



The Asia-Pacific Journal: Japan Focus

n-depth critical analysis of the forces shaping the Asia-Pacific...and the world.

The Ties That Bind China, Russia and Iran

By Jephraim P. Gundzik

[A **Japanese translation** of this text is available at <http://blogs.yahoo.co.jp/mako2750026/5890707.html>]

The military implementation of the George W Bush administration's unilateralist foreign policy is creating monumental changes in the world's geostrategic alliances. The most significant of these changes is the formation of a new triangle comprised of China, Iran and Russia.

Growing ties between Moscow and Beijing in the past 18 months is an important geopolitical event that has gone practically unnoticed. China's premier, Wen Jiabao, visited Russia in September 2004. In October 2004, President Vladimir Putin visited China. During the October meeting, both China and Russia declared that Sino-Russian relations had reached "unparalleled heights". In addition to settling long-standing border issues, Moscow and Beijing agreed to hold joint military exercises in 2005. This marks the first large-scale military exercises between Russia and China since 1958.

The joint military exercises complement a rapidly growing arms trade between Moscow and Beijing. China is Russia's largest buyer of military equipment. In 2004, China was reported to have signed deals worth more than \$2 billion for Russian arms. These included naval ships and submarines, missile systems and aircraft. According to the head of Russia's armed forces, Anatoly Kvashnin, "our defense industrial complex is working for this country [China], supplying the latest models of arms and military equipment, which the Russian army does not have". Russia's relations with China are not limited to military trade. In the past five years, non-military trade between Russia and China has increased at an average annual rate of nearly 20%. Moscow and Beijing have targeted non-military trade to reach \$60 billion by 2010, from \$20 billion in 2004. One of the key components of commercial trade is Russian energy exports to China.

In early 2005, Moscow agreed to more than double electricity exports to China, to 800 million kilowatt hours (kWh), by 2006. Officials at Russia's electricity monopoly, Unified Energy Systems, are also courting Chinese investment in the development and renovation of Russia's electricity system. In October 2004, the China National Petroleum Corporation (CNPC) and Russia's Gazprom signed a series of agreements intended to study how Russia can best supply natural gas to China. At the same time, Russia signed specific agreements with China on oil exports.

Russia's oil shipments to China are slated to reach 10 million tons in 2005, increasing to 15 million tons in 2006. All of these shipments will be made by rail. However, this agreement was overshadowed by talks concerning the construction of an oil pipeline from Siberia to northern China. Russia has been pondering an oil pipeline to China for nearly 10 years. In 2002, plans for this pipeline received a boost when Moscow pledged to invest \$2 billion in an oil pipeline running from the Siberian city of Angarsk to Daqing in northeastern China.

At the end of 2004, Russian officials announced that rather than running into China, the new mega pipeline would terminate in Russia's Pacific port of Nakhodka. Japan lobbied Moscow hard for this configuration, offering to finance the entire construction project, the cost of which is estimated to exceed \$10 billion. In addition to a readily available financing source, the Nakhodka pipeline will remain entirely in Russian territory, allowing Moscow complete control over the oil flow.

Many analysts viewed Moscow's decision as a blow to relations with China. Though the pipeline does not terminate in China, it does pass within 40 miles of Russia's border with China. A spur from this pipeline to China would be inexpensive, while further diversifying the market for annual oil flows expected to reach 80 million tons. In other words, why should either Moscow or Beijing finance an eastern oil pipeline when Tokyo is bending over backwards to provide such financing?

More indicative of Russia's deepening energy relations with China are the circumstances surrounding the renationalization of Russian oil major Yukos. Yukos was the only Russian company exporting oil to China. Russia's government effectively renationalized Yukos in late 2004 when it seized the company's primary production unit, Yuganskneftegaz, and auctioned it off to the highest bidder. Yuganskneftegaz, located in Siberia, is Russia's second-largest oil producer.

Through somewhat twisted means, Russia's state-owned oil company, Rosneft, acquired Yuganskneftegaz for \$9.3 billion. In December 2004, Russia's Industry and Energy Minister Viktor Khristenko offered the CNPC a 20% stake in Yuganskneftegaz. In February 2005, Russian Finance Minister Alexei Kudrin revealed that Chinese banks provided \$6 billion in financing for Rosneft's acquisition of Yuganskneftegaz. This financing was secured by long-term oil delivery contracts between Rosneft and the CNPC.

It is unclear whether the CNPC owns a portion of Yuganskneftegaz. However, in March, Russian authorities approved a merger between state-owned gas company Gazprom and Rosneft. This merger excludes Yuganskneftegaz, which will remain a separate state-owned company. It is possible that Yuganskneftegaz was left a stand-alone unit to facilitate China's investment in the company.

China's involvement in the renationalization of Yukos represents the most significant foreign participation in Russia's highly guarded oil sector. The CNPC is also involved in several joint ventures with Russia's state-owned gas company, Gazprom. These include ventures to develop energy reserves in Iran, the home of China's largest energy-related investments.

Beijing and Moscow warm to Tehran.

In March 2004, China's state-owned oil trading company, Zhuhai Zhenrong Corporation, signed a 25-year deal to import 110 million tons of liquefied natural gas (LNG) from Iran. This was followed by a much larger deal between another of China's state-owned oil companies, Sinopec, and Iran, signed in October 2004. This deal, worth about \$100 billion, allows China to import a further 250 million tons of LNG from Iran's Yadavaran oilfield over a 25-year period. In addition to LNG, the Yadavaran deal provides China with 150,000 barrels per day of crude oil over the same period.

This huge deal also enlists substantial Chinese investment in Iranian energy exploration, drilling and production as well as in petrochemical and natural gas infrastructure. Total Chinese investment targeted toward Iran's energy sector could exceed a further \$100 billion over 25 years. At the end of 2004, China became Iran's top oil export market. Apart from the oil and natural gas delivery contracts, the massive investment being undertaken by China's state-owned oil companies in Iran's energy sector contravenes the US Iran-Libya Sanctions Act. This law penalizes foreign companies for investing more than \$20 million in either Libya or Iran.

Side-stepping US laws is nothing new for China. Beijing, as well as Moscow, has supplied Tehran with advanced missiles and missile technology since the mid-1980s. In addition to anti-ship missiles like the Silkworm, China has sold Iran surface-to-surface cruise missiles and, along with Russia, assisted in the development of Iran's long-range ballistic missiles. This assistance included the development of Iran's Shihab-3 and Shihab-4 missiles, with a range of about 2,000 kilometers. Iran is also reportedly developing missiles with ranges approaching 3,000 kilometers.

In late 2004, former secretary of state Colin Powell asserted that Iran was working to adapt its long-range ballistic missiles to carry nuclear warheads. China was also believed to be producing several new types of guided anti-ship missiles for Iran in 2004. China's and Russia's sales of missiles and missile technology as well as missile development assistance contravenes the US-Iran non-proliferation act of 2000. This act specifically states that sanctions will be "imposed on countries whose companies provide assistance to Iran in its efforts to acquire weapons of mass destruction and missile delivery systems".

In the past several years a number of Chinese and Russian companies have faced US sanctions for selling missiles and missile technology to Iran. Rather than slowing or stopping such sales, the pace of missile acquisition and development in Iran has accelerated. Like relations between China and Russia and China and Iran, Russia's relations with Iran have also advanced considerably in the past 18 months. In addition to increased investment in Iran by Russia and burgeoning arms trade between the two countries, Russia has been heavily involved in Iran's nascent nuclear energy industry.

After much wrangling and repeated US intervention, Russia and Iran finally signed, in February, a deal clearing the way for the shipment of Russian nuclear fuel to Iran's nuclear power plant at Bushehr. Washington's primary concern about Bushehr is the intended use of the plant's spent nuclear fuel. This fuel can be discarded, reprocessed, or used in the manufacture of weapons-grade plutonium. In an effort to assure Washington that the last of these three possibilities will not come to pass, Moscow has promised that all the spent fuel from Bushehr will be returned to Russia.

Nonetheless, Washington continues to believe that Bushehr's start-up will advance Tehran's supposed nuclear weapons program. Though evidence of an Iranian weapons program is sparse, the US remains convinced that Iran is working to develop nuclear weapons with Russian assistance.

The new geostrategic alliance

Along with energy trade, investment and economic development, the China-Iran-Russia alliance has cultivated compatible foreign policies. China, Iran and Russia have identical foreign policy positions regarding Taiwan and Chechnya. China and Iran fully support the Putin government's war against the Chechen separatists (Iran's self-described status as an "Islamic republic" notwithstanding). Russia and Iran support Beijing's one-China policy. The recent promulgation of China's anti-secession law, aimed at making Beijing's intolerance of Taiwanese independence explicit, was heartily commended in both Moscow and Tehran.

The most compelling aspect of this alliance is revealed in China's and Russia's support for Iran's much-maligned nuclear energy program. The Putin government has consistently maintained that Russia would not support UN Security Council resolutions that condemn Iran's nuclear energy program or apply economic sanctions against Iran. In February, Putin said he was convinced Iran was not seeking to develop nuclear weapons and announced plans to visit the country, in support of Tehran, just prior to his summit with President Bush.

Beijing has echoed Moscow's opposition to UN action against Iran. After concluding the historic gas and oil deal between China and Iran in October 2004, China's Foreign Minister Li Zhaoxing announced that China would not support UN Security Council action against Iran's nuclear energy program. Opposition in Moscow and Beijing to UN action against Iran is significant because both countries hold UN Security Council veto power.

The endorsement of Tehran's nuclear energy program by Moscow and Beijing reveals the primary impetus behind the China-Iran-Russia axis - to counter US unilateralism and global hegemonic intentions. For Beijing and Moscow, this means minimizing US influence in Asia, Central Asia and the Middle East. For the regime in Tehran, keeping the US at bay is a matter of survival.

The joint statement issued at the conclusion of Putin's state visit to China in October 2004 was a clear indication of Beijing's and Moscow's abhorrence of the Bush administration's unilateral foreign policy. The statement noted that China and Russia "hold that it is urgently needed to [resolve] international disputes under the chairing of the UN and resolve crisis [sic] on the basis of universally recognized principles of international law. Any coercive action should only be taken with the approval of the UN Security Council and enforced under its supervision..."

Two weeks after this statement was released, and just prior to the US presidential election, Beijing's position against US unilateralism was again made explicit by China's former foreign minister Qian Qichen - arguably China's most distinguished diplomat.

In an opinion piece published in the China Daily, Qian ripped Washington's unilateralism: "The United States has tightened its control of the Middle East, Central Asia, Southeast Asia and Northeast Asia." He noted that this control "testifies that Washington's anti-terror campaign has already gone beyond the scope of self defense". Qian went further, stating that: "The US case in Iraq has caused the Muslim world and Arab countries to believe that the superpower already regards them as targets [for] its ambitious democratic reform program."

To China and Russia, Washington's "democratic reform program" is a thinly disguised method for the US to militarily dispose of unfriendly regimes in order to ensure the country's primacy as the world's sole superpower. The China-Iran-Russia alliance can be considered as Beijing's and Moscow's counterpunch to Washington's global ambitions. From this perspective, Iran is integral to thwarting the Bush administration's foreign policy goals. This is precisely why Beijing and Moscow have strengthened their economic and diplomatic ties with Tehran. It is also why Beijing and Moscow are providing Tehran with increasingly sophisticated weapons.

This article appeared in The Asia Times on June 4, 2005. Jephraim P Gundzik is president of Condor Advisers. This article was posted at Japan Focus on June 6, 2005.