China is a fast emerging global power and has registered rapid economic growth. It remains the sole long-term challenger to US hegemony. It has now supplanted the US as the dominant market for many commodities; its steel production outstrips that of the US and Japan combined; it now accounts for 35 per cent of global coal production; and China’s investment share of GDP, now close to 45 per cent, is the highest in the world. These figures come from a recent paper by Chicago-based US economist, David Hale, an authority on China’s economy.

He argues that China’s consumption of raw materials is ‘poised for explosive growth’. Steel production is running at 220 million tones annually and it plans to add another 200 million tonnes of capacity in the next few years. As China’s steel production and economy rapidly expand, so does its thirst for oil, gas, coal and electricity. Today, China accounts for 12 per cent of the world’s energy consumption – second only to the US at 24 per cent, and up from 9 per cent a decade ago.

China’s whole modernisation strategy requires access to abundant supplies of energy, and its weakness continues to be its energy supply. Once largely oil-self-sufficient, China has over the last decade become increasingly reliant on imports, which now account for 60 per cent of its oil consumption, compared with only 6 per cent in 1993. According to the Beijing Review of February 5, 2004, within the next few years China’s oil imports are expected to continue rising and to account for 77 per cent of the country’s estimated demand by 2020.

Chinese petro-diplomacy already extends worldwide as far as Africa. It is establishing surveillance stations, naval facilities and airstrips to safeguard the oil route from the Gulf to the South China Sea. But its main goal in escaping dependence on maritime oil supplies is access to Iranian and Central Asian as well as Russian oil. Iran and Central Asian states are China’s neighbours, and Beijing is keenly interested in accessing the energy resources lying there. Central Asian states such as Azerbaijan, Kazakhstan, Turkmenistan, Kyrgyzstan and Uzbekistan have huge natural resources, both oil and gas reserves. According to estimates, 200 billion barrels of crude oil, i.e., a quarter of the world’s total, are present in countries lying on the coasts of the Caspian Sea. Similarly, abundant quantities of natural gas are also present in these countries. There are also huge oil and gas reserves in Iran. Contracts worth billions of dollars have been signed with these newly-independent Central Asian states and joint development ventures initiated; but the region still did not have a reliable export route to the open seas and hence to the world market.

Azerbaijan holds approximately 18.5 per cent of these estimated reserves and was the first state to export petroleum free from Soviet control. It is presently the largest oil producer in the Caspian region. It has previously signed contracts agreeing to develop two pipelines to Georgia and Turkey accessing both the
Black Sea and the Mediterranean respectively. This has eventuated, despite objections from Russian interest groups.

Russia, the Soviet Union’s successor, is the region’s most important player. The Russian presence is felt throughout the whole region as common ethnicity and languages associated with Russia – as well as the Russian Orthodox faith – run through Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan.

The United States has also become an external influence on the region, as it desires increased diversification in the world’s oil markets due to its dependence on Persian Gulf reserves. The US now has troops and military bases here and the Bush Administration has signalled that it wishes to remain a military presence in Central Asia. Washington aims to develop as many routes as possible in the region to decrease the chance of any one country establishing a stranglehold of flows to world markets. Strategically, the United States would like to block China’s entry into the region.

Russia aims to obtain as many pipelines as possible to cross over into its own territories so as to position itself to play a more influential role in ‘The Great Game’.

China is also marching on this region. It has signed a deal with Kazakhstan. Under this deal, China will acquire the right to develop two oilfields (Aktuibinsk and Uzan) in Kazakhstan in exchange for its commitment to build a 3,000-kilometre pipeline from the oilfields to China’s Xinjiang province and a 250-kilometre pipeline to the border of Iran (via Turkmenistan). The construction of this pipeline is already under way and, when completed, is expected to transport a huge quantity of oil from Kazakhstan to China. It would leave China in the least vulnerable position with respect to oil transportation risks.

China has also consolidated its relations with Mongolia. Although Mongolia had been strongly linked to the USSR both politically and economically up until the early 1990s, ties between the two former Cold War era allies have since declined. By contrast, owing to the growing economic might of its southern neighbour, Mongolia’s development has been increasingly re-oriented in a way to cater for the needs of booming Chinese markets. In other words, Mongolia is drifting away from Russia toward China.

Now Mongolia’s major trading partner is China. In 2004, almost half of the country’s exports went to China and a quarter of its imports came from China. Mongolia also wants to attract mining firms, as well as companies to build roads and railways, as the country’s Trade Minister Sukhbaatar Batbold recently announced. Presumably, minerals are to be mined and processed for subsequent export to China, while new roads and railways are needed to channel freight south. To achieve this goal, Mongolia’s government has said it will offer tax breaks to international major corporations such as BHP Billiton and Mitsuito to attract investment in coal and copper deposits. South Gobi holds a 6-billion-metric-ton coal deposit, and is believed to have enough reserves to supply neighbouring China for three years. Chinese mining companies are also said to be keen to establish themselves in Mongolia.
Of all the countries in Central Asia, Kyrgyzstan seems to be the most likely candidate for closer bilateral ties with China. For China, its agenda in Kyrgyzstan is simple: to acquire access to the country’s immense natural resources while blocking any further penetration of US and Russian military power. China has other weapons in its arsenal besides economic clout, most notably the Shanghai Cooperation Organisation (SCO). The Shanghai Five grouping was originally created in 1996 with the signing of the Treaty on Deepening Military Trust in Border Regions by the heads of states of Kazakhstan, China, Kyrgyzstan, Russia and Tajikistan. In 1997 the same countries signed the Treaty on Reduction of Military Forces in Border Regions at a meeting in Moscow. Finally, in June 2001, the Shanghai Five (along with Uzbekistan) signed the Declaration of the Shanghai Cooperation Organisation, praising the role played thus far by the Shanghai Five mechanism and aiming to transform it to a higher level of cooperation.

Kyrgyzstan also broadened its contacts with China by opening a consular office in August 2002 in Artush in Xinjiang province. For Kyrgyzstan, the benefits were immediate; three days after the declaration was signed, the Kyrgyz Defence Minister, Esen Topoev announced that China was giving Kyrgyzstan $970,000 in military aid. But even such a generous aid package did not alleviate the economic hardships in Kyrgyzstan. September 11 provided some relief for the country’s economic woes. In the aftermath of 9/11, Kyrgyzstan was quick to offer the US basing rights, leasing the Bishkek’s Manas airbase to the Pentagon in December 2001. The airstrip proved a cash cow for the authorities.

Washington is interested in stability in Kyrgyzstan. In the aftermath of the Tulip Revolution (March 24, 2005 when President Askar Akayev fled Bishkek), the US Defence Secretary, Donald Rumsfeld hurried to Bishkek, arriving on April 15 to reassure Washington that the new Kyrgyz leadership appeared willing to continue the previous administration’s foreign policy. In a significant sign of shifting attitudes, interim President Kurmanbek Bakiev, while assuring Rumsfeld that bilateral cooperation in the political, military and economic spheres would continue, also said that his country does not intend to serve as a base for surveillance aircraft or additional foreign military troops. Then, on 5 July, China, Russia and four Central Asian countries, at the Shanghai Cooperation Organisation meeting in Astana, Kazakhstan, called on the United States to set a deadline for withdrawing from military bases in Kyrgyzstan and Uzbekistan.

Despite the rivalry over Kyrgyzstan, the US, Russia and China have a common interest in combating the threat of Islamic extremism, which has entrenched itself in the southern part of the country. In 1999 and 2000 the Islamic Movement of Uzbekistan launched cross-border raids into the country from neighbouring southern Kyrgyzstan. China cannot help but be concerned about events in Kyrgyzstan and the threat of Islamic extremism. Considering how China’s own Xinjiang province, with its twelve million restive Uighurs, borders Kyrgyzstan, Beijing hopes to maintain contact and cooperation with the new government in Bishkek in order to address these critical issues of regional security effectively.
While deepening ties with the Central Asian states, Beijing is also steadily extending its reach into Iran. Iran is a large oil producer, with a growing and capable population and serious industrial potential. By 2050, its population is projected to exceed that of Russia. Several states have an interest in good relations with Iran for economic reasons.

In early July 2004, the Iranian Minister of Petroleum, Bijan Namdar Zanganeh announced that several large oilfields had been discovered in south-west Iran, raising the country’s oil reserves by 17 billion barrels to 132 billion barrels, the second largest in the world, accounting for 11.4 per cent of the world’s total. Zanganeh predicted that Iran’s daily oil production, now 4.2 million barrels, would exceed 7 million barrels in several years. Experts point out that the world currently consumes about 77 million barrels of crude oil every day. This figure is likely to hit 90 million barrels by the end of 2010. Iran’s huge energy reserves mean that the country will have a bigger say on the world stage as global energy demand increases. China, a huge energy consumer, has great interest in what happens to these vast energy resources.

China and Iran enjoy exemplary friendly ties (diplomatic relations were established in 1971), which have not only sustained changes of governments and the ups and downs in the regional and global situation, but, in fact, have been expanding and deepening. In June 2000, both governments signed a joint communiqué on enhancing bilateral cooperation, on the basis of mutual respect for sovereignty and territorial integrity, equality and mutual benefit, and peaceful coexistence.

In March 2002, Wu Yi, a member of China’s State Council, visited Iran to meet President Mohammad Khatami. The aim of the visit was to improve trade and economic ties. In August 2003, Iran’s Foreign Minister Kamal Kharrazi went to Beijing for further economic talks with Wu. In terms of economic relations, China has become one of Iran’s most important trade partners. Bilateral trade has increased rapidly in recent years, with trade volume reaching some $3.3 billion last year, several times higher than that a decade ago. Chinese firms are active in Iran in the field of electricity, dam building, cement plants, steel mills, railways, shipbuilding, transport, oil, gas and refineries. The Chinese car manufacturer, Chery Automobile Co Ltd, opened its first overseas production plant in Iran in February 2003. China is also cooperating with Iran to develop ports, jetties, airports and infrastructure, including motorways and metros in six Iranian cities. John Calabrese was quoted in China Brief on May 24, 2005, saying that ‘The China National Petroleum and Chemical Corporation (Sinopec) has scored big success in Iran: a $100 billion contract with Iran to buy 10 million tons of liquefied national gas (LNG) per year over 25 years, and a 50 per cent stake in the Yadavaran oilfield.’

The troubling aspect of the growing China-Iran alliance is Iran’s access to the improving ballistic missile technology being developed, deployed and utilised by the People’s Liberation Army, and China’s support for Iran’s nuclear energy programmes. Iran has a long history of acquiring nuclear weapons programmes.
In light of the fact that the founder of Pakistan’s nuclear programme, Abdul Qadeer Khan, is said to have provided Tehran not only with equipment for enriching uranium, but also with actual designs for the bomb, Iran’s claim to be pursuing a civilian nuclear programme looks unconvincing.

While Iran was accumulating the know-how for long-range missiles, it was inevitable that defence analysts believed that Iran had a viable nuclear weapons programme. It is clear that without the transfer of nuclear technology from China and Russia (Russia’s contribution to the Bushehr reactor is significant), Iran could not have achieved the pace of progress that it has in developing nuclear weapons. Iran, as a signatory to the Nuclear Non-Proliferation Treaty and the treaty’s Additional Protocol, which calls for intrusive safeguards, claims that it has the legal right to engage in peaceful nuclear research and development, subject to inspections of the International Atomic Energy Agency (IAEA). Iran has consistently stressed that its nuclear programmes are solely for peaceful purposes and that it has no existing programme to develop nuclear weapons, nor has it the intention of developing one.

Many analysts, however, do not subscribe to Iran’s claim to be pursuing a civilian nuclear programme. Why would Iran need to pursue a civilian nuclear programme when it possesses among the largest proven oil and gas reserves in the world, which are more than enough to fuel its domestic needs? Why would it opt for nuclear energy, which is far more complicated to develop and far more expensive to produce? Washington has accused Iran of deceiving the international community and of harbouring a nuclear weapons programme. Washington fears that once Iran owns nuclear weapons, it will sell them to terrorists and threaten the security of the United States and its allies. So, the Bush Administration is talking tough, considering options such as sanctions or regime change.

Meanwhile, the US will look to its Proliferation Security Initiative, launched by President Bush two years ago, to contain proliferation as an international mechanism to put pressure on Iran through interdictions of cargoes by sea and air. The Review in February 2005 reported that the US has imposed sanctions on seven Chinese firms suspected of selling nuclear weapons technology to Iran. The penalties, which will remain in place for two years, include a ban on trading with, and receiving assistance from, the US government. Two of the largest Chinese companies named by the US, China North Industry Corporation (Norinco) and China Great Wall Industry, have been repeatedly penalised for violating various export controls. Both have close ties to the Chinese army.

Last June, a US congressional report said China was failing to curb the proliferation of missile technology, despite promises from the Chinese government. The report suggested China’s growing dependence on Middle East oil was the main reason. Henry Kissinger said: ‘For an oil producer such as Iran, nuclear energy is a wasteful use of resources. What Iran really seeks is a shield to discourage intervention by outsiders in its ideology-based foreign policy’. This is the main reason, Kissinger continues, ‘it will be difficult to fashion a package of incentives to spur denuclearisation of Iran’. In this context, it is likely that the
The European Union (EU), which has strong economic ties with Iran, is trying to negotiate with Iran to stop it developing nuclear weapons, and is advocating the necessity of a sustained dialogue to defuse the crisis. Like the EU countries, China has called for a peaceful resolution, rather than a military one, to resolve the Iran nuclear issue. Zhang Yan, China's Ambassador to the UN, said on September 18, 2004: ‘The Iran nuclear issue should, and is completely able of being resolved within the IAEA’s framework through dialogue, and China is opposed to referring the issue to the UN Security Council’.

In the face of US pressure, Iran seemed to try its best to avoid diplomatic isolation, along with safeguarding its economic interests, perhaps by promising to halt its nuclear enrichment programme. On November 15, 2004, Iran signed an important nuclear agreement with three EU countries, Britain, France and Germany, known as the EU3, pledging temporarily to stop all of its uranium enrichment, conversion, and reprocessing activities. In return, the Europeans agreed to address Iran’s security concerns and expand commercial exchanges. The IAEA endorsed the agreement. Liu Jieyi, the Director General of the Department of Arms Control and Disarmament of China’s Ministry of Foreign Affairs, commented in the December 30, 2004 issue of Beijing Review that ‘China welcomes the agreement reached between Iran and three EU countries. China will, together with other members of the international community, continue to play a constructive role in facilitating a proper resolution of the issue within the framework of the IAEA at an early date’. Since the election of President Mahmoud Ahmadinejad, however, Iran has adopted a tougher stance: last month Teheran rejected the latest EU3 proposals and, after breaking the UN nuclear seals, restarted activities at the Uranium Conversion Facility in Isfahan.

In the meantime, Iran’s administration is taking steps that would restrict the West’s leverage in the long run. Focusing on oil, Iran is consciously looking eastwards, with a clear intent of reinforcing its linkages with China and India. In developing new strategic partnerships, Iran is offering China and India lucrative investment opportunities in its oil sectors. Iran has formalised a deal with China, which conservative estimates say would amount to upwards of $70–100 billion. It includes a Chinese commitment to purchase 250 million tonnes of Iranian liquefied natural gas over thirty years, develop the giant Yadavaran oilfield in southwest Iran (near the Iraqi border), and import 150,000 barrels a day of crude from the field at market prices. In the long term, China also hopes to participate in an Iranian pipeline project (the so-called Nekka project). This pipeline would link Tehran to the Caspian Sea. From there, a link with another planned pipeline from Kazakhstan to China is envisaged.

Iran has also entered into an estimated $40 billion tie-up with India. It covers an Indian commitment to import natural gas from Iran over a 25-year period and develop two Iranian oilfields and a gas field. India has agreed to build
a 2,700-kilometre natural-gas pipeline from southern Iran to Rajasthan in central India, with Pakistan allowing the pipeline to pass through its territory. All these developments indicate that Iran’s ultimate strategic goal is to become a major economic power and hub for the transit of goods and services between the Persian Gulf and Afghanistan, and possibly even China. And China, a huge energy consumer, wants to have a hand in what happens to those vast energy resources. Hence, China is warming to Iran.

American pre-eminence is the dominant structural feature of the present-day international system. This is something with which the Chinese leadership is not at all comfortable. Most troubling to Beijing are the elements of the Bush Doctrine – unilateralism, regime change, and preventive war. The fact that this doctrine has been applied chiefly in the Middle East has been of some benefit to China. American attention and resources have been diverted from East Asia at the very time when China is seeking to consolidate its power and influence in that region. But the substantial American military presence in Iraq and elsewhere in the Gulf, as well as the post-9/11 military thrust into Central Asia, poses a challenge to China.

However, Iran’s and Central Asia’s strategic significance to China is directly related to the trajectory of the Chinese economy. As a result of its massive industrial expansion, China’s energy consumption and dependence on foreign sources of supply have increased. It is reasonable to conclude that the primary aim of China’s diplomacy in Central Asia and Iran is, therefore, to serve the central task of economic modernisation; its core economic interest is access to oil and gas to meet its skyrocketing energy needs.

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