



## USCC REPORT: China-Iran: A Limited Partnership

Today, the U.S.-China Economic and Security Review Commission released contracted report, China-Iran: A Limited Partnership, written for the Commission by CENTRA Technology, Inc.

Some of the report's key conclusions are:

Over the past 30 years, China and Iran have developed an active but limited partnership, cooperating across a spectrum of interests. China's relations with Iran are primarily shaped by its economic interests, and more specifically by its energy needs. It is in the paradoxical position of having more leverage than almost any other country vis à-vis Iran, but also having the most to lose should more broadly punitive sanctions be imposed or war break out in the region.

China has become the world's second largest consumer and importer of oil after the United States. China sees Iranian supply as an important component of its energy mix. Iran's share of China's total oil imports has remained fairly stable—between nine and 14 percent since 2000—but China's importance to the Iranian oil sector has grown substantially in the sanctions era, with exports to China rising from five percent of Iran's total oil exports in 2000 to 25 percent by 2011. Since its 2010 vote for United Nations (UN) Security Council Resolution 1929, which imposed a fourth round of UN sanctions on Iran, China appears to be walking a fine line in its oil and gas relations with Iran, asserting its right to ignore non-UN sanctions, but also showing some restraint, even at a cost to its economic interests.

On matters related to security, in the mid-1990s, China began to disengage from its cooperation with Iran, and in 1997 Beijing agreed not to "engage in new nuclear cooperation with Iran." Since that time, there have been few allegations that China is directly assisting Iran's nuclear program as a matter of state policy. China has continued measured support to Iran's defense programs, but export control cases of concern that have received press attention have generally involved Chinese citizens and/or companies that act as intermediaries to acquire sensitive materials such as graphite, high strength aluminum, or maraging steel.

In the past year or so, analysts in both Iran and China have questioned the strength of the two countries' mutual commitments and the value and risks of developing closer ties. While the PRC Government praises the bilateral relationship and promotes a robust series of economic, educational, and cultural exchanges with Iran, some Chinese analysts are beginning to view a closer partnership with Iran as carrying too many risks for Beijing. Moreover, the Islamic Republic prohibits foreign ownership of its energy resources, which limits China's opportunities to acquire equity in Iranian oil, and foreign investors have historically experienced frustration with Iran's approach to international business dealings, which regularly involve continuous rounds of contract negotiations and

unimplemented business deals. Chinese investors are said to have found this every bit as frustrating as have their Western and Japanese counterparts.

For Tehran, there is a perception that China's approach is not only increasingly mercantilist — trying to exploit Iran's economic isolation — but also opportunistic. Beijing has used financial sanctions, which have restricted Iran's ability to conduct dollar-denominated oil transactions, as a pretext to force Iran into barter deals. This has opened a floodgate of cheap, subsidized, and often sub-standard Chinese products, which have increasingly displaced Iranian industries and displeased the large consumerist middle class. There are also reports of delayed payments, causing intermittent trade frictions with Tehran.

These apparent shifts in attitude on both sides of the relationship speak to the growing impression that as they become more comprehensive and more multilateral, the multi-layered international sanctions imposed on Iran have become increasingly effective—by raising the risk that foreign firms may suffer harsh penalties for engaging financially and commercially with key elements of the Iranian economy.

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