier since 2012. In 2013 terms, Turkmen gas accounted for about half of China's 53 billion cubic meters in annual gas imports and about a sixth of its overall gas consumption. Ashgabat plans to more than double these exports by 2020.

In accordance with the Chinese saying "if you want to prosper, first build roads" (*yao xiang fu, xian xiu lu*), Beijing has also been modernizing the vast network of roads and railways crisscrossing Central Asia, financing its efforts through the Asian Infrastructure Investment Bank and the Silk Road Fund. In 2012, it completed a rail line extending from Khorgos to Zhetygen, Kazakhstan, and onward to Western Russia and Europe, paralleling an existing line from Xinjiang's provincial capital of Urumqi through China's Dzungarian Gate (Alashankou) and into Kazakhstan's largest city, Almaty. This east-west corridor may eventually cleave through Iran to the Gulf. According to strategist Gao Bai, Beijing has sought to offset U.S. naval superiority by building a high-speed railway capable of projecting power from China's eastern seaboard into the Eurasian interior -- a continental hedge of sorts in the event of maritime trouble. And despite the challenges that a China-bound Eurasian order could pose to Russia, President Vladimir Putin reportedly gave Xi Jinping his blessing in October 2014 after the latter agreed to include the Trans-Siberian and BAM railways in the Silk Road Economic Belt.

IRAN'S GEOSTRATEGIC VALUE

So where does Iran fit into all this? Tehran is not a dominant actor in Central Asia, partly because of its deference to Moscow, and also because the countries in question remain wary of Iranian soft-power penetration. Even its trade with the Central Asian republics is conspicuously modest. Rather, Iran fills a geostrategic role as their most convenient non-Russian access route to open waters, and the only east-west/north-south intersection for Central Asian trade. In May 1996, Iran and Turkmenistan forged this missing link by inaugurating a 300-kilometer railway between Mashhad and Tejen. And in December 2014, Kazakhstan, Turkmenistan, and Iran inaugurated a railway from Uzen (Zhanaozen) to Gorgan and onward to Iran's Gulf ports.

Meanwhile, Turkmenistan and Iran completed a gas pipeline in 1997 linking Korpeje to Kordkuy, followed in 2010 by the Dauletabad-Serakhs-Khangiran pipeline. Turkmenistan supplies about 14 billion cubic meters of gas annually to Iran, as well as a large proportion of the country's imported electricity. Similarly, Kazakh oil sent via Caspian Sea tankers has powered Iran's hydrocarbon-deprived northern provinces, in a swap arrangement that sees Tehran selling equivalent amounts on Astana's behalf via the Persian Gulf. In addition to the shorter export pathways it offers, energy relations with Iran are tempting given Russia's long history of price extortion with its Central Asian vassals. Nevertheless, such relations have not been entirely smooth -- bureaucratic disagreements have emerged with Tehran over transit fees, fuel prices, payment methods, and the like.

For Beijing, Iran's geostrategic value is enhanced by its position astride one of China's two overland bridges to the west. The other bridge skirts the northern coast of the Caspian through Kazakhstan and southwestern Russia near the Caucasus region, but Iran arguably presents the more important route because it connects with both Europe and the Gulf. Given this continental anchor, the Islamic Republic has taken on an importance in Beijing that exceeds the size of its domestic market or its role as energy purveyor.

NEXT STEPS

If a nuclear agreement with the United States brings sanctions relief to Tehran, China will no doubt intensify its presence in Iran's economy. Likewise, it will encounter fewer obstacles in extending its road, rail, and pipeline networks through the land bridge that is the Iranian plateau. A nuclear deal could also pave the way for Iran's full membership in the Shanghai Cooperation Organization, a request that has been rejected since 2008 on the grounds that Tehran is under UN sanctions. The SCO, whose full members include China, Russia, and all of the Central Asian republics except Turkmenistan, is widely perceived as a counterbalance to NATO and the United States, so Iran almost certainly regards it as an additional layer of insurance in the event of future hostilities with the West.

Against this backdrop, Washington has admittedly precious little room for maneuver. Containing both China and Iran is a surefire way to drive them together. And counteracting Iran while accommodating China -- or, more improbably, vice versa -- would leave loopholes that either could exploit. The more the White House is distracted by Persian imponderables, the less robust its "rebalancing" of resources toward Asia will be, which eminently suits Beijing. The Middle East and Iran in particular are Washington's more immediate priorities, but China represents its most important long-term foreign policy challenge. How Beijing and Tehran interact in the meantime will have significant consequences for America's grand strategy.

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