

**CHINA'S PROLIFERATION TO NORTH KOREA AND  
IRAN, AND ITS ROLE IN ADDRESSING THE NUCLEAR  
AND MISSILE SITUATIONS IN BOTH NATIONS**

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**HEARING**

BEFORE THE

**U.S.-CHINA ECONOMIC AND SECURITY  
REVIEW COMMISSION**

**ONE HUNDRED NINTH CONGRESS  
SECOND SESSION**

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WASHINGTON : November 2006

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Thursday, September 14, 2006

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**CHINA'S PROLIFERATION TO NORTH KOREA AND IRAN,  
AND ITS ROLE IN ADDRESSING THE NUCLEAR AND MISSILE  
SITUATIONS IN BOTH NATIONS**

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**THURSDAY, SEPTEMBER 14, 2006**

**U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION  
Washington, D.C.**

The Commission met in Room 385, Russell Senate Office Building, Washington, D.C. at 9:05 a.m., Vice Chair Carolyn Bartholomew and Commissioners Daniel a. Blumenthal and William A. Reinsch (Hearing Cochairs), presiding.

**OPENING STATEMENT OF COMMISSIONER DANIEL  
BLUMENTHAL, HEARING COCHAIR**

HEARING COCHAIR BLUMENTHAL: We're going to go ahead and begin even though many of our commissioners are probably caught in the rain, but they'll be here soon. I'd like to welcome everyone in attendance today to this hearing. Over the past five years, the U.S.-China Commission has been mandated by Congress to assess the proliferation practices of China and to identify actions that would encourage China to end such practices.

This year in our hearing on proliferation, we narrow the focus to address China's proliferation record towards North Korea and Iran, two of the most disturbing proliferators on the globe. From this hearing, we hope to understand the political and economic context behind China's proliferation activity and why it has not intervened more energetically in an effort to stem the development of North Korea and Iran's nuclear weapons and missile programs.

Within the past 15 years, China has made some strides in subscribing to the international proliferation standards and in joining non-proliferation regimes such as the Missile Technology Control Regime, the Nuclear Nonproliferation Treaty and the Nuclear Suppliers Group.

But despite these steps, the U.S. government has documented

China's continued proliferation to countries such as Iran, North Korea, Pakistan, and Syria, even after the agreements were signed.

Of recent concern to the United States is China's refusal to join the Proliferation Security Initiative established by the current administration which seeks to add new safeguards intended to prevent the transfer of nuclear, chemical and biological weapons and the components and technologies needed to make them.

A key and somewhat puzzling question is why China appears to impede the international community's efforts to sanction North Korea and Iran for their continued development of weapons of mass destruction.

In fact, trade relations with both these countries have grown in the past few years, in particular with respect to Iran and Iranian sources of energy, although China supported U.N. Security Council resolutions condemning North Korea's missile tests and Iran's nuclear weapons development, and to bring North Korea and Iran to multilateral negotiations with the objective of persuading these nations to dismantle their nuclear weapons and end third-party missile transfers.

We look forward today to the wisdom of all of those who will be testifying and engaging in dialogue with commissioners. I hope an outcome of this hearing will be to provide us with recommendations that we can provide to the United States Congress to address China's relationships with North Korea and Iran and to get China to act more in keeping with international norms of this century.

This morning we are pleased to hear from representatives of the administration both from the Department of State and Defense, who will share their perspectives on the issue. Following their testimonies, our expert panels will address separately China's relationships with North Korea and Iran.

Commissioner Bartholomew.

### **OPENING STATEMENT OF VICE CHAIR CAROLYN BARTHOLOMEW**

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you very much and my apologies for being a little late this morning. There's a lot going on in this city today including the fact that the president is up here on the Hill, so it's a little difficult to get around.

Welcome everybody. Thank you, Mr. Blumenthal. Welcome to the eighth hearing of the U.S. China Commission's 2006 reporting cycle. Today, as Dan said, we're examining China's relationships with North Korea and Iran and its role in resolving the nuclear crises and

missile proliferation concerning these two countries.

This issue affects not only U.S. security interests in northeast Asia and the Middle East, but also the course of international peace and security. We will hear testimony concerning the political, economic and security-related consequences of these relationships for the U.S.

Last month we held a hearing considering whether China's role in the world embodies that of a responsible stakeholder: a great power willing to act in the long-term interests of international development, peace and stability over its own short-term domestic interests.

China's role in confronting the nuclear weapons and missile development of North Korea and Iran is a test of China's interest in becoming a stakeholder, as the unpredictable actions of these two countries and their expressed willingness to obtain, test and stockpile nuclear weapons could threaten the United States, its allies and world order.

It is also a test of the relationship between the United States and China and the extent to which we can count on China's cooperation. Of course, we hope that China chooses the path of responsibility and supports international efforts to end the development and sale of weapons of mass destruction.

In this hearing, we hope to hear evidence that China has selected such a path. As Dan said, expert witnesses from the government, the private sector and academia will today offer their testimony and advice. I'd also like to recognize that several respected organizations in Washington are today holding discussions and events on this issue, and of course we've got the South Korean president in D.C., so there's a lot going on.

Commissioner Blumenthal and Commissioner Reinsch, who will join us later this morning, are serving as the cochairs. Once again, I welcome all of you and I will turn over the proceedings to Commissioner Blumenthal.

[The statement follows:]

### **Prepared Statement of Vice Chair Carolyn Bartholomew**

Good morning and welcome to the eighth hearing of the U.S.-China Commission's 2006 reporting cycle. Today we are examining China's relationships with North Korea and Iran and its role in resolving the nuclear crises and missile proliferation concerning these two countries. This issue affects not only U.S. security interests in Northeast Asia and the Middle East, but also the course of international peace and security.

Today we will hear testimony concerning the political, economic, and security-related consequences of these relationships for the United States. An important measure will be assessing China's actions in the UN Security Council, its participation in multilateral nonproliferation negotiations, and its

own domestic reforms to ensure that proliferation to North Korea and Iran is no longer occurring.

Last month, we held a hearing considering whether China's role in the world embodies that of a responsible stakeholder—a great power willing to act in the long-term interests of international development, peace, and stability over its own short-term domestic interests.

China's role in confronting the nuclear weapons and missile development of North Korea and Iran is a test of China's interest in becoming a stakeholder, as the unpredictable actions of these two countries and their expressed willingness to obtain, test, and stockpile nuclear weapons could threaten the United States, its allies and world order. It is also a test of the relationship between the United States and China, and the extent to which we can count on China's cooperation. Of course, we hope that China chooses the path of responsibility and supports international efforts to end the development and sale of weapons of mass destruction. In this hearing, we hope to hear evidence that China has selected such a path.

Expert witnesses from the Government, private sector, and academia will offer their testimony and advice. I'd also like to recognize that several respected organizations in Washington are currently holding discussions and events on these issues today, and we look forward to hearing their results.

Commissioners Dan Blumenthal and William Reinsch are serving as the co-chairs for today's hearing. Once again, I welcome all of you to this hearing, and I now turn the proceedings over to Commissioner Blumenthal.

## **PANEL I: ADMINISTRATION PERSPECTIVES**

**HEARING COCHAIR BLUMENTHAL:** Thank you. On our first panel, we're very pleased to welcome both the Honorable Paula DeSutter and the Honorable Peter Rodman from the Department of Defense. Ms. DeSutter serves as the Assistant Secretary of State for Verification, Compliance and Implementation. And she has served in that position since her Senate confirmation in 2002.

She is the principal policy liaison to the U.S. Intelligence Committee for verification and compliance issues and oversees the preparation of the president's report to Congress indicating which countries are failing to fulfill their arms control, disarmament and nonproliferation agreements and commitments to which they and the United States are party.

Prior to that, she served as Professional Staff Member for the Senate Select Committee on Intelligence and staff liaison to Senator Jon Kyl.

Secretary Rodman has served as the Assistant Secretary of Defense for International Security Affairs since 2001. He is a principal advisor to the Secretary of Defense on the formulation and coordination of all international security strategy and policy, with particular responsibility for East Asia, South Asia, the Middle East, Africa and Latin America.

Prior to accepting this position, Mr. Rodman served as the Director of National Security Programs at the Nixon Center.

We thank both our speakers for their long and distinguished careers in public service and we look forward to their testimony.



Please, Assistant Secretary DeSutter.

**STATEMENT OF PAULA A. DeSUTTER  
ASSISTANT SECRETARY OF STATE FOR VERIFICATION,  
COMPLIANCE, AND IMPLEMENTATION, WASHINGTON, D.C.**

MS. DeSUTTER: Good morning, Mr. Chairman and members of the Commission. Thank you for inviting us to testify before you today to offer the administration's position and perspective on China's record on nonproliferation.

I will provide a few brief remarks. I've provided testimony for the record and then be happy after Assistant Secretary Rodman's testimony to take your questions.

I had the honor of testifying before this Commission in July 2003, and my comments then about China's proliferation activities can serve as a valuable reference, and it was interesting for us to go through them again and compare where we are now in order to measure the progress and pitfalls that the United States has seen with China's proliferation record.

I remarked then that China served as a keystone to achieving the administration's goal of stopping the proliferation of mass destruction and related technology throughout the world and today this precept has not changed. China's economic and technological advancements and its relationship with Iran and North Korea collectively work to reinforce its position as a critical focus of U.S. nonproliferation efforts.

Repeatedly, since 2003, we have engaged the Chinese at the highest levels of government to reinforce our message that the proliferation of weapons of mass destruction and missile technology is a threat to our mutual security.

Today, our approach remains the same: to persuade the PRC to better implement and consistently enforce its nonproliferation commitments, while simultaneously seeking to deter Chinese entities engaged in proliferation by changing the cost/benefit analysis to make a change in behavior more attractive to Chinese entities and authorities. Especially in light of Iran's and North Korea's continued defiance and intransigence, our strategic interests in strengthening China's nonproliferation record remains at the heart of our efforts.

Let me begin by saying that we remain disappointed in the continuing proliferant behavior of certain Chinese entities, and we remain deeply concerned about the Chinese government's commitment towards its nonproliferation obligations. Quite simply, we believe that the Chinese government should do more to consistently enforce its

nonproliferation obligations and regulations. While we have received repeated assurances from the Chinese that they oppose the proliferation of WMD materials, technology and their means of delivery, we remain deeply concerned by the proliferant activities of its various entities.

Chinese nonproliferation efforts have shown some improvement over the past several years. China joined the Nuclear Suppliers Group in May 2004 and it has supported U.N. Security Council Resolution 1540 on nonproliferation, 1695 on North Korea, and 1696 on Iran.

It recently published white papers detailing its nonproliferation policies and procedures for enforcing its domestic export controls. Unfortunately, Chinese entities' records of transferring WMD and missile technologies--and materials and the record of the Chinese government's enforcement of its own laws and regulations to stem these transfers--remains unsatisfactory.

China has entered into an impressive array of commitments. As I mentioned, it has published two formal papers detailing its nonproliferation policies and procedures for enforcing its domestic export controls and licensing procedures. Regrettably, China has not entirely fulfilled these promises.

Chinese firms and individuals continue to export missile technology to several countries including rogue states, and the Chinese government's irregular enforcement of the regulations meant to stop such proliferation continues to give the United States deep reservations about the intent of the Chinese government to tackle this issue fully.

The question remains whether this failure reflects an inability or unwillingness to stop proliferation. Often, Chinese officials lament the inefficiency of their nascent bureaucratic export control systems and that Chinese companies too often ignore the central government and violate export control regulations with little fear of government penalty.

While we have seen evidence that suggests that the Chinese are increasing their enforcement of their regulations, evidence of recurring transfers by serial proliferators, some of which are state-owned enterprises, suggests that the problem is greater than one of inadequate resources.

The administration is committed to building a cooperative and constructive relationship with the PRC on the issue of WMD proliferation. Indeed, President Bush stated during President Hu's visit in April of this year:

Prosperity depends on security, so the United States and China share a strategic interest in enhancing security for both our peoples.

We intend to deepen our cooperation in addressing threats to global security, including the nuclear ambitions of Iran, the genocide in Darfur, Sudan, the violence unleashed by terrorists and extremists, and the proliferation of weapons of mass destruction.

It is important to recognize that our engagement with China on nonproliferation matters can be contentious. The Chinese continue to express their disappointment and anger over the imposition of sanctions on Chinese companies. The administration has demonstrated a determined commitment to use every tool available in checking the spread of these dangerous weapons and a means to deliver them.

The Bush administration has aggressively used sanctions to try to shift the cost/benefit analysis for proliferators. The imposition or even the mere threat of sanctions can be an influential tool for changing behavior, as few companies or countries wish to be labeled publicly as irresponsible.

Sanctions can increase the cost to suppliers, close potential markets, and encourage foreign governments to take steps to adopt more responsible nonproliferation practices and ensure that entities within their borders do not contribute to WMD programs.

Additionally, we are pursuing an array of defensive measures to protect ourselves from WMD-armed adversaries. Combating WMD requires both offensive and defensive capabilities, and to be successful, we must bring a range of capabilities to bear. One element of the solution is missile defense and we just completed a successful initial test of missile defense capabilities last week.

We are also exploring the application of dual-use technologies as a defensive measure, particularly in the medical field. For example, the same disease surveillance and medical countermeasures required for public health protection against infectious diseases are critical for defending against biological weapons attacks.

Finally, perhaps one of the most important defensive measures taken by the Bush administration to combat WMD is the Proliferation Security Initiative, which shows the close interaction among diplomatic, military, economic, law enforcement and intelligence tools to combat proliferation.

Participating countries are applying laws already on the books in innovative ways and cooperating as never before to interdict shipments, to disrupt proliferation networks, and to hold accountable the companies that support them. PSI has now expanded to include support from 70 countries and continues to grow.

I would like to conclude my remarks by noting that our concerns with China are not irremediable. Officially, China continues to affirm its opposition to the proliferation of WMD and missile systems, and it

does have legal mechanisms in place to support this determination.

What we must continue to monitor, however, is the will of the Chinese government to take the concrete steps necessary to implement their regulations clearly and fully with vigor and transparency.

Mr. Chairman, that concludes my oral remarks and I'm happy to take questions from you and your fellow commissioners after Secretary Rodman's testimony.

[The statement follows:]

**Prepared Statement of Paula A. Desutter  
Assistant Secretary of State for Verification, Compliance, and  
Implementation, Washington, D.C.**

Good Morning, Mr. Chairman, Mr. Vice-Chairman, members of the Commission, thank you for inviting me to testify before you today to offer the Administration's perspective on China's record on non-proliferation. I would like to provide a few brief remarks, and then welcome the opportunity to answer the Commission's questions.

I currently serve as Assistant Secretary for the State Department's Bureau of Verification, Compliance and Implementation. Our bureau is charged by law with ensuring that arms control, nonproliferation, and disarmament agreements and commitments are effectively verifiable; with assessing compliance with such agreements and commitments once they are reached; and with serving as the policy community's primary liaison to the U.S. Intelligence Community on verification and compliance issues. These responsibilities necessarily command our attention, and involve us closely in many of the issues I will discuss today.

I had the honor of testifying before this Commission in July 2003, and my comments then about China's proliferation activities serve as a valuable reference for measuring the progress and pitfalls that the United States has seen with China's proliferation record. I remarked then that China served as a keystone to achieving the Administration's goal of stopping the proliferation of weapons of mass destruction and related technology throughout the world, and today, this precept has not changed. China's economic and technological advancements and its relationships with Iran and North Korea collectively work to reinforce its position as a critical focus of U.S. nonproliferation efforts. Repeatedly since 2003, we have engaged the Chinese at the highest levels of government to reinforce our message that the proliferation of WMD and missile technology is a threat to our mutual security. Today our approach remains the same: to persuade the PRC to better implement and consistently enforce its nonproliferation commitments, while simultaneously seeking to deter Chinese entities engaging in proliferation by changing the cost/benefit analysis to make a change in behavior more attractive to Chinese entities and authorities. Especially in light of Iran's and North Korea's continued defiance and intransigence, our strategic interest in strengthening China's nonproliferation record remains at the heart of our efforts.

Let me begin by saying that we remain disappointed in the continuing proliferant behavior of certain Chinese entities, and we remain deeply concerned about the Chinese government's commitment towards its nonproliferation obligations. Quite simply, we believe that the Chinese government should do more to consistently enforce its nonproliferation regulations. While we have received repeated assurances from the Chinese that they oppose the proliferation of WMD materials, technology, and their means of delivery, we remain deeply concerned by the proliferant activities of its various entities. China's nonproliferation efforts have shown some improvement over the past several years ---China joined the

Nuclear Suppliers Group (NSG) in May 2004, and has supported UNSCRs 1540 on nonproliferation, 1695 on North Korea, and 1696 on Iran, and recently published white papers detailing its nonproliferation policies and procedures for enforcing its domestic export controls. Unfortunately, Chinese entities' record of transferring WMD and missile technologies and materials-- and the record of the Chinese government's enforcement of its own laws and regulations to stem these transfers – remains unsatisfactory.

### **Missile Proliferation**

The proliferation of missile technology, raw materials, and parts remains our most significant proliferation concern with China. During our discussions with the Chinese government, China has reaffirmed its position that it opposes such proliferation and that it forbids Chinese firms and entities from engaging in transfers that violate its commitments to the United States. Nonetheless, we have seen numerous pledges given by the Chinese government to curb the proliferation of missile materials, only to be followed by transfers of these items by Chinese entities. In response, the U.S. has imposed, or threatened to impose, sanctions on these entities.

In 2000, in response to continuing transfers by Chinese entities, the United States engaged China to obtain a stronger nonproliferation commitment from China. This effort led to a November 2000 commitment under which China pledged not to assist “in any way, any country in the development of ballistic missiles that can be used to deliver nuclear weapons (i.e., missiles capable of delivering a payload of at least 500 kilograms to a distance of at least 300 kilometers).” China also agreed to enact and publish comprehensive missile-related export controls, which took place in 2002. In exchange for China’s pledge, the United States agreed to waive sanctions for past assistance by Chinese entities to Iranian and Pakistani missile programs.

Despite China’s November 2000 commitment and 2002 export control regulations, Chinese entities continued to transfer missile-related technology and material to missile programs of concern, primarily Iran and North Korea. Moreover, these transfers make considerable contributions to the development of ballistic missiles in these countries. In response to U.S. objections, Chinese officials state that they have taken action against proliferating firms and tightened export controls; however, these measures are uneven and do not appear to have curtailed much of the activity of concern. We continue to see proliferation of controlled items—items that are listed on China’s export control lists and those listed in the MTCR Annex---and this continued proliferation calls into question China’s stated commitment to control the transfer of such items. What is most frustrating about China’s proliferation, however, is that much of the proliferation is performed by the same entities—the serial proliferators.

### ***The Serial Proliferator Problem***

We have raised the issue of serial proliferators with our Chinese counterparts on several occasions—most recently this summer—and have asked the Chinese for specific actions that the government has taken against these entities. The Chinese have reported that they continue to monitor the activities of Chinese entities and take enforcement actions as appropriate, but proliferation continues. Ultimately, on June 13, 2006, the U.S. designated four Chinese entities pursuant to Executive Order 13382, including a U.S.-based representative of one of the companies, for having provided, or attempting to provide, financial, material, technological or other support for Iran’s missile programs.

I recount these actions to highlight the continuing importance of U.S. pressure to improvements in Chinese behavior. We have seen that formal Chinese actions--Beijing’s commitments of 1992, 1994, 1998, and 2000, and its new regulations in 2002, for example – occurred after the application of pressure from the United States, including in the form of the imminent or actual imposition of sanctions.

We will continue to discuss our nonproliferation concerns with the PRC and urge it to effectively implement its export control regulations, and the United Security Council Resolutions it has supported, particularly 1540, 1695, and 1696. The United States will also continue to impose sanctions, when warranted under U.S. legal authorities, on Chinese proliferators or any other entity that proliferates missile-related items or technology. We will continually reinforce the principle that all effective nonproliferation regimes must carry severe repercussions to appropriately shift the cost benefit analysis away from profit to penalty.

### **Nuclear, Biological, and Chemical Proliferation**

Turning to China's nuclear, biological, and chemical-related nonproliferation efforts, since my last appearance before the Commission, China joined the Nuclear Suppliers Group in 2004. In doing so, China has closed a significant gap in its export regulations covering nuclear materials and technology than had previously existed. China's export control system appears designed to ensure adequate review for those exports that come to the attention of Chinese export control authorities—the question that concerns the United States is whether the authorities choose to properly exercise their authority.

Similarly, China is a State Party to the Biological Weapons Convention and the Chemical Weapons Convention. We maintain reservations about China's current research activities and dual-use capabilities, which raise the possibility that sophisticated BW and CW work could be underway. For example, because of the possible offensive capabilities of aerosolization techniques, the United States' concerns are underscored by publications indicating military involvement in such research. We also continue to believe that China maintains some elements of an offensive BW capability in violation of its BWC obligations. Despite China's BWC confidence building measure declarations, indications suggest that China maintained an offensive BW program prior to acceding to the BWC in 1984. In addition, the United States believes that China maintains a CW production mobilization capability, although we simply do not have enough information to determine whether China maintains an active offensive CW research and development program.

China has adopted export controls mirroring the Australia Group (AG) control list and on chemicals listed on the CWC Schedules. In addition, China also has instituted "catch-all" provisions for chemical (and biological) goods, which provide a legal basis to control items not on the lists, if the exporter has reason to believe or has been informed that the items are destined for a CBW program. Nonetheless, we continue to have concerns that Chinese entities are transferring AG-controlled items and technology to countries of concern.

### **North Korea**

Let me turn briefly to specifically address the current situation regarding North Korea and China's role in resolving this problem. The recent launches of North Korean missiles, including the Taepodong-2 missile, only adds to the concern surrounding North Korea's missile and, by extension, its nuclear programs. North Korea's continued export of missile components and technology also remains a serious concern. We have identified North Korean entities as proliferators of WMD and sanctioned these entities, including through designations under Executive Order 13382. We have designated Banco Delta Asia under Section 311 of the USA Patriot Act as a primary money laundering concern, and had considerable success in warning governments and banking sectors in many countries of the dangers of doing business with North Korea. UNSCR 1695 calls on all UN member states, consistent with international and national legal authorities, to prevent transfers, including financial resources, to North Korea's WMD and missile programs.

On the diplomatic front, we – along China, Japan, South Korea, and Russia – continue to desire a peaceful resolution of the North Korean nuclear problem through the Six-Party talks. Unfortunately, although we have repeatedly signaled our readiness to work on the implementation of the September 19, 2005 Joint Statement, North Korea, since November 2005, has boycotted the talks. China has played a valuable facilitating role in the multilateral diplomacy to denuclearize North Korea, and we believe it can and should do more to get the North Koreans back to the talks without preconditions. We also expect China to play a responsible role as a permanent member of the UN Security Council to ensure that the North Korea complies with relevant resolutions and international agreements.

### **Administration Perspective**

As I mentioned previously, China has entered into an impressive array of commitments. It has published two formal papers detailing its nonproliferation policies and procedures for enforcing its domestic export controls and licensing procedures.

Regrettably, China has not entirely fulfilled these promises. Chinese firms and individuals continue to export missile technology to several countries, including rogue states, and the Chinese government's irregular enforcement of the regulations meant to stop such proliferation continues to give the United States deep reservations about the intent of the Chinese government to tackle this issue fully.

The question remains whether this failure reflects an inability or an unwillingness to stop this proliferation. Often, Chinese officials lament the inefficiency of their nascent bureaucratic export control systems, and that Chinese companies too often ignore the central government and violate export control regulations with little fear of government penalty. While we have seen evidence that suggests that the Chinese are increasing their enforcement of their regulations, evidence of recurring transfers by serial proliferators – some of which are state-owned enterprises – suggests that the problem is greater than one of inadequate resources.

### **Conclusion**

The Administration is committed to building a cooperative and constructive relationship with the PRC on the issue of WMD proliferation. Indeed, President Bush stated during President Hu's visit in April of this year, "[p]rosperity depends on security -- so the United States and China share a strategic interest in enhancing security for both our peoples. We intend to deepen our cooperation in addressing threats to global security -- including the nuclear ambitions of Iran, the genocide in Darfur, Sudan, the violence unleashed by terrorists and extremists, and the proliferation of weapons of mass destruction."

It is important to recognize that our engagement with China on nonproliferation matters can be contentious. The Chinese continue to express their disappointment and anger over the imposition of sanctions on Chinese companies. We will however, continue to impose sanctions as warranted and required under U.S. law. . At the same time, we look forward to continuing our ongoing dialogue with China about these important issues. Resolution of these ongoing proliferation problems is essential: this Administration takes proliferation very seriously, and will not stand idly by and watch rogue states and terrorists obtain missiles and weapons of mass destruction.

This Administration has demonstrated a determined commitment to use every tool available in checking the spread of these dangerous weapons and the means to deliver them. The Bush Administration has aggressively used the sanctions process to try to shift the cost-benefit analysis for proliferators. The imposition, or even the mere threat of sanctions, can be an influential tool for changing behavior, as few countries or companies wish to be labeled publicly as irresponsible. Sanctions can increase the costs to

suppliers, close potential markets, and encourage foreign governments to take steps to adopt more responsible nonproliferation practices and ensure that entities within their borders do not contribute to WMD programs.

Additionally, we are pursuing an array of “defensive measures” to protect ourselves from WMD armed adversaries. Combating WMD requires both offensive and defensive capabilities, and to be successful, we must bring a range of capabilities to bear. One element of the solution is missile defense, and we just completed a successful initial test of the missile defense capabilities last week. We are also exploring the application of dual use technologies as a defensive measure, particularly in the medical field. For example, the same disease surveillance and medical countermeasures required for public health protection against infectious diseases are critical for defending against biological weapons attacks. Finally, perhaps one of the most important defensive measures undertaken by the Bush Administration to combat WMD is the Proliferation Security Initiative, which shows the close interaction among diplomatic, military, economic, law enforcement, and intelligence tools to combat proliferation. Participating countries are applying laws already on the books in innovative ways and cooperating as never before to interdict shipments, to disrupt proliferation networks, and to hold accountable the companies that support them. PSI has now expanded to include support from 70 countries, and continues to grow.

I would like to conclude my remarks by noting that our concerns with China are not irremediable. Officially, China continues to affirm its opposition to the proliferation of WMD and missile systems, and it does have the legal mechanisms in place to support this determination. What we must continue to monitor, however, is the will of the Chinese government to take the concrete steps necessary to implement their regulations clearly and fully, with vigor and transparency.

Mr. Chairman, that concludes my prepared remarks and I am happy to take questions from you and your fellow commissioners.

HEARING COCHAIR BLUMENTHAL: Thank you very much, Secretary DeSutter. Secretary Rodman.

**STATEMENT OF PETER W. RODMAN  
ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL  
SECURITY AFFAIRS, WASHINGTON, D.C.**

MR. RODMAN: Madam Vice Chairman, distinguished members of the Commission, I thank you for the opportunity to be here. I commend the Commission for its persistent interest in this issue, for continuing to call public attention to this important issue.

I too have a longer prepared statement, which I know you have, and if I may, I'd like to just touch on a few of the main points.

Two events occurred this past July that give these issues particular salience. On July 4, we saw the North Korean missile tests, and on July 15, we saw Hezbollah use a Chinese-designed C-802 Silkworm anti-ship cruise missile to strike an Israeli naval vessel off the coast of Lebanon.

These two episodes stand as examples of how China's proliferation activity past or present can come back to haunt it and



even place China's own political interests in jeopardy.

So in our view, this would be a good time for Beijing to reevaluate its relationships with both Pyongyang and Tehran, and indeed whether and how it does so will demonstrate the degree to which China has made the strategic choice that Robert Zoellick famously referred to in his famous words: will China choose to be a "responsible stakeholder" in the international system?

The question is whether China will come to equate its own interests with the interests of the international community? We believe it should and that such a policy would accord with China's own long-term best interests.

As Ms. DeSutter made clear, the proliferation of WMD and their delivery systems remains one of the foremost priority concerns of the United States government. The United States has therefore made working with China to improve its nonproliferation record an important dimension of both our nonproliferation policy generally and of our bilateral relationship with China.

Over the past several years, as Ms. DeSutter said, China has improved its nonproliferation posture in a number of ways. It has committed to respect multinational arms export control lists. It has promulgated export control laws and regulations. It has strengthened its oversight mechanisms. There is some additional transparency in Chinese policy as exemplified by official white papers. In December 2004, it published its most recent National Defense white paper and in September 2005, there was a white paper on arms control, disarmament and nonproliferation policy.

These are steps in the right direction. But it's clear that we must continue to urge China to do more. We see in China a general willingness to transfer a wide variety of technologies to customers around the world, including to states of concern, not only Iran and North Korea, but Sudan, Burma, Zimbabwe, Cuba, and Venezuela.

These transfers can produce personal and institutional relationships between government or commercial entities and the nature of these transactions could someday migrate into more dangerous or disruptive technologies. Chinese entities including state-owned enterprises continue to supply items and technology useful in WMD and means of delivery and advance conventional weapons programs of concern.

In some of these cases, Chinese authorities declare that they have taken direct action against firms and tightened their export controls to close loopholes. But these measures are uneven and the problematic activity continues.

This past June, as I think has been mentioned, the U.S. imposed

sanctions on four Chinese entities for providing support to Iran's ballistic missile program. So there remains a serious gap between China's export controls and the high standards of nonproliferation policy that we would like China to adhere to.

Our policy is to encourage China not only to take its proper place in the international system but to take on an appropriate share of international leadership, given its growing economic power.

A commitment to peace and stability is an important component of that. And indeed, it's the premise of the U.S.-China relationship. We take China at its word that it has an interest in stability. And it's our hope that China will come to the calculation that its best strategic interest lies in enforcing international nonproliferation norms.

The fact remains, however, that Chinese entities today remain key sources of transfer of arms, WMD and missile-related equipment and technologies including dual-use technology and related military capabilities to countries of concern, and these transfers do considerable harm to international stability.

Now, Iran and North Korea are the main topics we're discussing today. We know that China has a long-standing relationship with Iran, and in recent years, it has sought to strengthen those ties.

What are Beijing's motivations to draw closer to Tehran? In our view, they include a desire to build relations with a rising regional power, a desire to secure access to natural resources, especially oil and natural gas, a desire to develop market access for the export of consumer goods, including some with potential dual civilian and military uses and military hardware, and potentially to cooperate on ways of controlling China's restive and predominantly Muslim Uighur population.

But whatever Chinese motivations in the nonproliferation area especially, we can say the Chinese actions seem to us dangerously short-sighted. The dangers for the entire Middle East could not be higher. The regime in Iran poses a threat to the stability of the whole Middle East as it pursues regional hegemony, as it pursues nuclear weapons, and as it supports terrorism and rejectionism.

The president has been clear that we cannot tolerate a nuclear-armed Iran which at the very least could provide the fuse for further proliferation in the region. This is a threat not only to U.S. interests and to the greater Middle East but to Europe and Asia including China.

It is not consistent with China's natural interests in Middle East stability.

Now, China has moved in the right direction in a couple of recent steps. It supported U.N. Security Council Resolution 1696 on July 31, which was an important step by which the international

community is beginning to confront Iran over its enrichment and reprocessing activities.

But the test is yet to come, and if Iran continues to defy the international community, whether the international community will have the political will to go further, and so that is a test of whether China, given its increasing dependence on foreign sources of energy, whether China will or will not continue to shield an important source of instability in the region?

On North Korea, the Commission is familiar with China's role in hosting the Six Party Talks. We recognize and appreciate China's initiative in hosting that diplomatic forum and China's declared desire to see a denuclearized Korean peninsula.

Nevertheless, China is clearly the country that has more leverage over North Korea than anyone else and we believe it needs to do more.

The North Korean missile launches this summer are a reminder of how the proliferation of nuclear weapons and missile systems are a threat to international stability and security. The launches also demonstrate that China's past tolerance of North Korea's provocative behavior has indirectly eroded the very stability that China claims to seek.

Beijing's response to this effect suggests that it might be reevaluating its relationship with North Korea. Again, as in the case of Iran, China supported the unanimous Security Council Resolution 1695 which very strongly condemned the missile launches.

So China's support for that resolution was an important positive step, and we hope it's an indicator of future decisions by China to support strong actions. But as I said, the test is yet to come in both cases, the case of Iran and North Korea and the Security Council. If Tehran and Pyongyang choose not to comply with these resolutions, or if they engage in further provocation, there must be consequences. The world community's failure to impose serious costs on law-breaking countries would only heighten risks dramatically in both cases. How would that serve China's own interests?

Madam Chairman, members of the Commission, the U.S. and its friends and allies therefore will continue to press China to make further progress in tightening its export control laws and regulations, removing the ambiguities and loopholes that have permitted Chinese entities to continue to transfer sensitive technologies. We'll continue to press China to support active international diplomacy in the case of both Iran and North Korea. Continued proliferation to countries such as Iran and North Korea is a source of regional instability.

This harms our bilateral relations with China already and it could do even more harm to bilateral relations in a regional crisis caused by those countries' provocations. None of this would be in the

U.S. interest or in China's interest or in the world's interest.

Thank you.

[The statement follows:]

**Prepared Statement of Peter W. Rodman  
Assistant Secretary of Defense for International Security Affairs,  
Washington, D.C.**

Mr. Chairman, distinguished members of the Commission, I thank you for the opportunity to speak on this topic. China's proliferation activities and its policies toward Iran and North Korea are important to American interests and they have implications not only in the Asia-Pacific region but globally. I commend the Commission for its interest in this issue.

Two events occurred this past summer that give these issues particular salience: the July 4 North Korean missile tests and Hezbollah's use of Chinese-designed C-802 "SILKWORM" anti-ship cruise missiles to strike an Israeli naval vessel off the coast of Lebanon on July 15. These two cases stand as examples of how China's proliferation behavior past and present can come back to haunt it, even placing its own political interests in jeopardy. This would be a good time for Beijing to re-evaluate its relationships with both Pyongyang and Tehran, and indeed whether and how it does so will demonstrate the degree to which China has made the strategic choice to conduct itself, in Robert Zoellick's famous words, as a "responsible stakeholder" in the international system. The question is whether China will equate its own interests with the interests of the international community. We believe it should, and that such a policy would accord with China's own long-term best interests.

**Non-Proliferation Policy and the U.S.-China Relationship**

Mr. Chairman, the proliferation of weapons of mass destruction (WMD) and their delivery systems remains one of the foremost security concerns of the U.S. Government. We have long been concerned about the destabilizing effects of such proliferation, in classical geopolitical terms, especially if such weapons should fall in the hands of hostile regimes and/or terrorist groups. In his 2004 State of the Union Address, President Bush stated that, "America is committed to keeping the world's most dangerous weapons out of the hands of the most dangerous regimes." With this as a national priority, the United States has made working with China to improve its non-proliferation record an important dimension of both our non-proliferation policy and of our relationship with China.

Over the past several years, Beijing has improved its non-proliferation posture by committing to respect multilateral arms export control lists, promulgating export control laws and regulations, and strengthening its oversight mechanisms. The transparency of these actions has also improved, as evidenced by the discussion of China's policies and practices included in official white papers, such as the December 2004 *China's National Defense in 2004* and the September 2005 *China's Endeavors for Arms Control, Disarmament and Non-proliferation*. These commitments are steps in the right direction.

However, we continue to urge China to do more to curtail proliferation. We see in China a general willingness to transfer a wide variety of technologies to customers around the world – including to states of concern such as Iran, Sudan, Burma, Zimbabwe, Cuba, and Venezuela. These transfers can produce personal and institutional relationships between government or commercial entities such that the nature of the transactions could quickly migrate into more dangerous or disruptive technologies. Chinese entities, including state-owned enterprises, continue to supply items and technology useful in weapons of mass destruction, their means of delivery, and advanced conventional weapons programs of concern. In some of

these cases, Chinese authorities declare that they have taken direct action against firms and tightened export controls to close loopholes, but these measures are uneven and the problematic activity continues.

On June 13, 2006, the United States imposed sanctions on four Chinese entities for providing support to Iran's ballistic missile program. The Chinese entities were designated pursuant Executive Order 13382 on Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters. These penalties blocked their property and interests in property within the United States or the possession or control of U.S. persons and prohibit U.S. persons from engaging in transactions with them. The entities designated were:

- Beijing Alite Technologies Company, Ltd. (ALCO): Over the past year, ALCO has continued efforts to provide Iranian missile organizations with missile-related and dual-use components;
- LIMMT Economic and Trade Company, Ltd.: Over the past year, LIMMT has continued to supply or attempt to supply Iran's military and missile organizations with controlled items;
- China Great Wall Industry Corporation (CGWIC): CGWIC provided goods to Iran's missile program; and
- China National Precision Machinery Import-Export Corporation (CPMIEC): CPMIEC, within the last two years, sold Iranian missile organizations goods that are controlled under the Missile Technology Control Regime (MTCR).

The U.S. Government designated these companies because it was determined that they provided, or attempted to provide, financial, material, technological or other support for, or goods or services in support of Iran's Aerospace Industries Organization (AIO), which plays a key role in Iran's missile program and has also been designated under E.O. 13382.

All of these firms also have been sanctioned pursuant to other U.S. legal authorities. Specifically, ALCO was sanctioned pursuant to the Iran Nonproliferation Act of 2000 in December 2004; LIMMT Economic and Trade Company, Ltd. was sanctioned pursuant to the Iran Nonproliferation Act of 2000 in September 2004; CGWIC was sanctioned pursuant to the Iran Nonproliferation Act of 2000 in September and December 2004; and CPMIEC was sanctioned pursuant to the Iran Nonproliferation Act of 2000 in May 2002, June 2003, and April 2004. This firm also was sanctioned pursuant to E.O. 12938, as amended, in July 2003.

There is a serious gap between China's export controls and the high standards of non-proliferation policy that we would like China to adhere to. The extent of Chinese officials' knowledge of, or acquiescence in, this gap is unknown and perhaps unknowable, given the immaturity of China's export control regime and the limitations of our knowledge of the decision-making structures that preside over and direct the transfer of technology and materials related to WMD and their delivery systems.

United States policy is to encourage China not only to take its proper place in the international system but to take on its appropriate share of international leadership, given its growing economic power. A commitment to peace and stability is an important component of that and, indeed, is the premise of the U.S.-China relationship. We take China at its word that it has an interest in stability, and it is our hope that China will come to the calculation that its best strategic interest lies in enforcing international non-proliferation norms. The fact remains, however, that Chinese entities today remain key sources of transfers

of arms, WMD- and missile-related equipment and technologies including dual-use technology and related military capabilities to countries of concern. These transfers do considerable harm to regional stability.

### **The Cases of Iran and North Korea**

China has a longstanding relationship with **Iran**, but has in recent years sought to strengthen its ties. Beijing's motivations to draw closer to Tehran include a desire: to build relations with a rising regional power; to secure access to natural resources, especially oil and natural gas; to develop market access for the export of consumer goods, including some with potential dual civilian and military uses, and military hardware; and, potentially, to develop cooperative measures to control China's restive (and predominantly Muslim) Uighur population. But especially in the proliferation area, China's actions seem to us dangerously short-sighted.

In addition to China's considerable conventional weapons transfers, we have long been concerned about China's assistance to sensitive Iranian programs, including ballistic missiles, nuclear, and chemical programs. In October 1997, China pledged not to engage in any new nuclear cooperation with Iran and to complete work on two remaining nuclear projects – a small-scale research reactor and a zirconium production facility – in a relatively short period of time. We have found cause to sanction several Chinese entities for export of chemical weapons-related chemicals and equipment to Iran.

Likewise, we remain concerned that Chinese entities have helped Iran move toward its goal of self-sufficiency in the production of ballistic missiles. For example, a Chinese firm continued to supply probably MTCR-controlled and dual-use items to an Iranian missile production organization through late-2005 and 2006 and has prepared other raw materials for shipment to Iran. In addition, a key serial proliferator with a location in Beijing has supported Iran's missile industry since at least 2004 by supplying materials and items deemed critical by Iran. Another Chinese firm shipped a consignment of aluminum alloy, suitable for missile airframe production, to Iran's ballistic missile program. A third-party broker coordinated the shipment to circumvent Chinese export controls and to avoid Western scrutiny.

Mr. Chairman, the dangers for the entire Middle East could not be higher. The Iranian regime poses a threat to the stability of the Middle East as it pursues regional hegemony, efforts to acquire nuclear weapons, and support for terrorism. The President has been clear that we cannot tolerate a nuclear-armed Iran, which could provide the fuse for further proliferation in the region. This represents a threat not only to U.S. interests and to the greater Middle East, but to Europe and Asia, including China. This is not consistent with China's natural interest in Middle East stability.

Tehran is the leading state sponsor of terrorism in the world. Its support for terrorist groups in the Middle East has continued to destabilize the region, as we have recently witnessed in its backing of Hezbollah in its disruption of the peace of Lebanon. Tehran is determined to block peace between Israel and the Palestinians and it continues to meddle dangerously in Iraq.

China suggested a willingness to confront the threat posed by Iran when it voted in favor of UN Security Council Resolution 1696 on July 31. This resolution gave Iran a deadline of August 31 to suspend all enrichment-related and reprocessing activities or face UN Security Council sanctions. Unfortunately, China has joined Russia in a reluctance to back up this vote with action. It remains a question why, given China's increasing dependence on foreign sources of energy, it would continue to shield a primary source of instability in the region.

China's ties to the Communist regime in **North Korea** date to the 1930s, when Kim Il Sung fought against the Japanese in Manchuria. Since that time, the relationship has been marked by alternating

periods of close friendship and tension. The analogy that the two countries were “as close as lips and teeth” has often served more as prescription than description of their relationship. Over time, the relationship has shifted from one in which China played the role of older brother to one of equal partners as demonstrated by the North’s public rebuff of Chinese overtures in July and China’s recent expressions of disapproval of Pyongyang’s provocative behaviors. Despite fluctuations in the China-North Korea relationship, Chinese entities historically were key sources of military and dual-use technology for Pyongyang. Into the 1990s, Chinese entities, for example, are known to have provided dual-use missile-related items, raw materials, and other forms of assistance to North Korea’s ballistic missile programs.

China today remains the largest supplier of food and fuel to the North. It has quietly expanded this aid in recent years, in part to lessen the impact of international pressures on Pyongyang over its nuclear weapons programs. While publicly declaring a common interest with the United States and the international community to achieve a “nuclear weapons free-Korean Peninsula,” China’s primary interest appears to lie in preserving the stability and security of its northeast flanks where North Korea has long served as a buffer. We recognize and appreciate the important contributions China has made in recent years to organize and host the Six-Party Talks aimed at eliminating North Korean nuclear programs. Nevertheless, China, as the country with the most leverage over North Korea, can and should do more.

This summer’s North Korean missile launches are a reminder to all nations of how the proliferation of nuclear weapons and their delivery systems poses a threat to international security and regional stability. The launches also demonstrate that China’s past tolerance of North Korea’s provocative behavior has indirectly eroded the very stability it claims to seek. Beijing’s response to this event suggests it may be re-evaluating its relationship with North Korea. After its initial campaign to confine the United Nations Security Council response to a Presidential Statement of concern, Beijing subsequently joined the unanimous vote to adopt UNSC Resolution 1695 condemning the launches. China’s decision to vote for this resolution is a positive development. We hope that it also indicates future Chinese efforts to join the world community’s campaign against proliferation.

Mr. Chairman, in both cases – Iran and North Korea – the dangers to regional and global stability are increasing, and the time is right for Beijing to think hard about its relationships and its interests. We believe that China’s approach for too long has been one of shielding these regimes from the consequences of their dangerous behavior. We welcome China’s votes in support of UNSC Resolutions 1696 and 1695, but the true test of China’s commitment to a peaceful solution of these issues through the United Nations is yet to come. If Tehran and Pyongyang choose not to comply with these resolutions, or engage in further provocation, there must be consequences. The world community’s failure to impose serious costs on law-breaking countries would only heighten risks dramatically in both cases. How would that serve Chinese interests?

### **Encouraging China’s Restraint in Proliferation**

As I have noted, China is taking steps to improve its export controls and reduce its transfers of sensitive technologies related to WMD and their delivery systems. China’s desire to appear a responsible global actor, combined with international pressures, has probably contributed to this. At the same time, a growing recognition among China’s leaders of the dangers of secondary proliferation and, in particular, the potential destructive effects of nuclear terrorism, may provide further motivation for restraint. But much remains to be done.

To improve its non-proliferation record, we urge China to address some important deficiencies – establishing, for example, criteria for approving/denying licenses, mechanisms for seeking out potential export control violators, and procedures for enforcing controls at the border. China’s export control

enforcement and detection capabilities are weak. Additional priority, resources, proactive and independent enforcement, rigorous implementation of catch-all provisions, and more investigations and prosecutions would demonstrate that China is serious about export control enforcement.

Mr. Chairman, the United States, its allies and friends, will continue to press China to make further progress on tightening its export control laws and regulations, removing the ambiguities and loopholes that that have permitted Chinese entities to continue to transfer sensitive technologies. Continued proliferation to countries such as Iran and North Korea is a source of regional instability. It harms our bilateral relations already, and could do so even more in a regional crisis caused by these countries' provocation. None of this is in the U.S. interest, China's interest, or the world's.

Thank you.

### **Panel I: Discussion, Questions and Answers**

HEARING COCHAIR BLUMENTHAL: Thank you very much. We have a number of commissioners who have questions. I'd like to start off by asking a question about general trends. In terms of Iran, since the Chinese and Iranian economic and energy relationship has picked up over the last few years, have we seen general trends? Can you describe the character of the relationship as improving in terms of the military relationship? Have we seen a marked degree of increased proliferation by Chinese entities in the last few years?

Could you comment perhaps on the Iranian case of whether, although we think it's in the Chinese interests to stop such proliferation, whether the Chinese may be thinking about this differently in the sense that it might be useful to them in some other way to have this type of relationship? Any kind of quid pro quo between the Chinese and the Iranians now that they have been locked in more closely on energy and diplomacy? The question is for both of you.

MR. RODMAN: It's hard to say. I think the Chinese are increasingly sensitive to our concerns and increasingly worried about the disruption to their foreign policy caused by these countries' behavior. You're asking about Iran in particular. In the C-802 missile that I mentioned in Lebanon, we're not claiming that the Chinese necessarily provided this missile. These are Chinese designs and we don't know exactly by what route they arrived.

So a lot of what is happening is perhaps the result of past Chinese policies. I think they have given us assurances that they want to contribute to the stability of this region, and as I say, I think the U.N. resolution is an indicator that the Chinese want to keep their distance to some degree, and I would characterize it generally as perhaps an improving trend, but I don't have concrete figures in front of me of their weapons transfers, but I think in the most sensitive



areas, they are more sensitive.

HEARING COCHAIR BLUMENTHAL: So even as their economic and energy relationship with Iran improves, perhaps they're getting better in terms of stopping proliferation?

MR. RODMAN: We need to get them to draw a line, to separate. They're entitled to have good economic relations with countries they choose to, but if weapons transfers are the quid pro quo, then that is something we have to sensitize them to.

MS. DeSUTTER: I would say that in particularly sensitive areas, I think, yes, the Secretary is right. We've seen less activities of concern with Iran in the nuclear area, but the missile proliferation activities have continued. And while some of this could be attributed to Chinese regulations designed to slow the proliferation, it also probably is very closely related to the fact that both of these cases are very high profile international cases, where the activities of both North Korea and Iran had become quite public in part of the international debate about how the international community will respond to deliberate violation of significant proliferation commitments by a major country over a significant period of time.

To some degree, given Iran's performance, given the available information that's available through unclassified sources from the IAEA, I think China has recognized that this is not a good way forward.

The next test will be are they prepared to support at the U.N. Security Council those types of activities that take a significant step toward changing Iran's cost/benefit analysis? I'd be the first to say these kinds of enforcement activities are not easy. This is a huge challenge to the international community. Countries have significant economic stakes in this, not just China, but others, and it's a very difficult decision.

So it's taken a long time. There's been debate and discussion. We are pleased that the Iran case was finally reported to the U.N. Security Council and now the U.N. Security Council has a test before it.

HEARING COCHAIR BLUMENTHAL: Just a quick follow-up. Can meaningful sanctions be placed on Iran without Chinese cooperation? Outside of the U.N.?

MS. DeSUTTER: My thought is without getting into any specifics, I think they can be because the Security Council can take actions. One of the things that this administration has emphasized during its two terms is that while we go to international organizations to seek collective support for activities, there are other ways of doing things.

You can do things unilaterally, but we always choose whenever possible to do things collectively. A series of states, regional neighbors can make decisions to help secure activities. Certainly after the North Korea missile test, I think support for or at least recognition of the need for missile defenses became more popular. So I think that we can take activities. I think that China's support is very, very important, and I think that having sanctions that are supported and endorsed by China and Russia are very much desirable in terms of showing a collective international approach to taking action to stop this.

One of the things that we're mindful of is that when we signed the Agreed Framework with North Korea, in response to their violation, they froze their nuclear activities at Yongbyon, and that's all they had to do was freeze, and in response they got oil, they got food, they got international recognition. We changed our policy so that we were supporting regime stability in order to ensure that the agreement was fulfilled, and other countries noticed.

This administration is very much focused not just on solving a particular crisis or responding to a particular set of events but into taking a more global approach to seeing what are the long-term consequences of what we do. That's why when Secretary Rodman says it's very, very important that we have the right types of policies and that we get the international community on board, that's exactly right.

It's not just about Iran; it's not just about North Korea. It's about future North Koreas and future Irans, who may be making decisions right now about what way they want to take their nuclear programs or whether they want to invest in development of offensive ballistic missiles.

HEARING COCHAIR BLUMENTHAL: Thank you.  
Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Mr. Chairman, and thank you to the witnesses for your service in this critical period of time.

In Senator Feingold's remarks for the record he refers to a matter that you both talk about in your testimony. That is on July 13, 2006, the United States imposed sanctions on four Chinese companies for assisting with missile proliferation in Iran.

This Commission last year recommended that the sanctions not only hit the people who are carrying out this, but also the parent company. Senator Feingold says that he's sponsoring a bill on a bipartisan basis with Senator Kyl so that you can put sanctions not just on the proliferating company that's doing it, but also on the parent. Do you both favor expanding the law to be able to put the sanctions on

the parent company rather than just the proliferator?

We'll start with Mr. Rodman and then we'll go to Ms. DeSutter.

MR. RODMAN: I think it's up to the president to decide what legislative initiatives to recommend or seek, and I'm not an expert on this. I certainly think something that gives the president broader authorities and flexibility is usually a good thing, as long as the president's hands aren't tied. That's a statement of general philosophy.

COMMISSIONER MULLOY: Yes.

MR. RODMAN: I think maybe Ms. DeSutter knows this issue better.

COMMISSIONER MULLOY: Ms. DeSutter, does the administration have a position on being able to sanction the parent company?

MS. DeSUTTER: I don't think that we have a formal position yet, but generally speaking we're in favor of sanction tools that can flexibly strengthen our ability to impose sanctions.

COMMISSIONER MULLOY: A second issue I wanted to ask you about that you both testify in your prepared testimony is the Security Council action of July 31 passing 1696.

My understanding is the Security Council has determined that Iran's violation of its IAEA enrichment safeguards is now under Chapter 7 a threat to international peace and security, and that's where the Security Council gets into this matter. The Security Council has told Iran that it does not want it to do these enrichment programs and other things and gave it a deadline.

That deadline has now passed. Mr. Rodman, you're very specific in your testimony in talking about this matter. Ms. DeSutter, you hardly mention it at all in your prepared testimony. Is there any difference between the two agencies on how to pursue this? Is there a debate going on in the administration on what to do now to get to Iran to comply with the Security Council solution?

MR. RODMAN: I don't think there is any debate. I think this is being discussed at a very high level and I'm just not aware of conflicts. I don't know where the decision is heading, but we are at that point where we need to make decisions to see what we can get international support for. But I think the U.S. government has been very clear that we think--in fact, the resolution says--that further decisions are now required and so that's the time for the diplomacy to focus on it.

COMMISSIONER MULLOY: I think the resolution expressed the intent of the Security Council to take additional measures.

MR. RODMAN: Right.

COMMISSIONER MULLOY: If Iran did not comply.

MR. RODMAN: Correct.

COMMISSIONER MULLOY: It isn't clear what additional measures might be taken by the Security Council. But I was struck by you're quite explicit in your testimony on this point. It's hardly mentioned in your testimony, in your written testimony. I was struck then, is there a difference between State and DoD on how to proceed?

MR. RODMAN: I don't think so. I'm not aware of that.

HEARING COCHAIR BLUMENTHAL: Maybe we'll reveal one here.

MS. DeSUTTER: While I always enjoy interagency friction, I think on this the United States government is of a mind that this is a very serious matter and that the next step is while there are discussions going on led by others, we still believe that the appropriate thing is to take action in the Security Council. Security Council action is never very rapid, and when discussing what sorts of sanctions should be imposed, it has to be carefully thought through.

One of the things that the administration has felt fairly strongly is that these sanctions are going to be very, very important to discuss what actions we take next, how we're going to approach this. And so they're being very carefully considered and then they'll need to be discussed.

The focus is we've often heard people talking after general sanctions have been imposed about the negative effects on it, and we really ought to have smart sanctions and all that. We really want to do that. This is not going to be an effort that is going to be focused on punishing Iran as a nation. What we want to do is to be able to focus our efforts and the efforts of the international community on those decision-makers within Iran who can make a decision to turn around, to make a different strategic commitment, to follow the path that Libya followed and not to just have general punishment of those people who--recall, the Iranian nuclear program was conducted in secret, not just from the international community, but we believe very strongly from the Iranian people, who I'm always struck with the idea that given how much money over such a significant period of time was probably invested in these programs, perhaps the Iranian people if they had a different choice would have chosen to go in a different direction.

So it's not the population, it's not the people of Iran, that these sanctions would be aimed at. We want the kind of sanctions that are going to be aimed at the most effective way of changing the minds of the decision-makers. That's not something you can decide to do very rapidly and it has to be done very thoughtfully, and so we are trying to be thoughtful.

COMMISSIONER MULLOY: Thank you.

MS. DeSUTTER: That takes time.

COMMISSIONER MULLOY: Thank you very much, both of you, for those helpful comments.

HEARING COCHAIR BLUMENTHAL: Thank you. Commissioner D'Amato.

COMMISSIONER D'AMATO: Thank you very much, Mr. Chairman. Thank you, Secretary Rodman and Secretary DeSutter for coming again before the Commission. We appreciate it. It is a matter of persistence on the part of the Commission, Secretary Rodman, and the statutory persistence. It is a priority that Congress has given us in law to look at annually, and regarding this issue, it's one of the priorities of the Congress in this relationship.

So we'll keep at it until we get it right along with you. There's been a question in the past that's come up periodically in regard to these transfers, particularly WMD-related technologies from so-called Chinese commercial entities, and that is whether or not, in fact, the Chinese government itself has knowledge of these transfers when they're occurring or before they're occurring, and could, in fact, control the transfers?

The fact that we put sanctions on four Chinese commercial entities would indicate that the U.S. government is concluding that the transfers could be controlled by the Chinese government if it chose to do so. So I wanted to ask you to clarify that.

When we're talking about sanctions policy, we believe that if the Chinese government had the political will, that it would have the capacity to understand the transfers and to control them. Or is there some residual question about Chinese government knowledge of these transfers? Either one of you can address that.

MR. RODMAN: Let me start. We don't have a lot of visibility into their decision-making process. That's the problem. So we may never know the answer or at least maybe rarely would we know for sure the answer to your question.

It's hard to find a smoking gun. We sanction an entity when we have strong evidence to support the measure that we're taking, and beyond that, it's often very hard to pin down what other people know, to what they acquiesce and to what they turned a blind eye. And there may be divisions within the system. But, as I say, I think it's rare that we would have absolute clarity on that.

COMMISSIONER D'AMATO: But should we assume because of the persistent nature of these transfers over time and the high visibility the United States government has given to them, particularly because of sanctions, is it a reasonable assumption to make that the Chinese government if it had the political will could control them if it

chose to?

MR. RODMAN: I would just say one thing, that it's a combination of having the political will and having the administrative capability. They need more of both.

COMMISSIONER D'AMATO: Ms. DeSutter.

MS. DeSUTTER: I would add that one of the things that I discuss in my prepared remarks are the serial proliferators and many of the serial proliferators that we have sanctioned are Chinese-owned enterprises, Chinese government enterprises, and the link between the government of China and the state-owned enterprises is somewhat complicated. It's not always very clear. I've seen great organization charts that try to identify the interrelationship.

But it would seem to us that if it's a government-owned enterprise, that it would be within their power to do more to make sure that these enterprises do not continue to proliferate. And in some cases, there are high level company officials that have ministerial level rank within the Chinese government, and so what we know is that these haven't always stopped and we've had several years now--I think that we've, since January '04, I think that we've sanctioned Chinese entities 39 times. Some of those were multiple-entry winners.

What we know is that they have not acted to do all of the things that they need to do, but we're going to continue the pressure, we're going to continue the sanctions activities. The cases that have to be put together in order to impose sanctions are very difficult to put together. It requires an awful lot of data and assessments against the MTCR annexes which were written as voluntary guidelines.

For example, if you give a U.S. Customs inspector the book and he is able to review all of the different applications for export, he's got a pretty good idea of what he's getting unless somebody simply lies. So it's difficult from afar to review those, to measure a particular transfer against the very, very specific measures that are in the MTCR annexes, and yet in these cases, four new cases in June, we've been able to do that.

So we believe that when we've seen the Chinese change behavior, when we've seen improvements, when we've seen them undertake new commitments, it has been in response to additional pressure from the United States, additional flagging of these activities, and so we think that it has some impact, and that we just need to continue to take all of the tools available to U.S. government including our sanctions laws and apply them to the best possible effect.

COMMISSIONER D'AMATO: Thank you. Just a comment, Mr. Chairman. It seems to me that if the Chinese government does not know about such transfers, it ought to, but that one should assume that

they probably do and that keeping the pressure up will benefit as you point out.

Certainly because of the grave nature of these transfers, the United States government really ought to hold Chinese government and authorities accountable for this behavior. Otherwise, I wouldn't know how we would otherwise proceed.

Thank you.

MR. RODMAN: I think you put your finger on it. I think whatever the answer is to the question, our duty is the same: to hold them accountable, keep the pressure on, because either way, they have to improve their performance.

COMMISSIONER D'AMATO: Thank you, Mr. Chairman.

HEARING COCHAIR BLUMENTHAL: Thank you. Commissioner Bartholomew.

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you very much and thank you to both of our witnesses for your service and also for your willingness to come and testify. Your appearance before us is an important benchmark for us, both to look at how we're doing in halting practices that are making us less safe, and also frankly in what the Chinese government's willingness is to abide by the commitments that it makes, and both of those I think are important pieces of examining whether China is being a responsible stakeholder.

So you've come before us and it gives us an opportunity to see how are we doing compared to the last time that you testified and what are the problems. So I really do thank you for that.

I'd like to take a different angle right now, and Secretary Rodman, this question might better go to you. Can Iranian military cargo planes fly from Iran to North Korea without refueling?

MR. RODMAN: I don't know the answer.

COMMISSION VICE CHAIR BARTHOLOMEW: If we could find out whether they can do it without refueling; if they have to refuel, where indeed they're stopping to refuel? The question, of course, becomes if they're using Chinese territory to refuel and what that means and whether we've raised that with them the range of issues?

MR. RODMAN: Okay. I'll get an answer to that.

COMMISSION VICE CHAIR BARTHOLOMEW: I'd like that addressed, and also on Pakistan, if Pakistani military cargo planes can fly to North Korea without refueling, and similarly if they have to refuel?

MR. RODMAN: Okay.

COMMISSION VICE CHAIR BARTHOLOMEW: Raising the

question also not only are they using Chinese territory to refuel, but are they using Chinese airspace to fly over in order to move cargo back and forth? If they are indeed doing that, and I presume they have to, certainly for the Iranians, have we ever raised this as an issue with the Chinese government?

MR. RODMAN: We'll get that information.

COMMISSION VICE CHAIR BARTHOLOMEW: Great. Thank you. Secretary DeSutter, you mentioned the importance of the Proliferation Security Initiative. Has the Chinese government joined the PSI?

MS. DeSUTTER: They have not, but I think that there have been discussions with them about this. I think those discussions will continue. There are many countries that we have an ongoing dialogue with, and there is in some cases resistance about from a legal perspective, do they have all of the existing laws and authorities that would permit them to move forward?

So I think that those dialogues are continuing. I know that this is a high priority for Under Secretary Joseph and for the rest of the State Department, my colleagues in the International Security and Nonproliferation Bureau. And so I think we're not done pursuing this, and I'm not convinced that they would never do so, but they have not as yet.

COMMISSION VICE CHAIR BARTHOLOMEW: On the issue of international sanctions to deal with some of these problems that we are confronting, I was really struck, Secretary DeSutter, about how you said that international support for sanctions was desirable and the desirability of having Russian and Chinese support, but the reality is, of course, it's not just desirable, it's essential. We're not going to be able to have international sanctions through the Security Council unless the Russian and the Chinese governments allow them to move forward and support them.

MS. DeSUTTER: Right. Through the Security Council. But there are many options. They could remain silent on it. They could say we support these types of sanctions but not those. This is a discussion that will be going on at the Security Council and at the highest level from the U.S. government, and so we really want those to happen.

One of the things that I was struck by with regard to Libya was that the Libyans were very much encircled by sanctions. They had U.N. sanctions and they had separate U.S. sanctions. It was very important to them to have the U.N. sanctions removed, but it was also subsequently important for them to have all of the various U.S. sanctions removed.



The sanctions were very sweeping, and it had a tremendous effect I know because we had difficulty getting the American advisors and experts in to start removing the weapons programs because we couldn't fly on American carriers without special waivers. So there are a number of steps that can be taken, and often it's the layering activities, and it's the support for it. It's not opposing.

So you can have various levels of support, various levels of commitment, and various levels of activities, and we'll be looking to our friends and allies to support all of these and we very much want China and Russia to support implementing what the Security Council has already called for.

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you. Just one quick comment. Mr. Rodman, you mentioned--we don't know intentionalities, we don't know about motivations--the issue of energy with China's relationship particularly with Iran, and I just wanted to mention because we're still trying to look into this, that at a hearing, the last hearing we had on China's regional participation, a China energy expert mentioned that there are some people who believe that up to 90 percent of Chinese production of foreign oil--in other words, not what's being produced in China, but what they're producing overseas--might actually be going into the world market, not going back to China.

I have to say I had the same look on my face that you have.

MR. RODMAN: I'm not sure I understand.

COMMISSION VICE CHAIR BARTHOLOMEW: And we're looking into that. But if indeed it's true, it takes that aspect of the dynamic of this and I think changes things a little because there has been, I think, it's not an excuse, but it's an explanation sometimes that people use, that one of the reasons the Chinese government is interacting with some of these countries is because they need the energy in order to fuel their domestic growth.

If indeed it turns out that that's not what they're using the energy for, it might change the way that people think about it.

MR. RODMAN: You mean they're reexporting?

COMMISSION VICE CHAIR BARTHOLOMEW: That they're selling into the world market--yes. Again, we're trying to find out if that's true, and it was the first time we had heard it, but it was one of those things that made us go, "whoa." Then you have to think about the relationship with Iran in a different way and the relationship with Venezuela in a different way. So we'll keep you posted if we find out anything more on that.

MR. RODMAN: Okay.

COMMISSION VICE CHAIR BARTHOLOMEW: Thanks.

HEARING COCHAIR BLUMENTHAL: Thanks, Commissioner Bartholomew. I think it's a good question on the flights from Iran to North Korea. As Speaker Newt Gingrich recently said, Iran has maybe five years away from developing its own nuclear weapons, but it could be a day away if North Korea is able to deliver to Iran. So I think that's worth pursuing.

Commissioner Brookes.

COMMISSIONER BROOKES: Thank you. I'll open this question to either one of the Secretaries to answer. As we all know, these relationships between China and North Korea or China and Iran cannot be considered in isolation from one another because North Korea and Iran have a relationship as well. In other words, if the Chinese are providing support to the North Koreans, that support may well find its way to Iran or vice versa. Same with nuclear.

I'm interested in this case in the missile programs. Can you tell me or detail a little bit more than in your previous testimony or submitted testimony to which North Korean and Iranian missile programs the Chinese are providing assistance?

Maybe this isn't the right place to detail it, but it is interesting because each country does have a variety of missile programs ranging from short-range to potentially intercontinental ballistic missile programs, and even though they are related, there are some specific differences, technically and technology-wise that's required.

So if either one of you could give us an idea of what you can say in a public setting here to which North Korean and Iranian missile programs the Chinese are providing assistance? Thank you.

MR. RODMAN: Let me get you that information. I don't have that at the tip of my tongue.

MS. DeSUTTER: I agree with that, and we could probably provide something classified, but one of the things that I would also say is there are in some cases we're talking about technology that could be applicable to multiple programs. So whether in Iran you go to the solid program or to the liquid program, there's a lot of manufacturing equipment that is helpful for both.

COMMISSIONER BROOKES: Could we say here that they're providing it to a variety of programs? Because there are some distinctions between missile programs of different ranges.

MS. DeSUTTER: I probably would be more comfortable in getting back at a classified level.

COMMISSIONER BROOKES: Okay. Thank you.

MS. DeSUTTER: Now there may be as I go through that something that we could say unclassified, but since I'm not quite sure what that is, I'd be more comfortable.

COMMISSIONER BROOKES: Okay. Thank you.

HEARING COCHAIR BLUMENTHAL: We could ask for a classified briefing on that.

COMMISSIONER BROOKES: Yes.

HEARING COCHAIR BLUMENTHAL: Commissioner Donnelly.

COMMISSIONER DONNELLY: Thank you, Mr. Chairman. I'd like to add my thanks to the witnesses and also to apologize for my tardy arrival, but I'm glad I made it. I'd like to focus in on an issue in the testimony and then ask you to relate it to a larger theme and question that the Commission has been considering through the years. As Chairwoman Bartholomew suggested, we're trying to figure out what makes for a responsible stakeholder or responsible member of the international community in as much specificity as we can.

In that regard, and this is a theme that has percolated through administration testimony and other testimony that we've received through the year, that we are trying to encourage China to act in what we perceive to be its own best legitimate and appropriate interest. It's also very clear from all the testimony that current Chinese behavior does not meet that test.

It's also pretty clear from the testimony today, but those failures are so widespread, so long-enduring and spread across economic behavior, geopolitical behavior, proliferation behavior, and so on and so forth, that it makes me begin to wonder whether there's a fundamental difference in the perception of what China's national interests are.

To try to tie that to the stakeholder issue, I would ask you to try to detail some ways, again, in which you feel China's current behavior, not simply in proliferation but also in other areas, doesn't meet that test of being a responsible stakeholder, and then go on to sort of define in a positive way what the threshold test ought to be. So it's a pretty open-ended question, but I hope I've provided an opportunity.

MR. RODMAN: Let me try. We talk to the Chinese about this, too, so they wonder what the phrase means, and we answer.

COMMISSIONER DONNELLY: If you could give us some sense of what you're telling them, that would be good.

MR. RODMAN: Yes. I'll tell you what. I think the formulation I used in my statement is if a country identifies its own interests with interests of the wider international community, in other words, if it defines its interests not in terms of some selfish advantage or unilateral advantage, but sees that there's an international system that it has a stake in, and therefore it equates its interests with the wider community.

Sudan and Darfur was another case where the international

community was quite energized, and China was supporting the government of Khartoum in obstructing or in resisting international pressure. That's another example that I think I'm sure Mr. Zoellick raised with them, and we have raised with them.

But the two cases here are examples, I think the use of force in general, even in the Taiwan case where there's a wider regional interest in peaceful resolution of that. So we've made clear a number of examples that are of concern to us, and in fact, energy, we were discussing energy, and the conventional wisdom is that China's energy demand is leading it to seek oil for its own domestic growth.

I think our view of that is China's economic dynamism is not a sin, and its energy demand is a function of its success, and so the issue is not that China has come on to the world market for oil. The issue is how it's distorting its foreign policy. At least that's the issue I tend to raise, and precisely the case of Sudan or Iran or Venezuela, where China seems to have a mercantilist view of how to secure its energy needs and correspondingly or concomitantly is adopting certain foreign policies, rightly or wrongly, in its own interest.

In fact, some of us think it's not even China's interest to do this, but the issue I am concerned about is how China's foreign policy toward Iran, for example, is driven by a perception that it has that it needs to cultivate a relationship with Iran or else it would be denied or it wouldn't have some privileged access to oil.

So even the energy issue, to me it's a political problem more than it's an economic problem, but I think the examples are ones I've discussed and there may be others. There are some cases where China has behaved very responsibly. I remember in the Asian financial crisis of a number of years ago, countries were devaluing their currency and China kept its current stable at some cost to itself, but it was a contribution to the stability of the regional financial situation.

On North Korea, the initial reaction to when this sort of issue developed three or four years ago, the Chinese first reaction was to say we do not want a North Korea nuclear weapon, and therefore they took the initiative to start the diplomacy, which we thought was a positive thing. The problem has been follow-up and how much political capital they're willing to spend.

But I do think their own interest lies in helping prevent a North Korea nuclear weapon. So there are cases where I can see that really their best interest lies in doing the right thing, and so I wouldn't see them as hostile, as necessarily in a revolutionary posture trying to overturn the international system.

I think a lot of this is how much political capital they're willing to spend, things that are politically difficult for them to do, and in

some cases such as Iran, where they have been too often tempted perhaps to cultivate a relationship, that doesn't support what the international community is trying to do.

But the two U.N. resolutions are interesting, therefore, because politically the Chinese took a stand very clearly, resolutions which neither Iran nor North Korea were very happy about at all, and the Chinese went along with what the world community was declaring, and so we have to see that as an encouraging step, and as we have both said, the test is the next step in both these cases when political capital will need to be spent by everybody.

Is that helpful?

HEARING COCHAIR BLUMENTHAL: Commissioner Bartholomew.

COMMISSION VICE CHAIR BARTHOLOMEW: I would really like to follow up, Secretary Rodman, because I think your comments are thoughtful and they're getting us to the heart of some of what we are really trying to grapple with as we move into the report for this year. But it's the issue of how China defines its interests.

MR. RODMAN: Right.

COMMISSION VICE CHAIR BARTHOLOMEW: The presumption that somehow it will define its interests in the way that we define our interests or in a way that will coincide with our interests, and I guess that one of the real serious questions is what do we do if a large power like China defines its interests in a way that's inimical to our priorities and our interests?

You mention Sudan, so I'll just put that out there as an example, that the issues that we have about how governments should treat the people of the countries that they are governing is an important issue to us, an important value to us, and it seems to be an issue that the Chinese government has shown many times it's not an issue that's important to them.

So that I would love your thoughts on because that's I think what we're all struggling with, is how do we deal with this when they define their interests differently than an international community set of interests?

MR. RODMAN: There are degrees and things evolve. Even on Sudan, I think the international community there has more of a consensus. It has not been very effectual and it's not really the Chinese who are the main problem. The Arab world was also supporting Khartoum, and the Chinese were not the central player whom we should attach the main blame to.

In the North Korea case, we always say that China does have leverage and we think they have a special responsibility, so I think the

tools we have are our own diplomacy. We have the sanctions tools here in these specific cases, and it's part of our overall relationship with China: how central do we make these problems as items on the agenda? And sometimes we can push them. Sometimes they move--as I say, the U.N. resolutions were very interesting, positive developments, which I, six months earlier, would not have necessarily expected.

COMMISSION VICE CHAIR BARTHOLOMEW: Two comments. I think again on Sudan, which is not the topic of today--

MR. RODMAN: Right.

COMMISSION VICE CHAIR BARTHOLOMEW: --but because it keeps coming up, that we should not minimize the significant role that China's provision of military equipment to the parties in Sudan has played in the awful actions that are being taken against the people.

MR. RODMAN: Yes.

COMMISSION VICE CHAIR BARTHOLOMEW: If they simply were not supplying military equipment, that would be a piece of the solution of stopping the violence that's taking place, and so it is both their role in the international community in terms of what's happening at the U.N. Security Council, but also their role of what's happening bilaterally and what they're doing.

On North Korea, and I know we've gone through this before, but well over a decade, we have been hoping that the Chinese or acknowledging the Chinese have leverage over the North Koreans, and we have, some of us believe, yet to see them exercising the kind of leverage that they have. How long does this go on, and what is happening while the process is moving forward is, of course, the biggest challenge.

MR. RODMAN: The U.N. resolution reflects China's frustration at the missile test. The missile tests were a great embarrassment. They were a destabilizing action and the Chinese were obviously very irritated, did not want that, and so I think the Chinese clearly have an interest in not having further provocations like this.

The question is what are they willing to do to help stop them? I wouldn't accuse the Chinese of colluding with the North Koreans on those missile tests or, in fact, a lot of the provocations that we've been discussing.

The question is how hard are the Chinese going to exert themselves or spend political capital? But we see a lot of signs of Chinese frustration with North Korea.

HEARING COCHAIR BLUMENTHAL: A follow-up to that is, for argument's sake, let's say the five parties do not convince the North Koreans to dismantle their program. What options do we have

in terms of containing the problem, in terms of protecting ourselves and our allies if the Chinese do not sign on to things like the Proliferation Security Initiative? If the Chinese oppose actions to have a more robust Proliferation Security Initiative to do more things to interdict the transfer of weapons, the types of things that we would want to do in case these talks failed and we would have to leave with a nuclear North Korea. Do we have options if the Chinese decided they were going to continue to prop up the Kim Jong Il regime? What types of options? How successful could they be?

MR. RODMAN: I wouldn't really want to speculate on that. It gets into some hypotheticals. The president has a lot of options and he's said this publicly, but I think right now our policy is to support this diplomacy, and I would say we have not yet exhausted all the diplomatic, economic, political tools that are available. So I wouldn't speculate about other options.

MS. DeSUTTER: I would add, though, that sanctions taken against Banco Delta Asia are having an effect. I think that those types of activities can sting the transfers and the financial operations of sanctioned entities, and so I think that we're exploring all of those.

The other thing that's worth noting is that as we were getting ready to see the North Korean missile launch, if they went ahead to launch, which they did, we were very happy that we were able to have some, although limited capability to have a missile defense should they have aimed it in this direction, and so there are a number of activities that the administration is pursuing and examining so that we're not nearly left with the option of persuading another country to take all of the heavy lifting to change North Korea's mind.

North Korea is a difficult case--that's certainly true--far more difficult in terms of having an interest in having a good reputation in the international community than Iran.

But one other thing that I would add in response to the question of China as a responsible stakeholder is that a very major power, a growing economy, we look to them to take all of their obligations and responsibilities seriously, not only in the nonproliferation area, but we continue to have concerns about their having elements of an offensive biological weapons program.

We're concerned about some of their chemicals weapons declarations. Of all of the five declared nuclear states, China is the only one that hasn't declared its own unilateral ban on the production of fissile material. They've not been supportive of moving forward on discussions or negotiations of a fissile material cutoff treaty in the Conference on Disarmament by linking it to the prevention of an arms race in space, and since the United States doesn't see an arms race in

space, we don't think that's very useful, and we're hoping that we'll be able to move in to serious discussions on a fissile material cutoff treaty.

Then, in addition, we see the growing number of missile deployments that China's undertaking, and we wonder if those missile deployments mean that they have an active and growing nuclear program. So there are a number of activities in the security arena that we're watching and hoping to see a different direction taken.

This hasn't been the largest priority. Their missile deployments don't violate any commitment, but these are areas of concern, especially when they involve compliance with obligations that they've undertaken. So these will be part of discussions as well, and we would like to see China not only in the nonproliferation area, but in these areas as well be a force for stability and security and not a force for concern.

HEARING COCHAIR BLUMENTHAL: On that note, have you seen any marked Chinese reaction to the India deal that we're negotiating in the sense of either making moves to accelerate the program of strategic weaponry or making moves to accelerate the relationship with Pakistan, the troubling aspects of it on the WMD front?

MS. DeSUTTER: If there are, I haven't seen them, but we could try to get you an answer.

HEARING COCHAIR BLUMENTHAL: Okay. Thank you.

MS. DeSUTTER: Do you?

MR. RODMAN: No, I haven't seen it. They've been very cautious to their reaction. In their conversations with us the Chinese have said very little about that.

HEARING COCHAIR BLUMENTHAL: Thank you. Commissioner Donnelly and then Commissioner D'Amato.

COMMISSIONER DONNELLY: I'll try to be brief, but I just wanted to toss out a postulate. To me it's not simply that China is failing to do things, bad things, but the expectation, I think our expectation ought to be, and I think it's implicit particularly Secretary Rodman in your statement, that the failure to impose costs on lawbreaking or rule breaking countries is itself undermining the effectiveness and the credibility of the international order, that the world community's inability, increasing inability to discipline outlaw states or states that behave badly is itself a problem, and that what we really are asking China to do is not simply stand to the side or be agnostic, but actually to shoulder--

MR. RODMAN: Right.

COMMISSIONER DONNELLY: --some of these responsibilities,



and the longer--and personally I see the system is under a great deal of stress--the number of lawbreaking, rule breaking states, the number of incidents, and the horrific nature of some of these incidents like in Darfur keeps accumulating, so the ability of the international order to sustain itself is, if not a point of crisis, is certainly under increasing stress. Again, speaking personally, I think there is some urgency in trying to get some positive results on all these fronts lest the international order, again, if not collapse, then be degraded so much that the problem gets worse rather than better.

MR. RODMAN: There are different cases. On North Korea, they have been the pivotal player, and that's why we keep putting the pressure on them. We credit them when they say it's not in their interests to have a nuclear North Korea, but they're the pivotal player, and we put the heat on them.

In the Iran case, I think the Europeans are more pivotal. The Chinese are on the march and I think they'll follow what the Russians do and so on. Sudan, again, I think the Arabs were, again, the pivotal player. We needed to press the Arabs, and the Chinese were sort of tagging along. So again we've got to be more precise about what degree of responsibility we're placing on China for a lot of these problems.

COMMISSIONER DONNELLY: Standing on the margins would seem to me to be an insufficient stance for a committed international player--we do not stand on the sidelines.

MR. RODMAN: That is our message. That is our definition of responsible stakeholder. No, you're absolutely right about that.

COMMISSIONER DONNELLY: Okay. Good. I'm sorry to be herculent.

HEARING COCHAIR BLUMENTHAL: Commissioner D'Amato.

COMMISSIONER D'AMATO: Thank you, Mr. Chairman. I'd like to follow up a point that Commissioner Donnelly made, I have two questions, one with respect to Sudan, and the other respect to North Korea.

On Sudan, we have a situation coming at us at the end of this month when the African peacekeepers have got to leave, the question of the entrée into Sudan of a U.N.-sanctioned peacekeeping force is the only block against what appears to be an upcoming human rights disaster.

MR. RODMAN: Yes.

COMMISSIONER D'AMATO: The question is, what leverage have the Chinese been willing to exercise with regard to the Sudanese regime and what leverage have we been asking them to exercise in order to allow this U.N. peacekeeping force into Sudan? Otherwise

we're facing a human rights disaster, and the question of being a responsible stakeholder certainly is front and center in this question.

Secondly, just if one of you could give us an update on the status of the Six Party Talks and when we expect them to reconvene?

MR. RODMAN: Let me do the first. Sudan, there too we have just recently achieved a U.N. Security Council resolution after long labors, and the Chinese obviously contributed to that. The problem is deeper and I can say that Sudan has been on our agenda with China in every significant bilateral discussion including defense talks. So it is something we constantly press on them to contribute to the solution and not be foot-dragging or standing on the sidelines.

Six Party Talks, I think what you see out there is what I know as well. The North Koreans are refusing to come back. They're bringing in the issues of our defensive measures in the financial field which, in our view, are defense against some of their illicit activities. They choose to link these and refuse to come in, and we're not buying that and we're putting the pressure on the Chinese and on them to come back to these talks, and the Security Council resolution after the missile launches reaffirmed the unanimous view of the Council that they should just come back to these talks and get on with it.

Again, the Chinese supported the resolution, but the North Koreans are being quite stubborn.

HEARING COCHAIR BLUMENTHAL: I'm going to take the last question, which is coming back to Secretary DeSutter's comments about Chinese own activities with respect to strategic weaponry. I just wanted to press on that a little bit because I think it's significant and doesn't get that much attention, in fact.

I think other countries in the region are certainly reacting to it. India, I think, is one of them, and I think Japan over time will be one of them as well. Just to sort of clarify, you put in the category certain activities on the biological and chemical front as well as, if I heard you correctly, the ICBM front; is that correct?

MS. DeSUTTER: Their missile modernization program is fairly expansive and it's not only in the strategic arena, but also in the theater arena and shorter range missiles that we're seeing very active development and deployment program that is coming to fruition, where their deployments are quite significant.

HEARING COCHAIR BLUMENTHAL: Would it be a fair characterization to say that of the declared nuclear weapons states, China is the only one actively adding to their arsenal of broadly strategic weaponry at this point?

MS. DeSUTTER: The Russians are modernizing their forces. But when we talk about the nonproliferation treaty with other

countries, and they'll frequently say why hasn't the United States dismantled its nuclear weapons program, I often ask them if they've gone to chat with China because the Chinese program is expanding. I think that's probably fair to say that we don't have any clear picture of exactly how much it's expanding. How many nuclear weapons does China have? I don't know the answer to that.

MR. RODMAN: We publish our military power report that you're familiar with, and it is true, in our view, the Chinese are beginning a significant modernization of their strategic forces. Again, we don't know how far it's going to go or what the plan is, but you may be right, that of the major countries, they're the one that is trying to expand.

HEARING COCHAIR BLUMENTHAL: I wonder if that should fit into our conversations about being a responsible stakeholder?

MR. RODMAN: Well, it's an issue. We're beginning a bilateral dialogue with the Chinese on these strategic issues, and it began, Secretary Rumsfeld visited the headquarters of their Second Artillery which is their rocket forces, and their commander is coming to talk with STRATCOM. We're beginning a discussion with them about nuclear doctrine policy. We're trying to draw them out.

For example, on no first use. We have asked do they still adhere to that, and they assure us yes, but there is a discussion. We're trying to draw them into a continuing discussion with them about nuclear policy and trying to learn more about where they think they're going and what is the basis for the strategic stability? How do they see strategic stability? We'll see if we can illuminate that question a little more in that kind of a dialogue. So how destabilizing it is, how rapid the growth is, we hope to learn more about that.

HEARING COCHAIR BLUMENTHAL: Is there any fear that they express that they would trigger a response from Japan? Anything you can comment on?

MR. RODMAN: I'm sure that's one of their calculations, absolutely. So it is not clear that they're trying to match the American and Russian nuclear arsenals. It seems to be a modest expansion, but again we need to learn more about it and learn more about their doctrine and how they see deterrence or what they see the mission of these forces is.

HEARING COCHAIR BLUMENTHAL: Thank you. I think we have to wrap up because these are very busy people. Thank you both very much for very helpful testimony. I know you have very busy schedules so we really thank you for consistently providing us with very useful testimony.

I'd also like to mention that Senator Feingold and Representative

Markey's statements will be submitted to the record as well. Thank you very much. We'll take a five minute break.

[Whereupon, a short break was taken.]

**PANEL II: CHINA'S RELATIONSHIP WITH IRAN  
AND ITS ROLE IN ADDRESSING THE NUCLEAR  
AND MISSILE PROGRAMS IN IRAN**

HEARING COCHAIR BLUMENTHAL: I'd like to welcome all our witnesses to the second panel which introduces China's relationship with Iran and China's role in addressing the nuclear weapons and missile program, its broader relationship and interests, how it sees its interests with Iran.

We are going to start today with Dr. Calabrese who has to leave a little bit early, and we're going to do things in a little bit of a different order in the sense that we're going to have you speak and then answer questions, and then turn to the other speakers.

Today, we're very pleased to have Dr. Calabrese from the Middle East Institute. He came to speak to us before about China's diplomatic relationships with the Middle East and he just published China and Iran: Mismatched Partners, a Jamestown Foundation publication.

We also have Dr. Ehsan Ahrari, CEO of Strategic Paradigms. He specializes in U.S. strategic issues affecting the Middle East and parts of Asia including China. He previously served as a Professor of National Security Strategy at the National Defense University's Joint Forces College.

Our third speaker will be Mr. Ilan Berman, who is the Vice President for Policy of the American Foreign Policy Council, a regional security expert in the Middle East, Central Asia and Russian Federation, who has consulted for the CIA and Department of Defense.

So thank you again very much, and we'll turn to Dr. Calabrese first.

**DR. JOHN CALABRESE, SCHOLAR-IN-RESIDENCE  
THE MIDDLE EAST INSTITUTE, ASSISTANT PROFESSOR,  
AMERICAN UNIVERSITY, WASHINGTON, D.C.**

DR. CALABRESE: Thank you, Mr. Chairman, commissioners. I hope that on this occasion I'm able to redeem myself from that pathetically incoherent performance last month. This time, unlike in the August 3 hearing, I will speak specifically to the questions that you gave me and attempt to do so in the order in which they were presented to me.

As the first question suggests correctly--in my opinion--Sino-Iranian relations transcend cooperation in the energy sector.

They comprise a multitude of activities that are rooted in what I believe are broadly shared perspectives on recent developments in world affairs, and on their respective roles in regional and international relations. Put simply, Sino-Iranian ties are based on overlapping national interests.

In a general sense, Sino-Iranian relations today bear many of the hallmarks of a much larger phenomenon, namely, the progressive development of commercial and other linkages binding east, south and west Asian countries together.

These cross-regional linkages, in my view, are not intrinsically detrimental to U.S. interests or for that matter detrimental to regional peace and stability in the Middle East or in East Asia.

Indeed, not all aspects of all Sino-Iranian relations are problematic for the United States or pose a threat to regional stability.

But China's past record, indeed very recent cases of proliferation activities, specifically with respect to Iran, does require constant vigilance and continual reassessment of China's commitments and performance with respect to nonproliferation. It also requires a deeper understanding of the context in which this relationship is taking place, and a greater appreciation of the totality and the limits of the Sino-Iranian relationship.

We need to periodically reassess our expectations with respect to Chinese-Iranian proliferation activities, as well as how we define them. And, we need to periodically reassess countermeasures that are in place to deal with these activities.

The fact that China's most frequent and egregious proliferation activities in the Middle East have occurred with respect to Iran calls upon us to examine how China and Iran view each other and conceive of their bilateral relationship.

For China, Iran is distinctive. From the Chinese vantage point, Iran possesses unique geopolitical and geoeconomic characteristics. From the Chinese perspective, Iran already is, indeed had been even before the Iraq war, the dominant regional power. With coastlines on the Caspian and the Persian Gulf, Iran sits astride two major energy hubs. Given China's energy needs, Iran occupies vital geoeconomic space. The high priority Beijing attaches to a stable and productive bilateral relationship stems directly from this fact.

Iran is the largest Muslim country in west Asia and the most populous one. Ever since the founding of the Islamic Republic of Iran, Beijing has assiduously courted Tehran, partly as insurance against external support of restive elements within the Chinese Muslim

population.

Potential long-term business opportunities in Iran are also very attractive to. These areas of possible economic cooperation are wide-ranging. They encompass not only the energy sector but infrastructure and industrial projects in other sectors as well. But there is in my view also a very interesting subtext, and that is the subtext as it relates to the United States' primacy in world affairs. Both China and Iran are clearly uncomfortable with the current unipolar structure of the international system, though Beijing seems less willing to confront the United States than is Iran.

For Iran, China is distinctive as well. If it is fair to say that economics is the primary driver of China's relations with Iran at the present time, it is the geopolitical motivation of offsetting U.S. pressure, particularly with respect to the nuclear issues, is arguably the most compelling reason for Iran to gravitate toward China.

Turning briefly to the subject of how to counteract Chinese proliferation activities to Iran, in light of the contextual circumstances just described, I would like to offer several broad recommendations. Number one, if Sino-Iranian proliferation interaction really means something to the United States, then I would urge the United States to raise this with the Chinese at the highest level. If there is a need for an ongoing U.S.-China strategic dialogue, then at the center of that strategic dialogue must be what China has or has not done in terms of tightening its commitments to nonproliferation in the Iranian case and closing the gap between its commitments and performance.

At every summit and at every ministerial or working-level meeting, this must be a key U.S. priority and must be conveyed as such. Also on the diplomatic front, the current conditions might be propitious for U.S. officials to encourage our European partners as well as our friends and allies in the Arab Gulf and elsewhere in the Middle East to put pressure on China. As China looks to develop and to sustain its relations with all of the countries of the Gulf, with the entire MENA region, presumably Beijing will have to attune itself to the security perspectives and concerns of *all* of its partners. And none of those partners has an interest in Iran developing weapons of mass destruction or an even more extensive missile arsenal.

Coercive measures, such as targeted economic sanctions against Chinese companies found to have proliferated to Iran, are potentially useful instruments to punish and deter. Certainly, it is worth exploring ways to enhance the efficacy of sanctions. However, U.S. efforts to combat Chinese proliferation activities to Iran should not be skewed toward or depend exclusively upon sanctions. In fact, the best approach is a multifaceted one that combines enhanced coercive

measures and substantially scaled up cooperative efforts. We can and we must assist China in making faster further progress in areas where it *has* taken positive steps in the field of nonproliferation. Our efforts should be geared towards encouraging and providing expertise or technical assistance where possible to refine laws and regulations that China has already promulgated and to help improve China's institutional capacity to coordinate and implement these measures.

To wit, the Department of Commerce and the Ministry of Commerce of China have had some seminars and interactions aimed precisely at this objective. Activities such as these need to be continued and expanded.

HEARING COCHAIR BLUMENTHAL: Time is up.

DR. CALABRESE: Oh, okay. Sorry.  
[The statement follows:]

**Prepared Statement of Dr. John Calabrese, Scholar-In-Residence  
The Middle East Institute, Assistant Professor, American  
University, Washington, D.C.**

In a general sense, Sino-Iranian relations today bear many of the hallmarks of a much larger phenomenon, namely, the progressive development of commercial and other ties binding east, south and west Asian countries together. These cross-regional linkages, in my view, are not intrinsically detrimental to US interests or for that matter detrimental to regional peace and stability in the Middle East or in East Asia.

Indeed, not all aspects of all Sino-Iranian relations are problematic for the United States or pose a threat to Middle East regional stability. But China's past record, including very recent instances of proliferation activities specifically with respect to Iran, does require of the United States constant vigilance and continual reassessment of Chinese non-proliferation commitments and performance. It also requires a deeper understanding of the context in which the Sino-Iranian relationship is evolving as well as a greater appreciation of the totality and the limits of that relationship than are commonly presented in media and other accounts.

Given the risks associated with the proliferation of dangerous technologies, including the relationship between Chinese entities and Iran in this area, it is only prudent that US officials periodically review the record, reassess their goals and expectations, and adjust their policies. A useful starting point for this undertaking is to consider how China and Iran view each other and conceive of their bilateral relationship.

1. In addition to energy, what other strategic interests does China have in Iran? Besides weapons support, what strategic interests does China have?

Sino-Iranian relations transcend cooperation in the energy sector. They comprise a multitude of activities that are rooted in broadly shared perspectives on recent developments in world affairs and on their respective roles in regional and international relations. Put simply, Sino-Iranian ties are based on overlapping national interests.

For Beijing, Iran is distinctive even insofar as China's burgeoning ties with other Middle Eastern countries is concerned. From the Chinese vantage point, Iran possesses unique geopolitical and geo-economic characteristics. Even before the Iraq war, from the Chinese perspective, Iran had emerged as an important, if not the dominant regional power. With coastlines on the Caspian and the Persian Gulf, Iran sits astride two major energy hubs. Given China's soaring energy needs, Iran occupies vital geo-economic space. The high priority Beijing attaches to a stable and productive bilateral relationship stems directly from this fact. Iran is the largest Muslim country in west Asia as well as the most populous one. This is far from insignificant to China. Ever since the founding of the Islamic Republic of Iran, Beijing has assiduously courted Tehran, partly as insurance against potentially destabilizing Islamist activities in the form of external support of restive elements within the Chinese Muslim population. Iran's size is also a source of attraction on the business side as well. Areas of possible economic cooperation are wide-ranging. Some are already being pursued. Business activities encompass not only the energy sector but also infrastructure and industrial projects.

The Sino-Iranian relationship rests also on a geopolitical foundation – a common, if not identical, view of how US primacy in world affairs and the application of American power affect, directly and indirectly, Chinese and Iranian national interests. Both China and Iran are clearly uncomfortable with the current unipolar structure of the international system, though Beijing seems less willing to confront the United States than does Iran

For Iran, China is distinctive as well. If it is fair to say that economics is the primary driver of China's relations with Iran at the present time, geopolitical motivations – principally the aim of offsetting US/Western pressure, especially regarding the nuclear issue – is arguably the most compelling reason for Iran's gravitation toward China.

2. How much control does the Chinese government have over PRC companies that sell weapons technology to Iran? What are the mechanisms for that control if it exists? Have US sanctions on these companies been effective in curbing weapons and technology transfers?

Over the past decade, although Beijing's commitment to non-proliferation and its capacity to abide by them have improved, Chinese commercial entities have continued to proliferate to Iran. Relatively few though the instances of Chinese proliferation activities to Iran have been compared to the 1980s and 1990s, they nonetheless have occurred against the backdrop of the 9/11 terrorist attacks, the activities of the A.Q. Khan network, and revelations about the extensiveness of the Iranian nuclear program itself. Thus, as will be shown, while China has made unmistakable progress on nonproliferation, these positive steps have not kept pace with the US perception of what is required of a "responsible stakeholder" to reduce the level of risk/threat posed by the spread of weapons of mass destruction and dangerous technologies.

It is important to place the recent instances of Chinese proliferation to Iran into an historical context. Only a decade ago China and Iran had sketched out a broad agenda for nuclear cooperation. Since then, this agenda has been scaled back considerably. The principal reason for this change is that China has gradually come to accept that non-proliferation is in its own national interest, and consequently, has acceded to international norms and standards. In 1992, China signed the NPT. In 2000, China joined the Zangger Committee, and four years later joined the Nuclear Suppliers Group as well. There has been similar progress in knitting China into the international control regimes that pertain to chemical and biological weapons, ballistic missiles, and their associated technologies.

Nevertheless, there are two disturbing aspects of China's record on proliferation, especially as it relates to Iran. The first is that proliferation activities by Chinese entities prior to the mid-1990s had already helped to boost Iran's indigenous WMD and missile production capability. In other words, Chinese proliferation a decade or more ago contributed in no small measure to Iranian capabilities today. Nothing that China or the



United States can do today can reverse or repair this damage. However, as will be shown, there is much that can be done to help ensure that Chinese companies do not supply components that will enable Iran to replace or upgrade weapons manufacturing systems or in the case of missiles, the weapons themselves. The second disturbing aspect of Chinese proliferation activities is that, however infrequently, they continue.

It is difficult to assess from the data available in the public domain how valuable Chinese-supplied dual-use components and other dangerous technologies are to Iran's capabilities. However, the USG does report the number of instances and describes in general terms the nature of the controlled materials that Chinese entities have transferred to Iran. This limited information alone calls into question China's commitment to non-proliferation.

One can argue reasonably that in recent years Beijing has exercised *some* restraint, in at least *partial* fulfillment of its non-proliferation commitments. On the other hand, it is conceivable that there has been more Chinese proliferation to Iran than the American intelligence community has been able to detect and confirm. In short, there are two questions that cannot be answered with a high degree of confidence: (1) How invested are Chinese authorities in adhering to their non-proliferation commitments with respect to Iran? and (2) How extensive is proliferation to Iran by Chinese entities beyond what has been detected and disclosed by the USG?

Another avenue of inquiry relates to China's mechanisms for controlling PRC companies that proliferate to Iran. Here, there have been a number of encouraging breakthroughs, though China's export control system is, in many respects, a work in progress.

Since 1997 a number of domestic laws have been promulgated that govern licensing, certification, and end-user requirements. There is also an institutional architecture in place for enforcing these regulations. Authority is lodged in five main state institutions: [1] the Ministry of Foreign Affairs, Department of Arms Control and Disarmament (DACD), [2] the Ministry of Commerce, [3] the Commission for Science and Technology (CST), [4] the China Atomic Energy Agency (CAEA), and [5] the Chemical Weapons Convention (CWC) Implementation Office.

Within this constellation of government institutions, it appears that, gradually, the Ministry of Foreign Affairs is acquiring both the authority and the capacity to exercise veto power over specific cases of licensing and transfer. It also appears that the number of PLA personnel staffing, and thus directly influencing these institutions has decreased. Thus, the processes of *centralizing* and *civilianizing* authority over export controls are well underway, though, as best can be ascertained, they are far from complete.

Also somewhat encouraging is the emergence of a growing number of increasingly powerful economic actors who arguably have vested interests in keeping US-China relations and relations with Iran's neighbors on a positive track. In a general sense, then, there is a constituency for China's upholding international norms and standards. Still, the day-to-day implementation of China's export controls rests with the state bureaucracy.

That there remain significant gaps and deficiencies in China's export control system might be partly due to the fact that jurisdiction over enforcement is dispersed. For example, *both* the Commission for Science and Technology (CST) and the China Atomic Energy Agency (CAEA) handle nuclear exports. How the responsibilities between them are delineated in practice is unclear.

The degree of state control over commercial enterprises varies, sometimes greatly, by company. There are several reasons for this. The first is the exponential growth in the number of economic actors and of interactions with foreign counterparts. The second is the differentiation of ownership and control models

that prevail in China today, which range from companies that are wholly state-owned and operated to those that are roughly the equivalent of private companies in the Western sense. The third is that, by urging enterprises to harvest resources and expand overseas operations, China's state authorities have unwittingly or at least tacitly encouraged business transactions – including, perhaps, proliferation activities – that are at odds with their own avowed non-proliferation commitments. The net effect of these developments has been a proliferation of would-be proliferators.

That said, there are only a handful of Chinese entities that have been the main culprits with respect to Iran. In June 2006, pursuant to Executive Order 13382 on Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters, the United States imposed sanctions on four Chinese entities: Beijing Alite Technologies Company, Ltd. (ALCO); LIMMT Economic and Trade Company, Ltd.; China Great Wall Industry Corporation (CGWIC); and China National Precision Machinery Import-Export Corporation (CPMIEC). In all four cases, these companies were cited for transferring missile-related controlled material to Iran. And, all four companies had been sanctioned by the United States for similar proliferation activities within the past two years.

It is impossible to tell how much or how little control Chinese state authorities can and do exert over *the full spectrum of commercial activities by Chinese economic entities*, regardless of whether the latter are nominally “state enterprises.” It is also impossible to determine whether, in the case of Iran, Chinese state authorities themselves have made the strategic decision to approve or perhaps simply turn a blind eye to these proliferation activities. But as the companies listed above and a few others are *serial violators*, one thing is patently clear: Beijing either can't or won't prevent them from proliferating.

Were it not for US diplomatic pressure coupled with economic sanctions it is likely that, particularly in the case of repeat offenders, Chinese proliferation to Iran would have been even more extensive.

3. How has China influenced the development of Iran's nuclear program? Does this influence mirror US concerns for a nuclear Iran? What role has China played in the UN Security Council to limit Iran's nuclear weapons program?

China's material assistance to Iran's nuclear program pales in comparison to that of Russia. Nevertheless, China did make significant contributions to the Iranian program in specific areas within the relatively short period from the mid-1980s to the mid-1990s. For example, China helped to construct the primary nuclear research facility at Isfahan, helped to train Iranian nuclear technicians, reportedly assisted with the construction of Iranian uranium enrichment and conversion facilities, and (in 1991) supplied 1.8 tons of natural uranium (though, as disclosed by the IAEA in 2003, the amount was useful to train but too small to help produce weapons-grade material).

Throughout the 1990s, Chinese officials continued to discuss with their Iranian counterparts the proposed sale of two 300 MW reactors. (It should be emphasized that this sale would technically be permissible under the NPT.) However, this deal has been “frozen” since 1997. One interpretation of why it never materialized is that China valued nuclear cooperation with the United States over implementing the deal with Iran, i.e., access to American technology and equipment (allowable under the 1985 US-China Nuclear Cooperation Agreement) in exchange for assurances that the Iranian nuclear reactor project would not go forward.

While, in recent years, China has substantially curtailed its nuclear cooperation with Iran, Beijing continues to insist that its nuclear cooperation agreements (NCAs) with Iran are for peaceful purposes only and are consistent with the strictures of Article IV of the NPT. China's interest in furthering cooperation with Iran in the civilian nuclear field helps to explain the emphasis that Beijing has placed on respecting

the *rights* of NPT signatories as the diplomatic crisis over the Iranian nuclear program has evolved.

In crafting an approach to the Iranian nuclear challenge, China has sought to balance several interests: [1] preserving access to Iranian energy resources, [2] opposing what Beijing perceives as “power politics”, [3] expressing solidarity with a developing country, in a manner reminiscent of the “Bandung spirit” China sought to cultivate in the mid-1950s, [4] preventing a military showdown between the United States and Iran that could further destabilize the Middle East and compromise China’s interests in the region, [5] eventually acquiring a share in the expansion of Iran’s civilian nuclear infrastructure, and [6] maintaining a productive overall relationship with the United States.

Amidst the diplomatic wrangling over the Iranian nuclear program, Chinese officials have repeatedly and consistently stated [1] the matter should be resolved through *negotiation*, [2] the primary locus of authority and responsibility is the International Atomic Energy Agency (IAEA) and the latter’s attendant inspection, reporting, and deliberative mechanisms, [3] Iran has the right to peaceful nuclear energy, [4] the development of nuclear weapons by any NPT signatory (including Iran) is unlawful and unacceptable, [5] coercive instruments in the form of sanctions or military force are unhelpful and potentially counter-productive, and [6] constructive proposals by any and all parties are welcome and worthy of support.

In more concrete terms, China has followed a *defer-bend-and-defend* approach. China has sought to postpone the tough questions and hard choices, working hard behind the scenes to stymie US/European attempts to impose strict deadlines and preconditions on Iran. China has also deferred in a second sense – ceding the initiative to others, especially to Russia. In this way, Beijing has been willing to allow Moscow to claim the credit for a possible breakthrough, while minimizing the risks and costs that proactive diplomacy might entail. That said, the Iran’s inflammatory rhetoric and intransigence, coupled with the failure of Moscow and the EU to produce a compromise, has created a rather peculiar dilemma for Beijing. However reluctantly, China has joined the broad though fragile Western consensus to the extent that Beijing voted to refer the Iranian nuclear issue to the UN Security Council. Though vigorously opposing sanctions, China, along with Russia, nonetheless abstained in the vote on UN Security Council resolution 1696. Furthermore, opposition to sanctions can hardly be ascribed to China and Russia alone. France, Italy, and Spain have all backpedaled on sanctions, favor flexible deadlines, and (through the good offices of EU High Representative for the CFSP Javier Solana) have opened a parallel diplomatic track to secure a compromise.

4. Why does China continue to be a source of proliferation for Iran? What are the advantages and disadvantages for China of a more heavily armed or nuclear Iran? How does this proliferation affect China’s interests in the Middle East? How are US regional interests affected?

In order to gauge why China continues to be a source of proliferation to Iran, one must first consider these two possibilities: [1] Chinese state authorities know and approve of these activities, [2] Chinese state authorities do not necessarily know and approve of these practices but lack the capacity to stop them. The second possibility was explored earlier in the discussion of China’s export control mechanisms. But what of the possibility that Chinese state authorities have actively encouraged or have resisted these activities rather passively? What might be their motivation for doing so?

Here there are several factors to consider. The first is that the Chinese perception of threat as it relates to Iran might differ from that of the United States: the Chinese leadership might have calculated that a nuclear Iran does not pose a direct threat to China or its interests. The second is that, by Beijing’s risk-reward calculation, the penalties incurred by Chinese companies engaging in proliferation (if detected) are bearable especially since the precise degree of state culpability in these activities is indeterminable, balanced against the benefits of remaining on good terms with Tehran.

The idea that a heavily armed or nuclear Iran would be a strategic asset to China is a fanciful notion. Chinese and Iranian leaders are, in equal measure, nationalists. They are also pragmatists, in the sense that there is no common ideological underpinning binding them together. It is inconceivable that Iran would willingly serve as Beijing's cat's paw. In the event that the United States and China were to stumble into war, it is difficult to imagine a scenario in which Iranian policy-makers would opt to intervene militarily against the United States. Furthermore, there is no evidence that the Chinese leadership is seeking to forge a strategic alliance with Tehran.

To the extent that Chinese state authorities can, but have chosen *not* to clamp down on proliferation activities to Iran is a misguided and short-sighted policy that not only places US interests in the Middle East at greater risk but that renders Iran's neighbors even more strategically vulnerable than they already are. These latter consequences of continued Chinese proliferation to Iran are, in fact, injurious to China's own image and interests in the wider Middle East. It is therefore necessary to persuade China of the *mutuality of security interests in the longer term*. While difficult, this task is not impossible. But it is likely to require time and concerted action by the US and like-minded Middle Eastern states and countries with interests in the region. In the meantime, however, the United States cannot and should not rely on the power of persuasion alone.

5. What further steps can the US take to limit proliferation from China to Iran?

Limiting proliferation from China to Iran requires a multifaceted approach that employs cooperative as well as coercive measures. The basic elements of such an approach are:

**Initiating a Strategic Dialogue:** Given that addressing the Iranian nuclear challenge is a first order priority for the United States, this issue should be a top agenda item in *every* high-level diplomatic exchange between American officials and their Chinese counterparts. Zero in on the Ministry of Foreign Affairs, which, as previously stated, has been progressively gathering the authority and capacity to control exports. If indeed Beijing is willing and able to honor its non-proliferation commitments, the US will succeed in enlisting its full cooperation only by making it clear that a tight clampdown on proliferation to Iran is of critical importance to the overall well being of the Sino-American relationship.

**Invigorating Third-Party Diplomacy:** None of Iran's immediate neighbors would welcome its development of nuclear weapons capability. Nor would Europe. China has worked assiduously to build cooperative relationships with all of the countries of the Middle East and with Europe. The US should exploit these circumstances by urging Arab states, Israel, Turkey, and EU members – all of which have productive relations with China and their own concerns about the Iranian nuclear program – to lean on Beijing.

**Assisting with Capacity Building:** As mentioned earlier, China's export control system is relatively new. The United States has an interest in ensuring that this system operates effectively. Seminars on export controls have been conducted between the US Department of Commerce and the PRC's Ministry of Commerce. But these outreach activities should be expanded in scope, participation, and frequency. The overarching aim should be the institutionalization of these contacts – a latticework of public and public-private sector exchanges at aimed at improving the PRC's interagency coordination and improving communication with and compliance by PRC commercial entities.

However, it would be imprudent to rely exclusively on dialogue and cooperation. It cannot be assumed that China possesses the political will and the capacity to stop proliferating to Iran. Thus, United States must also be prepared to continue to employ coercive measures. The sanctions tool admittedly a blunt

instrument. To maximize its effectiveness, use it more effectively and more judiciously.

**Closing the Accountability Gap:** Adopt a punish-and-deter approach that targets serial offenders, and that holds both Chinese state authorities and commercial entities responsible for upholding non-proliferation commitments. The first component of this approach would be to hold the parent company responsible for proliferation transactions conducted by its subsidiaries. The second component would be to institute a graduated scale of penalties with a high threshold cost for repeat offenders. The third component would be to reduce, withhold, suspend or deny specific US technology transfers to China.

**Narrowing the Focus:** The list of proscribed items is long and continues to grow. It might be both prudent and feasible to zero in on certain specific “high value-high risk” dual-use technologies. In other words, identify among all of the many controlled items those whose transfer would boost Iran’s capability the most – scaling sanctions accordingly.

**Integrating US Sanctions Law:** Proliferation to Iran is covered in at least seven pieces of US domestic legislation plus two executive agreements. This dizzying array of US domestic law ill serves US non-proliferation objectives. Synthesizing this legislation into a single clear and coherent text would have at least two possible benefits. First, they would facilitate Congressional monitoring and oversight. Second, they would leave the US less exposed to charges and excuses by Chinese state authorities and commercial entities that these proscriptions are excessively complex and ever changing.

**Strengthening the NPT Regime:** As previously stated, China – echoing the Iranian position but also in defense of its own interests – emphasizes that the *rights* of NPT signatories to pursue, conduct, and exchange peaceful civilian nuclear activities must be respected. The United States, while affirming these rights (including in the Iranian case), emphasizes the *obligations* to which all NPT member states are bound. How, then, to reconcile these positions – to strike a balance between rights and obligations – such that both American and Chinese interests are served? Here the United States can do two things. First, American officials can reassure Beijing that the aim of US policy is to hold Iran to the highest possible level of transparency and accountability under the NPT, not to coerce Tehran to abandon its stated goal of acquiring nuclear capability for *peaceful* purposes and thus foreclose the opportunity for Chinese companies to compete for business in the civilian nuclear sector. Second, the United States can lead and vigorously seek to enlist China in multilateral efforts to strengthen the IAEA’s authority and capacity to inspect, monitor, and verify compliance.

Conclusion:

The news about Chinese proliferation to Iran is not all bad. There is some encouraging evidence that Beijing has begun to accept responsibility for and develop the capacity to adhere to its non-proliferation commitments. But cases of Chinese entities proliferating to Iran continue to surface.

Even were China’s state authorities more willing and better able to restrain Chinese companies, it is important to point out that the Sino-Iranian proliferation linkage is a supply *and* demand challenge. Even the best efforts to curb Chinese proliferation activities to Iran are likely to be inadequate in the face of a determined proliferator – if indeed this is an accurate characterization of Tehran’s ambitions. Therefore, cooperative and coercive measures to stanch the flow of dangerous materials from China to Iran must go hand-in-hand with efforts to dissuade Iran from acquiring them. Much, then, rests on whether the current and future rounds of nuclear diplomacy succeed in producing an outcome that is acceptable to both Tehran and Washington. Even were such a breakthrough to occur, however, there would be no reason to be complacent. Protecting US interests would still require constant vigilance and robust efforts to prevent Chinese proliferation to Iran.

Two recent events stand as stark reminders of the consequences of Chinese proliferation activities: the North Korean missile tests on July 4, 2006 and Hezbollah's launching of Chinese-designed C-802 cruise missiles to strike an Israeli naval vessel on July 15, 2006. One would hope that these events would convey the lesson to Beijing that *mutual security interests* are best served by the strictest possible monitoring and compliance with its non-proliferation commitments.

For the United States, these events hold lessons as well. The first is that Chinese proliferation activities can inflict damage long after they might have been curbed or stopped. The second is that while it may be too late to mitigate the adverse consequences of some of China's past transgressions, it is nonetheless essential to spare no effort to shape Beijing's outlook and help strengthen its capacity to adhere strictly to its non-proliferation commitments.

## **Panel II: Discussion, Questions and Answers**

HEARING COCHAIR BLUMENTHAL: Thank you very much.

The question I have for you is one that I posed to secretaries Rodman and DeSutter beforehand, and that is as the economic and energy relationship has grown over the past few years, have we seen a qualitative change in the character of the strategic relationship?

In other words, this is something that Commissioner Bartholomew asked before in terms of China defining its interests differently. We constantly say that China has an interest in doing this, an interest in doing that, but they might well define their interest differently in a sense that Iran is a sort of proxy, or however you want to call it, a sort of card to play, as something that they are interested in especially as it gets more invested in Iran.

I wonder if you can trace the change in the character of the relationship to some sort of--I won't call it *quid pro quo*--but something like a *quid pro quo* in terms of what China then gives to Iran, both militarily, also in terms of the Shanghai Cooperation Organization observership, and so forth?

DR. CALABRESE: I think as the economic and energy linkages in particular have grown and as China's acute sense of vulnerability vis-à-vis its energy requirements have grown, I think that that's created a kind of pressure in Beijing to respond or to be responsive to Iranian entreaties.

Now whether that extends to the military sphere and whether that makes individual Chinese companies, to the extent that we know that those companies are actually directly controlled by say the Chinese State Council, I'm not sure.

But I would add to that that the U.S.- Chinese relationship has become increasingly important and the totality of that relationship, it seems to me, is widely recognized in Beijing as trumping the Sino-Iranian relationship.

HEARING COCHAIR BLUMENTHAL: Does anyone else have questions for Dr. Calabrese before we go on?

COMMISSION VICE CHAIR BARTHOLOMEW: Recognizing that you have to leave early, which is why we've broken our usual pattern of hearing from all panelists--no, no, it's not blaming. We're just explaining to people.

HEARING COCHAIR BLUMENTHAL: We thank the rest of the panelists for their patience.

Dr. Calabrese, it's interesting, you were just talking about the primacy of the U.S.-China relationship, but honestly I don't know that we have yet to see in this dynamic or in any of the other litany of issues that we have, ongoing issues that we have with the Chinese government, that the Chinese government believes that they need to do anything in order to protect that relationship or grow the relationship.

I think that they have for the most part counted on the economics driving it, and as long as things are okay with business deals that are taking place, then they can get away with a whole lot.

I'm saying that more as a comment than a question, but I want to get to the question of the geopolitics, because you mentioned both geopolitics and geoeconomics, and separating them out, and pull out a little bit more of your thinking about the nature of--I mean the Chinese government is not going to make the same kinds of demands for governmental change, transparency, accountability, freedoms, and there are benefits to the Chinese government allying itself with other countries that are not particularly interested in reforming.

How much of that do you think is part of this Iranian-Chinese relationship?

DR. CALABRESE: I don't know how to quantify it. But I agree with you wholeheartedly that that particular dimension is sort of a building block of recent, current and probably prospective Chinese-Iranian relations. The Chinese and Iranians share a number of these concerns.

One of them is the issue of sovereignty. Another is the use of coercive instruments of power. Both the Iranians and the Chinese steadfastly oppose the use of military force and economic sanctions as a matter of principle. However, this principle conveniently applies in way designed to shield them and their interests abroad.

You can see this play out vividly in the Chinese behavior at the U.N. Security Council with respect to how to deal with the Iranian nuclear issue. The Chinese "red line" against the use of force and even against the application of extensive sanctions has, along with Russia's opposition, stymied U.S.-European efforts to put pressure on Tehran. To be fair, however, neither China nor Russia should be held

primarily responsible for Iranian intransigence. Nevertheless, I agree that China probably hasn't played a proactive role to support the United States on any of the specific issues. with respect to Iran. Nonetheless, to be fair to China, and also to credit the administration, that our diplomacy has succeeded in bending them in a direction that may be helpful. At least China seems to be in an "abstentionist mood" in the U.N. Security Council, and that's better than nothing, but certainly not what we want.

COMMISSION VICE CHAIR BARTHOLOMEW: As we are trying to grapple--we can see it today a lot with this issue of interests and how we define our interests and how the Chinese government defines its interests and that they might not be the same-- I'm struck when you say that they think that this should be resolved diplomatically. One of my questions is if we were not, if we and the Europeans were not raising concern about Iranian nuclearization, do you think that the Chinese government would even think that there's a "this" that would need to be resolved?

DR. CALABRESE: Is that a rhetorical question?

COMMISSION VICE CHAIR BARTHOLOMEW: It's speculation, but I'd like your thought on it.

DR. CALABRESE: I would say the answer is no, definitively not. I think that it's the United States that has to, the United States in concert with other like-minded states. To be sure, there is a spectrum of like-minded states. However, China at this point in its evolution, judged by the relationships it has cultivated and the permissiveness with which it has reacted to the actions of partners like the Iranian and Sudanese governments, still has a great deal more distance to travel along that spectrum. COMMISSION VICE CHAIR BARTHOLOMEW: Thank you.

HEARING COCHAIR BLUMENTHAL: Any other questions for Dr. Calabrese? Okay. You're dismissed.

DR. CALABRESE: I will write something and submit it in gratitude.

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you. Particularly, Dr. Calabrese, on the policy comments that you were going to have, if we can those written, that would be terrific.

DR. CALABRESE: Okay. Thanks a lot.

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you very much.

HEARING COCHAIR BLUMENTHAL: Dr. Ahrari, please.

**STATEMENT OF EHSAN M. AHRARI, Ph.D.  
CEO, STRATEGIC PARADIGMS CONSULTANCY**



## ALEXANDRIA, VA

DR. AHRARI: Thank you very much. Mr. Chairman and commissioners, I have followed your questions very closely in my detailed submission, and here I have a brief statement. Hopefully I'll finish it within seven minutes or so.

Mr. Chairman and commissioners, thank you for inviting me to share with you my views on China-Iran relations. What disturbs China and Iran most--and thus remains a formidable reason underlying their multifaceted cooperation--is the prevalence of the unipolar global power structure, where the United States is the dominant power.

In the absence of a countervailing power to obstruct, if not prevent, America's unilateral actions on issues of global or regional significance, both China and Iran feel frustrated and nervous about pursuing their vital interests without potentially triggering America's retaliatory response.

For China, that vital interest revolves around resolving the Taiwan conflict by reuniting it with the motherland. For Iran, it is all about regime survival and sustenance of its regional hegemonic ambitions, which American endorsed during the regime of Mohammad Reza Pahlevi, but currently views as a threat to its strategic dominance in the Persian Gulf region.

Thus, China's global strategy is to pursue a comparative relationship whose purpose is to frustrate the United States while avoiding a military confrontation, which China is bound to lose.

For instance, the PRC is convinced that the United States steadily pursues a policy of encircling China by developing a strategic partnership and by signing a nuclear deal with India. China is also of the view that the chief purpose of America's presence in Central Asia is to undermine the chances of China's strategic dominance of that area within its immediate sphere of influence.

So China's countermeasure is to negotiate its own nuclear deal with Pakistan to build six nuclear power plants and to use the Shanghai Cooperation Organization to bring about America's ouster from Uzbekistan. China and Russia are still working on this issue with Kyrgyzstan and Tajikistan.

China countered the U.S. presence in Afghanistan and West Asia by ensuring its own long-term presence in the Gwadar deep-seaport in Pakistan, which is proximate to the opening of the Gulf of Oman. Out of a total of estimated cost of \$1.6 billion to develop this port, China has bankrolled \$198 million for the first phase.

It has also spent another \$200 million in building a highway connecting Gwadar port to Karachi, which is also a port on the Arabian

Sea. Being in an area that is so important to all the major world powers from the perspective of energy supplies gives China unprecedented high visibility.

Similarly, Iran wishes to ensure the ouster of U.S. forces from Iraq through a combination of providing military and economic assistance to the Shia militias, most visibly to the Jaish al-Mahdi, or the Mahdi Army, who are heavily involved in their own sectarian war with the Sunnis. Let us not forget the strategic importance of Iran's support for Hezbollah in its war with Israel last July and August.

As a rising power, the PRC is not interested in alienating or antagonizing the United States--and this is an important point. As a rising power, the PRC is not interested in alienating or antagonizing the United States. So the trick is to cooperate sufficiently on issues of utmost concern to Washington but never to allow its own leverage to be jeopardized in the process. The purpose underlying this strategy is not necessarily to genuinely cooperate with the United States, but only to create a semblance of cooperation.

Thus, China is cooperating with us in the U.S.-North Korea nuclear conflict; however, it is not likely to put sufficient pressure on Pyongyang to resolve the conflict. Keeping the U.S. engaged in the Korean peninsula serves China's interests, especially slowing down the pace of Japan's militarization, but not necessarily the resolution of that conflict in the near future.

Iran knows that its best course is to provide military assistance to its allies in Iraq in the realm of asymmetric warfare in order to, quote, "tie down Gulliver" through low intensity conflict.

Iran's strategy is the classic strategy of the weak. As a weak power, it behooves Iran to avoid direct military confrontation with the U.S. at all costs. In the mean time, it has found an ideal place, Iraq, to intensify asymmetric warfare, which is intermingled with a palpable touch of China's own concept of unrestricted war.

Thus, for Iran, the battlefields where it could confront the United States include Iraq, Lebanon and Afghanistan. Of these three places, Iran has the least amount of advantage in Afghanistan because a small portion of the population of that country is Shia.

However, the age-old Iranian pragmatism is likely to eventually find an alliance with al-Qaida in order to prolong the entanglement of the United States and Afghanistan. Remember, al-Qaida has been resurging in Afghanistan in the past few months.

Let me just make one more observation about China-Iran strategic cooperation. In the complex multifaceted ties between China and Iran, the later has an exaggerated view--the latter has an exaggerated view of the capabilities of the former about confronting

the Bush administration or about China's willingness to support Iran, especially in its ongoing nuclear conflict with the U.S.

It is possible for the Bush administration to find avenues to entice China to lower its support for Iran. However, what is not certain is whether the Bush administration would go to any extent to entice China away from Iran.

Despite maintaining a confrontational attitude toward the United States for the past several decades, Iran is inclined to engage the lone superpower for the purpose of reaching what Henry Kissinger has recently advocated--"a grand bargain."

Thank you.

[The statement follows:]

**Prepared Statement of Ehsan M. Ahrari, Ph.D.  
CEO, Strategic Paradigms Consultancy, Alexandria, VA**

Mr. Chairman and Commissioners, thank you for inviting me to share with you my views on the multifaceted China-Iran relations. In preparing this testimony, I have closely followed the four questions provided by your staff.

The first question was the most important one, since it covers the gamut of strategic issues involving China and Iran. So, in Section (1) below, I discuss a number of broad themes involving these two countries, some recent developments in those themes, and their implications for the United States. As intricate as the Sino-Iranian ties have been over the past two decades or so, there is nothing inevitable about their continued progress. Iran remains available for comprehensive negotiations with the United States that would resolve all outstanding conflicting issues. I expound, in Section (2), on the modalities of China-Iran energy ties. There is little doubt that Iran needs China's military technology and know-how as much as China needs Iranian oil and gas. In section (3), I focus on China's veto power as a shield against the imposition of harsh economic sanction imposed by the UNSC, an option that the Bush administration is currently seeking. In addition, the mutuality of Sino-Iranian interests includes cooperation for the evolution of a multipolar global order where the political clout of the United States is considerably lessened. In section (4), I deal with China's enthusiastic support of Iran in the Shanghai Cooperation Organization (SCO). Such a measure is aimed at, inter alia, enhancing the global visibility and prestige of that entity. From Iran's point of view, its membership would be a major step toward its long-cherished goal of increasing its presence in Central Asia.

**(1) China-Iran Relations: Broad Themes**

China-Iran ties go as far back as the Second Century BCE, when the Han Dynasty opened the Silk Road. That avenue became an important trade route between the Han and the Parthian empires. Even after the conquest of the Parthian empire by the Sassanids in the Third Century CE, the Silk Road remained an important avenue, not only for the promotion of trade, but also for cultural exchanges between the Persians and the Chinese, for many centuries. Today, the shared heritage of the Silk Road continues to serve as an historical link among Iran, China, and the Central Asian republics, which became independent after the implosion of the Soviet Union in 1991.

Ancient historical ties are important in the sense that they serve as critical sources of reference for the leaders of China and Iran—two countries that are bastions of two of the most ancient civilizations of the world. Historical linkages are also significant in the sense that they remind the present leadership of China and Iran of a common experience of maltreatment by Western powers.

China considers itself a victim of Western aggression and conquest, as well as the later Japanese invasion and subjugation. The collective sense of victimization has played an important role in the resolve and commitment of the Chinese leadership to make their country a vibrant economy and a major military power.

By the same token, the sense of persecution also played an important role in Iran's current determination to become a regional power. This objective was important when Iran was a monarchy. The Shias perceived themselves as victims of Sunni "shenanigans" that deprived Ali—the first cousin and son-in-law of the Prophet, Mohammad, as well as the first *Imam* (spiritual leader) of the Shias—from succeeding the Prophet upon his death. In the contemporary context, Iran considers itself a victim of the Anglo-American conspiracy that ousted the democratically elected government of Dr. Mohammad Mosaddeq and brought back to power Mohammad Reza Pahlavi as ruler of that country through a coup in 1953. "The American Shah," as the Iranians pejoratively refer to Mohammad Reza Pahlavi, ruled their country for another twenty-five years. He was finally ousted as a result of the Islamic revolution of 1978-1979. However, a profound sense of victimization remains an important rhetorical reference in the collective thinking of Iran's current leadership.

China and Iran also share a sense of systematic exclusion from the regional or global power politics by the great powers. China, as a communist nation, should have been part and parcel of the Soviet bloc and a player in the global tug-and-pull. However, because of the great ideological split of the 1960s between the two communist countries, China carved its own niche for confronting the Soviet Union and the United States in the late 1960s and early 1970s, and sought the leadership of the bloc of non-aligned nations. It only became a direct and important player of great power politics when President Richard M. Nixon decided to engage China beginning in 1972. Nixon's trip to the PRC that year—which was aimed at exploiting the widening conflict between Moscow and Beijing to the U.S.'s advantage—played a crucial role in that regard.

Iran's experience with the United States was of a significantly different nature. It became a member of America's policy of forming regional alliances in the 1950s and joined the U.S.-sponsored military alliance, the Central Treaty Organization (CENTO). As a member of the "American camp," imperial Iran was firmly committed to the U.S. side. It adopted anti-Soviet perspectives on the Cold War. However, it was the United States' decision in 1969 to seek regional actors to protect its interests in different areas of the world—which was an integral aspect of Nixon's policy of the "Vietnamization" of the Vietnam War—that enabled Iran to emerge as a *gendarme* of America's strategic interests in the Persian Gulf.

China-Iran relations experienced their own ups and downs during the Cold War years. When the National Front formed the nationalist government under the premiership of Dr. Mohammad Mossadeq in 1951, China cheered that event as an important development in the anti-great power bloc. However, when that government was ousted as a result of a joint Anglo-American coup in 1953, that development also turned out to be a setback for China-Iran relations. After his return to power, the Shah established diplomatic ties with the government of Taiwan in 1956.

The PRC continued to envisage imperial Iran as a "puppet" of the U.S. government and a promoter of U.S. interests in the Persian Gulf region. However, the Sino-Soviet split of the 1960s enabled China and Iran to develop somewhat of a nuanced position toward each other. The Shah was suspicious and distrustful of

the Soviet Union next door, and, as a balancing act, was willing to side with China in the conflict between the two communist giants.

What also was important in the 1960s was the fact that the Shah became convinced of the genuine nature of the ideological split between Beijing and Moscow, and decided to use that development as a basis for a rapprochement with China. The Chinese leaders no longer viewed imperial Iran—despite its strong pro-American strategic ties—as an enemy of the PRC. Based on this rapprochement, Iran supported China's entry into the U.N. in 1971.

The Islamic Revolution of 1979 that brought an end to the monarchy in Iran was viewed by the PRC as a positive development, in the sense that the succeeding Islamic government was stridently anti-American. Beijing immediately recognized the new government and welcomed it within the ranks of the non-aligned (substantially anti-Western) governments. The Islamic Republic of Iran, like its predecessor, remained pragmatic toward China. It ignored the fact the Uighur Muslims were being persecuted by the communist rulers. By the same token, the Chinese leaders disregarded the continued persecution of the Tudeh (communist) party of Iran under the new regime.

Iran's sense of exclusion from regional power politics was intensified with the Islamic Revolution. That was also an occasion after which U.S.-Iran ties could never be reestablished. The United States continued to envision Iran as a leading "rejectionist state"—a country that, along with Syria, Libya, and Iraq, rejected the peaceful resolution of the Arab-Israeli conflict. Iran remained highly suspicious of the United States. The Reagan administration's decision to lean toward Iraq during the Iran-Iraq war of the 1980s further convinced the Ayatollahs that the United States remained committed to see an end to their rule.

China provided weapons to both belligerents during the Iran-Iraq war (1980-1989). Then it became fully involved in the post-war reconstruction of Iran, when that country did not have many Western sources at its disposal.

The 1989 Tiananmen Square massacre created intense anti-Chinese feelings in the West. In fact, that country was given the status of a "pariah state," a depiction with which the leaders of Iran were only too familiar. Consequently, both countries found ample reason to get closer than before.

The contemporary Iranian leaders have watched—and even studied—the emergence of the PRC as a nuclear power and one of the most vibrant economies in the world. There is little doubt that, as they continue their nuclear program and strive to revitalize their largely statist economy, China will serve as a model for their economic development and military power. However, there is a world of difference between aspiring to adopt a Chinese developmental model and adopting active measures in that direction. In this regard, Iran has a long way to go.

According to one source, "Iran's economy is marked by a bloated, inefficient state sector, over reliance on the oil sector, and statist policies that create major distortions throughout. Most economic activity is controlled by the state. Private sector activity is typically small-scale--workshops, farming, and services." Even though Iran is reporting a 2006 foreign exchange reserve of \$40 billion due to prevailing high prices of oil on the global market, its economic hardship has not eased significantly, because of the high rate of unemployment (11.4 percent estimates in 2004) and because of its leadership's decision to devote a high degree of investment in building nuclear reactors and missile development programs.

### **Military**

The 1990s—the first post-Cold War decade—became a time when the Sino-Iranian rapprochement

continued to evolve. An important ingredient of this rapprochement is China's growing significance for Iran as a source of transfer of military wherewithal. There is no doubt, ideally speaking, that Iran wishes to have access to U.S. military technology, whose qualitative edge over the Russian and Chinese military technologies was conclusively proven during the Gulf War of 1991. However, given the fact that it has no chance of having access to U.S. military wherewithal anytime soon, its second preferred source is Russian military technology. The most welcomed aspect of Chinese military technology from the Iranian viewpoint is that it is customarily free from political constraints and preconditions, which have remained a *sine qua non* of Western technology. Besides, Chinese military technology, although it is not high quality, is considerably cheaper than Russian military platforms.

In the 1990s, the PRC became a major source of Iran's military assistance. The United States watched this aspect of Sino-Iranian ties with utmost interest for two reasons. First, Iran is a country that has never accepted America's presence and strategic dominance of the Persian Gulf region as an irreversible reality. In fact, Iran has remained singly focused on undermining the objectives of the Bush administration to stabilize Iraq soon after the toppling of the regime of Saddam Hussein. Second, Iran shares with the PRC the notion that the present unipolar global order should be transformed into a multipolar one.

There is no suggestion here that either China or Iran envisions a military conflict with the United States as one of the tactics to bring about such change. On the contrary, both of them remain highly interested in working for the evolution of a multipolar global order without a military confrontation with the U.S., which they know they cannot win. However, the ostensibly adversarial posture of Iran and the potentially adversarial posture of the PRC, force the United States to carefully watch the modalities of weapons transfer between China and Iran.

China's military supplies to Iran include tanks; armored personnel carriers; artillery pieces; surface-to-surface, air-to-air, battlefield, cruise, and ballistic missile technology; anti-tank missiles; fighter aircraft; and small warships; as well as NBC know-how. China has delivered "dozens, perhaps hundreds of missile guidance systems and computerized tools to Iran." It has also transferred solid fuel missile technology to Iran. Russia, despite its commitment to the Missile Technology Control Regime (MTCR), has been helping Iran develop missiles. In fact, Russia's help enabled Iran "save years in its development of the Shahab 3," according to a 2000 CIA report.

U.S. intelligence reports that China also has supplied nuclear knowledge to Iran to manufacture nuclear weapons. It has been training Iranian nuclear engineers. In addition, Chinese nuclear experts have traveled to Iran to help that country build uranium conversion facilities. The PRC has helped Iran build a large missile factory at Isfahan and another factory and a test range near Tehran. It also has been a source for the transfer of guidance technologies and precision tools to Iran and has helped to develop its Zelzal-3 (1000 km range) missiles with solid fuel technology, gyroscope, and guidance.

Iran has spent huge sums of money building infrastructures to indigenously build ballistic and cruise missiles. It has purchased the technology to build Scud-Bs, Scud-Cs, and Nodong ballistic missiles from North Korea, which is generally considered as "Iran's offshore missile development site."

Iran has been developing short-range artillery rockets and its own version of Scud-Bs and Scud-Cs, called Shehab-1 and Shehab-2, respectively. It also has indigenously produced North Korea's Nodong missiles as Shehab-3 (1300 km range), which is capable of reaching Israel. That test was successful on October 20, 2004. Shehab-3 is currently issued to the Iranian Revolutionary Guard. There have been unconfirmed reports about Iran's development of even longer-range Shehab-4 and Kosar, an ICBM. If North Korea perfects its ICBM (or space launch vehicle--SLV) capabilities, Iran is likely to get that technology within the span of five years or so.

There is little doubt that the overall purpose of Iran's fixation with acquiring military weapons and nuclear or biological capabilities is "... to deter opponents and to gain influence in the Persian Gulf and Caspian Sea regions. The acquisition and creation of these various weapon systems can also be seen as a response to Iran's own experience as a victim of chemical and missile attacks during the Iran-Iraq War." In the case of a conflict with the United States, Iran envisions blocking the Persian Gulf as a major aspect of its warfighting strategy, and targeting U.S. naval vessels. For that reason, it is expected to make heavy use of anti-ship cruise missiles and anti-submarine missiles.

China uses weapons transfer as a source of influence on Iran. The fact that the Western military wherewithal is not available to Iran also helps China use arms trade as a guaranteed access to Iran's vast energy reserves. Being an important source of military supplies for Iran also serves China's national interest in the sense that Beijing uses it as leverage in negotiating with the United States. For instance, any time China does not like the modalities of transfer of military weapons from the U.S. to Taiwan, it goes back on its own promise for not supplying sensitive weapons technologies to Iran.

Iran's nuclear aspirations are the chief concern of the United States. The most frustrating aspect of China's activities in this realm is that it insisted that reports of nuclear cooperation with Iran were "groundless" and "preposterous." In 1991, Beijing finally admitted the existence of such programs, but still maintained that those programs were purely for the peaceful use of nuclear energy. The main apprehension for the United States regarding Iran's nuclear activities is uranium conversion and enrichment, for which China might have provided crucial assistance. In 1995, the PRC conceded that it was selling the uranium enrichment technology to Iran. Despite U.S. insistence that China scrap that program, China eventually agreed to sell the blueprint of the UF6 conversion plant to Iran. The role of Dr. A. Q. Khan, Pakistan's rogue nuclear scientist, in transferring knowledge for the development of nuclear weapons to Iran is not fully known.

### **Energy**

China and Iran have a profound commonality of interests on the issue of energy. As U.S. economic sanctions remain intact against Iran, it finds China as an enthusiastic seeker of Iranian energy sources. In fact, it can be argued that China needs Iranian energy sources as direly as Iran needs China's military technology and know-how. Thus, both sides have been successful in basing their mutual ties in the pursuit of their respective vital interests. This issue is discussed later in this essay.

### **U.S.-Iran Ties**

While China and Iran are busy developing a multifaceted strategic relationship, the United States and Iran have maintained a profoundly adversarial one. Iran envisions the United States as a hostile superpower bent on bringing about regime change.

The United States considered the Shah as its formidable ally. The demise of his regime was a major shock to the administration of President Jimmy Carter. U.S.-Iran ties plunged to a new low when American diplomatic staff members were held hostage for 444 days. That was Iran's new rulers' response to the decision of President Carter to let the Shah enter the United States for medical treatment. U.S.-Iran relations never recovered from that humiliating hostage crisis.

When the Iran-Iraq war broke out in September 1980, there were expectations that the Islamic regime would collapse. However, the Islamic rulers of Iran responded to the Iraqi attack with surprising speed by mobilizing the remnants of the Shah's army. The United States opted to support Saddam Hussein in that war as the lesser of two evils, and even supplied intelligence to Iraq on the movement of Iranian forces.

The United States also began escorting the reflagged Kuwaiti oil tankers through the Persian Gulf. And the U.S. Navy fought the Iranian forces on several occasions, thereby increasing the Iranian sense of encirclement.

Even after the death of Ayatollah Rouhollah Khomeini, the United States and Iran could not patch up their deep differences. Iran continued to defy the U.S. by rejecting a peaceful resolution of the Arab-Israeli conflict. It made its powerful presence felt in Lebanon in the early 1980s, when U.S. forces entered that country as peacekeepers. No one in the United States will ever forget the carnage of 241 U.S. Marines in Lebanon in 1983 as a result of a suicide bombing.

Even the end of the Cold War did not lead to a U.S.-Iran rapprochement. Iran continued its defiance of the U.S. domination in the Persian Gulf. The Iran-Iraq war taught Iran the bitter lesson that it should develop indigenous missile and chemical warfare capabilities. The Iranian rulers revised their earlier decision not to develop nuclear technology. In the post-Cold War world, the U.S. lumped Iran in with its list of “rogue states”—countries that were seeking weapons of mass destruction and were sponsoring terrorism. Iran never lowered its aspirations to acquire ballistic and cruise missile technologies and chemical and biological warfare capabilities. Regarding nuclear technology, however, the rulers of Iran consistently maintained that they were only seeking it for peaceful purposes and have no desire to develop nuclear weapons. The administration of President George W. Bush, however, never believed Iran’s explanations, and insisted that its real intentions were to develop nuclear weapons.

In the post 9/11 era, Iran faces a world where the Bush administration operates on the premise of “either you are with us or you are with the terrorists.” As such, Iran feels threatened, since the United States depicts it as a “regime that sponsors terrorism,” and also as part of “axis of evil” (North Korea being the other remaining part of that alleged axis). From this perspective, it is reasonable to conclude that Iran, like North Korea, would develop nuclear weapons. What is not in Iran’s favor at this point is that it simply does not have the capabilities to develop nuclear weapons. Consequently, it behooves Iran to insist that it has no intention of developing such weapons, while continuing its uranium enrichment program, or even plutonium development program. In the meantime, it hopes to negotiate a deal whereby the Bush administration would provide guarantees against military action, as it is willing to do for North Korea.

What is in Iran’s favor, however, is that the United States is facing a near civil war situation in Iraq, where its forces have been bogged down. In addition, even though NATO’s ISAF forces are in charge of major military operations in Afghanistan, the resurgence of al-Qaida and the Taliban has created a condition whereby the security situation in that country may even worsen. Under these circumstances, the U.S. might not be inclined to take military action against Iran in response to its prolonged refusal to abandon its uranium enrichment program. However, there is that possibility of limited military action against Iran—limited air attacks targeting its nuclear facilities, etc. Even that option carries incredible risks for the United States, since Iran’s retaliatory response might emerge in the form of blocking the Strait of Hormuz. Another Iranian countermeasure is likely to be intensification of civil war in Iraq, thereby plunging the neighborhood in “rivers of blood,” as the Iranian leaders have frequently threatened to do, if attacked by the U.S.

Despite these complexities, Iran has frequently expressed its strong desire to engage in a comprehensive dialogue with the United States that would include iron-clad security guarantees, cessation of all activities and nullification of all existing legislation aimed at bringing about regime change, and access to cutting-edge civil and military technology. In return, Iran would abandon its uranium enrichment program and make its nuclear activities fully transparent and available for the inspection of the IAEA. Through comprehensive U.S.-Iran dialogue, Washington may also succeed in persuading Iran to drop its opposition to a negotiated solution of the PLO-Israeli conflict and stop its military support of Hezbollah in Lebanon.



## **(2) China-Iran Energy Relations**

An oil exporter until 1993, China now consumes all its domestic production, which is steadily diminishing. The general expectation is that China's energy reserves would be depleted around the year 2020. In 2005, its domestic production of oil was around 3.6 million barrels per day (bbl/d), while its oil consumption for the same year was around 6.9 million bbl/d. More than 40 percent of China's energy needs are being met from foreign oil. China entered the club of major energy consumers when, in 2005, it overtook Japan as the world's largest consumer of petroleum, after the United States. Thus, it is aggressively seeking foreign oil suppliers.

Iran sits on the second largest natural gas reserves (971 trillion cubic feet) after Russia and third largest oil reserves (132.5 billion barrels) after Saudi Arabia and Canada. Iran is likely to become the second major source of oil to China soon.

China and Iran also share the goal of remaining free of U.S.-sponsored routes for oil pipelines from the Caspian Sea and from Central Asia. Last December, the state-owned China National Petroleum Corporation (CNPC) inaugurated the Kazakh-China pipeline, which runs from Kazakhstan to northwestern China. The CNPC and the Kazakh energy company, Kazmunaigaz, jointly developed this 960-kilometer (590-mile) pipeline. "It is designed to transmit 20 million tons of oil a year, 15 percent of China's told crude oil imports for 2005." Washington was not pleased about two outcomes stemming from the creation of this pipeline. First, wittingly or unwittingly, it undercut the geopolitical significance of the highly touted U.S.-backed Baku-Tbilisi-Ceyhan (BTC) oil pipeline. Second, the development of this pipeline was also based on cooperation among China, Russia, and Kazakhstan. It came about at a time when both China and Russia were maneuvering to lower the presence of American forces in Central Asia.

In February 2006, China and Iran signed a three-year contract to repair and maintain the Alborz semisubmersible drilling rig in the Caspian Sea. The estimated cost of that deal was \$33 million. China's involvement in the southern Caspian Sea oil business is a deft move on the part of Iran, since the oil reserves in that area are contested by five littoral states—Iran, Kazakhstan, Russia, Azerbaijan, and Turkmenistan. Three out of five littoral states—Kazakhstan, Russia, and Azerbaijan—want to divide the seabed based on a median line. That would give Iran only 12-13 percent share of the Caspian Sea oil. Iran and Turkmenistan, on the other hand, want to divide it in five equal parts. Such a division would give Iran 20 percent of the littoral share. By involving China in the Caspian Sea oil business, Iran hopes to put political pressure on Russia and Kazakhstan to soften their opposition and to accept the Iranian formula for dividing the Caspian oil.

There is little doubt that China needs Iranian oil and gas, at least as much as Iran needs China's military technology. This mutuality of interest is the strongest link in the chain of their strategic relations. Iran has demonstrated a Machiavellian attitude of offering favorable terms for oil and gas agreements to countries whose technology and friendship promote its vital interests. In this sense, as long as China continues to serve as an unhindered source of cutting edge military technologies, it is likely to have special access to Iran's oil and gas reserves on a long-term basis. However, that is also an area where a potential U.S.-Iran rapprochement may turn out to be a major setback for China, since Iran eminently prefers American technology and comprehensive ties over any other global power.

## **(3) The "Other" China-Iran Strategic Interests**

As the Iran-U.S. dispute over Iran's nuclear program remains unresolved, Iran needs China's veto power in the UNSC as a shield against the imposition of harsh economic and other sanctions, which the Bush

administration currently seeks. China, along with Russia, has maintained that no harsh sanctions be imposed on Iran, and a negotiated solution to this conflict be found. In the post-9/11 era, when there is no global power that could deter the United States from taking military action (a la the former Soviet Union during the Cold War years), such Chinese support—and especially the potential use of its veto—is of great value to Iran.

China and Iran, along with Russia, are very much interested in cooperating for the evolution of a multipolar global system where the political clout of the United States is considerably lessened. However, neither country wishes to take any action that would trigger a military response from the United States. Still, there are avenues that both China and Iran have available that they can use to frustrate the United States. For instance, on the U.S.-North Korea nuclear dispute, while Beijing is interested in playing a visible role in resolving it, leaders in China are not likely to take harsh measures to force Kim Jong Il to resolve the current impasse; something that the Bush administration desires. It behooves China to let this conflict face an impasse. Such a condition would be one reason why the United States would want China's visible role in its possible resolution.

By the same token, Iran's growing influence in Iraq and Lebanon is a reality that the United States has begrudgingly accepted as fact. Iran hopes the next step would lead to negotiations with the lone superpower on a *quid pro quo* basis. Iran would be open to lowering the destabilizing aspects of its role in Iraq and Lebanon, if the U.S. were to be similarly forthcoming about providing security guarantees and access to technology, and about resolving the conflicts in Lebanon and Palestine.

#### **(4) Chinese Support Affecting Iran's Diplomatic Standing**

Iran needs China's support and its veto in the U.N. That is a top priority for Iran, since it is worried about possible harsh economic sanctions or even potential U.N.-sponsored military action from the United States related to its refusal to abandon the uranium enrichment program. In addition, China has been enthusiastic about providing membership for Iran in the Shanghai Cooperation Organization (SCO), whose other members include China, Russia, Kazakhstan, Uzbekistan, Tajikistan, and Kyrgyzstan. China and Russia are cofounders of that entity, and they hope that it would someday gain the political and military status of NATO. Given the rising political clout of Iran in the Persian Gulf and in the Middle East, its membership in the SCO would broaden its political stature and influence. That is one reason why both China and Russia used the SCO forum to put pressure on President Islam Karimov to expel U.S. forces from the Karshi-Khanabad (K-2) Air Force Base in Uzbekistan in July 2005. Of course, Karimov had his own reasons to expel the U.S. from his country. The fact that the SCO framework was used to garner political momentum for that development definitely enhanced the global visibility of that organization. It should be noted that, at the present time, there is no comparison between NATO and the SCO as military alliances. However, China is doing everything to enhance its world standing. Russia is very much supportive of that development, since its own ties with the U.S. are currently at a low point. Iran would have no problem adding its own influence and clout by joining the SCO. However, if there is a U.S.-Iran rapprochement in the coming months, Iran would still join the SCO, but would not attach much significance to its membership.

HEARING COCHAIR BLUMENTHAL: Thank you, Mr. Ahrari.  
Mr. Berman.

**STATEMENT OF ILAN BERMAN  
VICE PRESIDENT FOR POLICY, AMERICAN FOREIGN POLICY  
COUNCIL, WASHINGTON, D.C.**

MR. BERMAN: Thank you very much. I appreciate the opportunity to be here and talk about the Sino-Iranian strategic relationship. This is really, I think, a cardinal issue that's facing us today, particularly as the August 31 deadline at the United Nations has come and gone, and we are now in the midst of a very serious discussion about next steps with regard to Iran.

You have in front of you my prepared remarks. With your indulgence, I'll just walk through some of the main points and try to bring in some others. First of all, a good baseline assumption to start from is that China has not been helpful in resolving the Iranian nuclear crisis. I know in his testimony in the previous panel, Secretary Rodman said that China is less important than the Europeans: I hold a somewhat different view, and I'll explain why.

So what exactly drives Chinese obstructionism? To simplify very much on what Dr. Calabrese wrote in his policy brief, what we are talking about are essentially two issues.

The primary one is energy. Very often, because energy is far less attractive to talk about than geopolitics and geostrategy, it is sort of left by the wayside. But if you look at the numbers, the case is quite compelling that this is the reason why this relationship is so strong.

Since 2003, the PRC has become the world's second-largest consumer of oil and petroleum products, and that consumption is accelerating. The gap between what the People's Republic needs to consume and what it can produce internally is widening.

So what you have is you have a ballooning reliance on foreign sources of oil and petroleum products to satisfy China's economic growth. By 2020, according to some estimates, China's oil deficit could top eight million barrels a day, which is a substantial amount. Iran has positioned itself to play a deciding role here. Iran is now, as a result of the deals that it's signed over the last couple of years, China's top supplier of oil. It supplies about 15 percent or more of Chinese import totals annually, and that dependence is going to increase over the next several years.

The Chinese and the Iranians have hammered out a series of very lucrative deals over the last two years that put the relationship, as other witnesses have said at other hearings, at a price tag of \$120 billion or more over the next 25 years.

As these investments that the Chinese are making in Iranian energy come on line, that relationship is going to deepen.

The second point is something that the previous witnesses have alluded to: anti-unipolarity. China is pursuing a very subtle, nuanced diplomatic strategy to engage and leverage bilateral relationships

through robust diplomacy, through economic trade, in a way that disadvantages the United States. It's doing so both for internal economic and for geopolitical reasons, and it has found a willing partner in Iran. The Iranians remember very well the lessons of the 1990s and 1980s, when they were essentially internationally isolated.

The Iranians now have a trump card. They are a bona fide energy superpower, and they are leveraging this to engage a number of countries. And China has emerged as a very big part of their economic and political calculus.

These trends have found their expression in an increasingly robust proliferation partnership and in an increasingly robust security cooperation condominium.

On the proliferation front, it runs the gamut. In my testimony, I talk about the different areas of proliferation, but there are a couple of key points to highlight. Since the Iran-Iraq War, the Iranians have been engaged in a multi-spectrum military modernization, certainly more modest than what China has been doing, but fairly substantial nonetheless.

Iran is not a threat in conventional military terms to the United States, but Iran is still head and shoulders above its peer competitors in the region in terms of the capabilities it can bring to bear. The central element of Iran's military rearmament has been its naval modernization, and China has been instrumental in assisting this effort. As a direct result of what China has provided to Iran, U.S. intelligence estimates now say that Iran has the ability to project power southward into the Strait of Hormuz in such a way that it can shut off the flow of oil from the Persian Gulf for brief periods of time, even with a U.S. presence in the region. This phraseology is significant for those of us who parse intelligence statements: a few years ago, it was "may have the ability." Now, it's "can have the ability." There has obviously been an aggregate increase in Iran's ability to project power.

The other thing that I would point out that when it comes to ballistic missile transfers, transfers of technology, transfers of know-how, the Chinese are transferring technology that is then transferred onward.

In the recent July-August war between Israel and Hezbollah in Lebanon an Israeli warship called the INS Hanit was hit and disabled by an Iranian variant of a C-802 cruise missile. This missile was Chinese, at least in origin, although it was Iranian manufactured. And significantly, Israeli intelligence officials did not know that Hezbollah possessed this weapon, which means that there is clandestine technology transfer that's going on that is increasing the lethality of

Iran's proxy groups. Here it is important to remember that Iran is the world's leading state sponsor of terrorism.

So the fact that the conduits are in place and that there is technology flowing in on one end might mean, as we're seeing, that it might be flowing out the other end.

The other issue is the Shanghai Cooperation Organization, and Dr. Ahrari talked a bit about that. There are obviously institutional impediments here, which is why the Chinese have not actually verbalized in an official sense that they want Iran to expand its membership from simply observer status to full membership. But if that relationship becomes a reality, if that bloc becomes a reality, in the way that the Iranians are envisioning it, and the Iranians have a very big vested interest in actually becoming a full member because they know that the SCO might be expanded to include a collective security guarantee that could protect them over the nuclear issue. What you will be looking at is an energy-rich bloc that has nuclear weapons and stretches from the Strait of Taiwan to the Strait of Hormuz. While this is certainly far off--it's not an immediate thing--it should certainly be something we are working to prevent. Let me finish with a minute on the nuclear issue because it is very important. Because of their membership in the Security Council--hold a decisive role in resolving this issue if it is to be resolved diplomatically.

Right now there's a discussion about what our next steps could be, and there's very much hope that it can be resolved through negotiations or potentially through sanctions: essentially through measures short of military force.

But the Chinese have worked fairly consistently to stymie the application of sanctions. This is, in my estimation, a very dangerous game of brinkmanship. We have very few arrows in our quiver to deal with Iran, and the process of escalation to me seems very clear. It's going to be sanctions. If those are applied properly, perhaps there's a resolution. If not, then there's obviously an escalation to other measures, and China's role in resolving this peacefully is pivotal. Yet so far Chinese policymakers have been obstructionists.

The reason Chinese policymakers are studiously avoiding making a choice is logical. The reason we have a lack of coherence in our policy is not. Secretary Rodman talked about the fact that China is tempted to seek partnerships with rogue nations. When it comes to Iran, "tempted" is not a very good word; I think "compelled" is a better one. The reason that relationship is so strong right now, in my estimation, is that China has not been forced to make a choice. We've sent very mixed signals. We obviously have not decided what policy

we want to pursue. Do we want to engage; do we want to negotiate; do we want to sanction? By doing so, what we've done is muddled Chinese intelligence estimates. By having conflicting time lines where the DNI talks about Iran being a decade away from a nuclear weapon, and the Pentagon talking about Iran being five years away from a nuclear weapon. We have caused a lot of confusion among PRC policymakers.

This is, in my estimation, very much our shortcoming because China's central role in the peaceful resolution of this conflict means that our policy should be aimed at providing the Chinese government with the proper information about the scope and maturity of the Iranian threat, and also providing them with incentives to make the correct choice.

Thank you.

[The statement follows:]

**Prepared Statement of Ilan Berman, Vice President for Policy,  
American Foreign Policy Council, Washington, D.C.<sup>1</sup>**

**PANEL II: Discussion, Questions and Answers**

HEARING COCHAIR BLUMENTHAL: Thank you. Thank you, both. My question for both of you is something that was triggered by Mr. Berman's testimony, and that is it seems like we're moving down the road of trying to get some sort of sanctions on Iran, and is it possible to have, which I asked Secretary Rodman and Secretary DeSutter beforehand, is it possible to have any type of meaningful sanctions on Iran to meet our objectives of ceasing this enrichment program if China continues, first of all, doesn't sign up to the sanctions? Sanctions out of the U.N. Security Council, a coalition of the willing type of sanctions. If China not only doesn't cease its activities in support of Iran and sort of helping it end its isolation but, in fact, continues with its energy investments, continues with its fairly robust, as you lay out, program of military assistance, is there any successful policy to be had here if China is not on board?

MR. BERMAN: Let me tackle that and then I'll pass the baton. This is actually something that I've studied for a while. It has been quite clear to me for some time that we're heading into sanctions season. What you're looking at essentially are three vulnerabilities in the Iranian economy.

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<sup>1</sup> [Click here to read the prepared statement of Mr. Ilan Berman](#)

There is foreign direct investment. They require about a billion dollars in FDI to continue producing oil at the current rate, and about 1.5 billion to increase production.

You have a pyramid-like hierarchy with regard to Iranian economic power with about roughly 40, 50, 60 people that control the bulk of the Iranian economy. So obviously there are measures that you can implement here that would cease allowing them to do business as usual--freezing assets, freezing their ability to travel, things like that.

The third thing, which is the big one, is Iran's reliance on imports of refined petroleum products from abroad, from countries like India and Turkey and Gulf states, which accounts for about 40 percent of their annual total gasoline consumption.

So the short answer is yes, it's possible, because U.N. sanctions essentially are targeting only the first two vulnerabilities. U.N. sanctions are intended to chill investor confidence in Iran, and obviously China is a huge investor in Iran, and also in some measure if they're effective, we're going to be looking at smart sanctions--travel bans, assets freezes, things like that.

You can do this without Chinese support, if China abstains. I suspect, though, that China is not going to be very helpful on at least the FDI portion, because of the scope of their investment in Iran. However, if you go outside of the Security Council using an economic coalition of the willing--things like tampering with gasoline provision to Iran could be done without China's support.

China could obviously be obstructionist with the countries that we need to pressure, but this is something in which China does not play an intrinsic role. All of which is, by the way, why I'm an advocate of doing sanctions outside of the Security Council. If you do so, you have both the ability to choose your coalition and the ability to apply sanctions timed in such a way as to really affect the Iranian economy as much as possible.

HEARING COCHAIR BLUMENTHAL: Mr. Ahrari.

DR. AHRARI: A coalition of the willing, I think, is falling apart. The trans-Atlantic rift on Iran is developing if we were not to give Iran more time and refuse to engage Iran. My sense is that countries like Italy and Spain and even France are not going to cooperate with us.

HEARING COCHAIR BLUMENTHAL: I'm sorry. You said if we do not give them more time?

DR. AHRARI: If we will not engage Iran or give Iran more time and insist on sanctions in the short-run, I don't think it behooves us. I don't think it's going to benefit us.

Now sanctions are hurting Iran--selective sanctions. Most

recently you saw that there was a plane, a civilian plane accident, and Iranian government was very bitter about how much it's hurting because of the U.S. and international sanctions, how much it's hurting their civil air industry international sanctions. Europeans have been quite cooperative. My sense is that between now and next six months to nine months or a year, if we were to insist on short-term sanctions, it's going to hurt us.

HEARING COCHAIR BLUMENTHAL: Thank you. Commissioner Donnelly and then Commissioner Bartholomew.

COMMISSIONER DONNELLY: Listening to this testimony and also to the previous testimony, if anything, I would say the situation is worse than we contemplate, that the real and profoundly dangerous development is not simply Iran's drive to acquire nuclear weapons or its support for terrorism, but it's broader drive for hegemony in the region, and if that came to pass, that would contravene American strategy going back to the Carter doctrine and elaborated and supported by every administration since then.

It would seem to me it would also pull the cornerstone out of not only the regional security order but the international security order. It would cause economic repercussions and geopolitical repercussions, and so China's enabling. Talking to Secretary Rodman in particular about what's the test of China's role as a stakeholder in the international system, and he agreed that it was not simply a passive support for the international order but required China to do things actively and to take some risks and to spend some political capital in order to maintain that order.

But it seems to me there would be nothing so corrosive to the international order, again not simply the regional order but certainly the regional order in the Persian Gulf and in the Islamic world, than to see Iran to emerge as a de facto or declared great power or regional hegemon.

My question is whether the Chinese generally contemplate this, really understand how crucially strategically important this is, and, second, if they do grasp that, whether that isn't about the most hostile act that one could imagine, and if they perceive the stakes at risk, do they not also understand the body blow that that would give to the broader international order? For both of you.

DR. AHRARI: I don't see China looking at Iran as a threat. I don't think China is bothered by Iran's emergence as a hegemon in the Persian/Arabian Gulf region.

COMMISSIONER DONNELLY: So China is willing to live with Iranian hegemony in the Persian Gulf?

DR. AHRARI: As long as it's not going to affect the energy



supplies.

COMMISSIONER DONNELLY: So for cheap oil, they'll tolerate Iranian hegemony?

DR. AHRARI: China is playing a very sophisticated role in the Middle East. It's dealing with Saudi Arabia, and has recently signed a deal for close energy cooperation with Saudi Arabia. And then you have Saudi-Iranian strategic cooperation that has developed from 2001 and on. Saudi Arabia and Iran don't have very many major issues, especially in the post 9/11 era, and if Iran were to become a nuclear power, yes, that's a different story. But Saudis are going along with Iranian assurances that Iran has no intention of becoming a nuclear power. If that were to happen, now that's a different story.

COMMISSIONER DONNELLY: I think the Saudi attitude towards, whether it's motivated by Persian nationalism or Shia revolutionary fervor, I can't imagine the Saudis being real comfortable with Iranian hegemony in the region. But setting that aside, what I'm interested in is China's attitude toward the prospects of Iranian dominance in the region, and again if they don't grasp that, why not? And if they do grasp it, what do they think they're doing?

MR. BERMAN: Let me try to answer. And let me just spend ten seconds on the Saudis before we get off that subject because I think it's a very interesting one.

One of the widely recognized collateral effects of Iranian nuclearization -- or of Iran getting closer to the nuclear threshold -- is the likelihood of a new arms race, likely nuclear, in the Middle East. The Saudis are already making moves to modernize their strategic arsenal, and their strategic arsenal comes from China.

So what you're seeing here is a situation where you could have a very unhealthy dynamic develop, in which this new arms race will be fed by arms from Russia and from China in a way that benefits both countries and makes them less than constructive actors in slowing down the pace of the Iranian nuclear development.

On the issue of China essentially condoning a nuclear Iran and Iranian hegemony, I think Dr. Ahrari has it exactly right. I think the Chinese do not see a direct threat from Iran, even I would say from an Iran armed with nuclear weapons. What it does, though, from the Iranian perspective--

COMMISSIONER DONNELLY: A threat to China or to the region? That's not a question. So what is China's attitude towards Iran's ambitions in the region?

MR. BERMAN: I think it depends which region you're talking about. This is actually a very important distinction because Iran has essentially for the last decade and a half had a laissez-faire attitude

towards Central Asia as a result of the condominium approach that they hammered out with the Russians. And, therefore, Chinese and Iranian interests in that region haven't really conflicted up until now. Now Iran is increasing its activism there, and you might have some friction in the future.

With regard to the Middle East, I think the predominant attitude of the Chinese--and again I'm an Iran specialist; not a China specialist is that as long as the supplies of energy are stable and secure, they won't have such a problem. The Iranians therefore know very well that they essentially could run out the clock on this nuclear program, provided they don't make any missteps.

So when they threaten to shut off the flow of oil through the Strait of Hormuz, this is bluster. There is nothing, no single action that they can do that would make more countries that are their client states proponents of regime change than that particular move.

So there are constraining factors on what Iranians can do. But provided they're on good behavior in a way the Chinese understand, I think the Chinese are willing to allow this process to go on.

HEARING COCHAIR BLUMENTHAL: Thank you. Commissioner Bartholomew and then Mulloy and D'Amato.

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you very much. I have three questions, the first of which ties into this bigger question we've been talking about and thinking about, how we define our interests, how the Chinese government defines its interests, whether they are defined in the same way and what we do when they aren't.

I was going to ask a variation on Commissioner Donnelly's question, which is, is there any reason to believe that the Chinese government would care whether Iran has nuclear weapons, outside of the fact that we have made it an issue and say we care about it, and we believe that it's a dangerous trend? Mr. Berman, essentially what you've said, if I understand it correctly, is that the Chinese are materially benefiting from what is becoming or very well could become an arms race, a nuclear arms race, an arms race in the Middle East.

So it's not just whether they even care whether it takes place, but that they actually have reason to fuel it. Did I understand that correctly?

MR. BERMAN: In a modest way, at least for the time being, I think that's correct. What they see, quite clearly, is the money if Saudi Arabia does decide to modernize its strategic arsenal, and there are a lot of signs that it is, it will not be looking towards a new series of missiles. It will be looking towards the CSS-class missiles that

they've obtained from China. Therefore the modernization of all of these states that are in some ways clients obviously has to factor into their geoeconomic decision-making in Beijing. And that is, I think, a significant factor.

We really haven't begun to talk about that very much, but there's a very good case to be made that China will benefit as we go forward from instability resulting from the Iranian nuclear program.

COMMISSION VICE CHAIR BARTHOLOMEW: Dr. Ahrari, any comment on that?

DR. AHRARI: Ma'am, China lives in a neighborhood where nuclear competition has been a sine qua non for the past ten, 15 years, so why should China be afraid of a nuclear Iran when it is not afraid of a nuclear India, and where China has played such a crucial role in the evolution of a nuclear Pakistan?

So you see this is where we have clash of interests is driving China. I respectfully but wholeheartedly disagree with Mr. Rodman's suggestion about stakeholder. What stakeholder? China, as I said at the outset, China is not interested in having a unipolar global order. China and Russia have been working against it. They have been successfully talking to a number of actors, including India, by the way, about the evolution of a multipolar global order.

So China's stakes are different. China's number one stake is energy. That's what China wants from Iran. That is why it does not want harsh economic sanctions imposed on Sudan, despite its shameful acts in Darfur. China has invested \$10 billion in Sudan since the 1960's. Of course, Iran-China trade is increasing. It is around seven billion right now. It's expected to increase somewhere between 15 to 20 billion in the next few years, and nuclear energy would play a very important role in that increase. Of course, according to a lot of open sources, China is playing a crucial role in the transfer of nuclear technology to Iran, and that's also a source of cash for China.

One more point about FDI, and Mr. Berman talked about FDI. One of the main reasons Iran is not getting FDI has nothing to do with sanctions and all that stuff. Iran's economy is in a state of shambles. The *bonyad*, those foundations, are totally corrupt. Iran's economy, the statist economy.

So Iran has to take a number of measures. In fact, I would say that in the past three or four years, Iran has been studying the Chinese model of economic progress to attract a lot of international capital, and that's where it behooves Iran that there ought to emerge some sort of a trans-Atlantic rift, so that it can invite European capital and European know-how because it badly needs that know-how in terms of developing its civilian infrastructure as well as other projects.

MR. BERMAN: Let me just insert one thing, because I think Dr. Ahrari picked up on something that's very important: this idea of a China model. There is a China model economically that the Iranians have talked about. But there is also a China model politically that the Iranians have very much seized upon.

This is essentially the example of Tiananmen Square. The Iranians have staked a claim on nuclear possession as a way of regime stability. But this is not just external; not just to avoid invasion and regime change by the United States or somebody else. It's also to shift the balance of power vis-à-vis their domestic population. The example for the Iranians of Tiananmen Square was that if you are a nuclear power, you can essentially oppress your domestic population without any sort of consequences. You may be sanctioned diplomatically; you may even be sanctioned economically. But nobody is going to talk about regime change.

The closer Iran comes to the nuclear threshold, the more free the regime becomes with the liberties that it takes against its domestic population.

HEARING COCHAIR BLUMENTHAL: Thank you.

COMMISSION VICE CHAIR BARTHOLOMEW: I'll have a second round of questions.

HEARING COCHAIR BLUMENTHAL: I think we all will if I can get out of my depression. Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Mr. Chairman. This is really interesting. We had testimony earlier today from Mr. Rodman and the State Department about the Security Council and the fact that August 30 has passed, and now we're stymied because of Russia and China in the Security Council. We can't move further.

Mr. Ahrari, you had very interesting testimony on pages seven and eight of your prepared testimony--and I just want to try this out on Mr. Berman and then Mr. Ahrari.

He says:

"Iran has frequently expressed a strong desire to engage in a comprehensive dialogue with the United States that would include ironclad security guarantees, cessation of all activities and nullification of legislation aimed at bringing about regime change in Iran, and access to cutting edge civil and military technology."

And then he says:

"In return"--and I don't know whether you're advocating this, but this is what you're saying--"In return, Iran would abandon its uranium enrichment program and make its nuclear activities fully transparent and available for inspection by the IAEA."

From what I can see, you're saying there's a bilateral route rather

than a multilateral route to resolve this problem. What do you think of that, Mr. Berman, and is that what you're really advocating, Mr. Ahrari?

DR. AHRARI: Yes, sir, I am.

COMMISSIONER MULLOY: Yes.

MR. BERMAN: I'm about halfway there, to be candid. I think they absolutely want a comprehensive dialogue; they want a grand bargain. By way of illustration, I was in the Gulf a couple months ago, and I had the opportunity to talk with Iranian officials. What they told me was something that you don't hear here in town very often: "we don't think that the United States has a leg to stand on legitimately about our nuclear program. We don't think that's the issue. We think the issue is regime change. We think this is a prop for the U.S. to change our regime. Therefore, what's our incentive to do a deal? Because you're just going to find another issue." I think this informs the strategy that they've been pursuing. They're trying to run out the clock. What they want is to be around in ten years or in 20 years. Therefore, if a grand bargain that includes security guarantees and the cessation of legislation like the Iran Freedom Support Act is what gets them there, then fantastic.

However, what's useful to remember is that the nuclear issue is immensely popular among all segments of the Iranian population. This is something that regime has hit upon that's actually a very popular issue with a population that doesn't really like the ayatollahs very much.

So you not only have an Islamist approach to the bomb: you also have a nationalist approach to the bomb. It's not at all assured that if the regime gives up the nuclear drive, there will not be serious repercussions from the Iranian street. I don't think that it's assured that if we do a deal with the Iranians, we won't have to worry about an Iranian bomb.

DR. AHRARI: See, this is an important point. Iran has never talked about the Islamic perspective on bomb, unlike Pakistan. Pakistan talked about Islamic bomb. Iran never did, to the best of my knowledge. Iran has always a nationalistic perspective on that issue.

But in light of what I said there, sir, I have been watching North Korea and Iran study each other's nuclear behavior, nuclear performance. In my estimation, Iran is convinced that the only reason the United States is so eager to talk to North Korea and the only reason the Bush administration has kept on saying we're not interested in regime change vis-à-vis North Korea and not vis-à-vis Iran is because we have a suspicion that North Korea has already developed nuclear weapons.

So in my humble opinion, if I were a betting man, I would say Iran would probably develop a nuclear weapon in ten to 15 years unless there is some major rapprochement toward the United States, between the two countries, whereby Iran has to have regime survival guarantees, because in my estimation, as long as I have been studying Iran and have been talking and I have my own background in that part of the world, Iran right now is convinced that this notion of regime change is not just related to the current administration.

The United States has never forgiven Iran for the hostage crisis. There has been a lot of bad blood between the United States and Iraq, so unless their mutual ties improve, in my estimation, Iran is committed to developing nuclear weapons, and it is an issue of nationalism, not an issue of Islam.

COMMISSIONER MULLOY: That was very interesting. Mr. Berman, you did suggest this idea of bilateral negotiations between Iran and the United States to resolve outstanding issues, including, as Mr. Ahrari says, helping with the negotiated solution to the PLO-Israeli conflict and stopping military support for Hezbollah. You don't think that's a terribly bad idea?

MR. BERMAN: I don't. It goes to the character of the regime in Tehran, essentially. The U.S., even before the global war on terror, has had three "no's" towards Iran. What we want is no proliferation--no development of WMD and proliferation; no support for terrorist elements; and no obstructionism in the Israeli-Palestinian conflict.

This regime has been unwilling to do even one of those three things over the last quarter century. It seems to me that we've tried to engage them again and again, and you have to come to the assumption that this behavior is a facet of their character. You're not going to be able to get legitimate long-term security guarantees that you can take to the bank on any of these three issues.

If we can come some of the way, if they stop support for terrorism, if they stop obstructing Israeli-Palestinian peace, I think you get a very large chunk of what you want. But so far they haven't even shown their willingness to do that, and in fact, with the removal of Saddam Hussein's regime, they have less incentive than they did a couple of years ago to be constructive on this. What baffles me is when people say we have to talk to the Iranians because we're having all sorts of problems in the region. It presupposes that if we get to the negotiating table, they'll already be there. But why would they be there, necessarily?

COMMISSIONER MULLOY: Thank you very much. That 's very helpful.

HEARING COCHAIR BLUMENTHAL: Commissioner D'Amato

and then Commissioner Thompson.

COMMISSIONER D'AMATO: Thank you, Mr. Chairman, and thank you both for your interesting testimony. I just want to get on the record as precise an assessment as we can about the nature of the Chinese support for the Iranian nuclear development. To what extent is Chinese support central as opposed to the contribution of other states, such as European states or the Russians?

To what extent is that support increasing or decreasing in the last couple of years? Mr. Ahrari, you said that the Chinese role is crucial here. Just as specific as you can each get about the importance of that contribution, and whether you see it increasing or decreasing? In other words, is our leverage going to increase or decrease over time here?

MR. BERMAN: Let me try my hand at this. What's useful here is a further distinction, even. There's such a thing as linear assistance and linear nuclear development, and such a thing as non-linear nuclear development.

We talk about China as assisting the Iranian nuclear program in a linear sense, meaning they provide technology; the Iranians move forward on their indigenous program. There's a whole non-linear track that we really don't talk about: for example, their contacts with the nuclear cartel of Pakistani scientist A.Q. Khan, and how that creates asymmetric leaps in their nuclear program.

Because of increasingly robust legislation, increasingly robust sanctions measures against Chinese entities, China has -- at least to the best of my understanding -- has actually drawn down the number of Chinese entities engaged in providing technology, providing nuclear know-how to the Iranians over the last couple of years.

What has increased, however, has been Chinese obstructionism and Chinese moral support for the Iranian nuclear program writ large, which creates this international deadlock that you're seeing now and allows the Iranians to forge ahead on the non-linear acquisition side.

COMMISSIONER D'AMATO: Mr. Ahrari?

DR. AHRARI: I want to stay away from linear and non-linear explanations. They are too complicated and academic in nature. My position is that China is playing a crucial role in training Iran's nuclear physicists, which is a very important role because it's creating a generation of nuclear scientists.

China has played a very crucial role in uranium enrichment, the transfer of uranium enrichment program, and in a lot of ways it befuddles me that the way our government works, we cannot develop a very comprehensive understanding. But the way I look at--somebody asked the question here. I think one of you asked the question of Mr.

Rodman about how much of Iranian missiles are from China and from Korea.

See, those kind of distinctions are important because I think in my estimation--I didn't bring all the data to prove it--my sense is that North Korea and China as well as Russia are playing a very crucial role in the transfer of technology, nuclear technology, missile technology, cruise missile technology, ballistic missile technology, and of course development of nuclear physicists.

Now, if you were to ask me to establish a hierarchy, I would place China and Russia in the top category, and North Korea and Pakistan in the second category. I might add that Pakistan is not playing that much of a role since the rogue scientist, Dr. A.Q. Khan got caught. But there is a lot of communication and formal and informal exchanges between North Korea and Iran.

I have been looking at a variety of sources, as a result of which, I were a betting man, I would say Iran is going to be the next nuclear power in the next five to ten years, depending upon how the international environment is to look like, and depending upon what kind of ties Iran is going to develop vis-à-vis the United States. No other national, save the U.S. cares as much whether Iran becomes a nuclear power or not.

I think the European countries would go along and China, as I said earlier, they don't care that much one way or another. But they are likely to play a crucial role in future negotiations on the nuclear issue involving Iran.

COMMISSIONER D'AMATO: Thank you.

HEARING COCHAIR BLUMENTHAL: Mr. Berman, did you want to add something?

MR. BERMAN: No, no, I'm good. Thanks.

HEARING COCHAIR BLUMENTHAL: Senator Thompson.

COMMISSIONER THOMPSON: Thank you, gentlemen, and I apologize for coming in late, and if I attribute something to you that's not correct, please straighten me out. I just picked up on the tail end, but I'm interested in the notion of Iranian concern about our efforts with regard to Iranian regime change.

It's been much to the consternation of many people here in the country that the perception is we've done little or nothing to try to foster regime change. It will come as a surprise to many of the Iranian critics here that they are concerned and willing to perhaps even put their nuclear activities on the table in discussing an ironclad commitment, as you put it, for regime change.

What do you think the Iranians perceive that we have done or are capable of doing? We've appropriated a little money in Congress, as I



recall, back a couple of years ago, but all the criticism here has been that we've been doing absolutely nothing here, and that a lot of people see it as our only option for doing anything, since military option seems to be off the table with regard to most people, and so what do you think about that, Mr. Berman, first?

MR. BERMAN: I think that's generally correct. I would say that we've done a little. We've done a little, and it has made both the regime and the people dissatisfied. We've really satisfied nobody. Here it is useful to look at Iran's demographic breakout. Iran is a country of 70 million people, but it has a demographic bulge: two-thirds of the Iranian people are 35 or under. That is 55 million people roughly. This is the group that's going to inherit Iran irrespective of what happens with the nuclear program to a decade and a decade and a half.

What we've done essentially over the last month has inject a lot of confusion into this constituency about our intentions.

We the former Iranian President Mohammad Khatami, who is visiting and has been feted at the National Cathedral. He just spoke at Harvard. And by inviting him, by approving his visa--and by the way, the visa was approved by Secretary of State Rice and the president himself--we've essentially sent two messages to the Iranians.

To the Iranian regime, we've said: "you guys are doing a lot of bad things. You're interfering in Iraq. You're building a nuclear weapon. You're doing et cetera, et cetera, et cetera. But we are so concerned about one aspect of your rogue behavior that we're willing to forgive essentially all the others." That's not a moderating message, it's an emboldening one.

At the same time, the message we sent to the Iranian opposition by entertaining the notion of direct negotiations for the first time in 27 years, is: "we support your urge for freedom in principle, but we're so concerned about this one issue that we're willing to fold to the regime."

That's a very easy way to lose a constituency of 55 million people in the battle for hearts and minds.

COMMISSIONER THOMPSON: Well, let me--

DR. AHRARI: May I answer your question?

COMMISSIONER THOMPSON: Yes, sir.

DR. AHRARI: You asked what have we done. I have one word answer for you--Saddam. They have watched, Iran has watched, what has happened to Saddam's regime. Iranians have studied our QDR. Iranians have studied our national security strategy. Iran has been studying--President Bush's West Point speech is most quoted statement in the Iranian press, most quoted statement, and every Iranian

politician you talk to, he will say how dedicated the United States--how serious I would say--not dedicated--serious the United States is about the potential regime change or how committed the United States is about the proposition.

COMMISSIONER THOMPSON: I assume that those same people, though, look at American polls, know something about American politics, and they're behaving otherwise, like Iraq is giving them new life, if nothing else. Look at what's happening in Lebanon and the rest of the Middle East. They're now looked upon as a hegemonic power in that area. I'm not necessarily saying I agree with it, but most people seem to think that the lesson on Iraq for Iran is that they are much less likely.

So I would guess from this far distance that what they're saying and doing is for constituent consumption within Iran, but in terms of the leadership, they certainly don't act to me as if they're really concerned--

DR. AHRARI: Well, there's a lot of bravado.

COMMISSIONER THOMPSON: --that the Americans are smart enough and willing enough to do much with regard to regime change.

DR. AHRARI: Sir, there's a lot of bravado on the part of the leadership when it comes to saying that we don't care; we're not afraid. But in reality, they are very much concerned about what America would do. They're happy about what's happening in Iraq because they know that the "Gulliver is being tied down there." They are very happy about the way the way Hezbollah fighters performed in Lebanon.

COMMISSIONER THOMPSON: So they're not concerned about the short term as much as the long term?

DR. AHRARI: I'm not sure when it comes to survival of the regime that long term/short term is going to play that much of a role. This is more of an academic kind of debate. When you're sitting in Tehran, when you are studying President Bush's statements and you have watched what happened to Saddam Hussein, and then you are watching the way we are dealing with North Korea, with a lot of respect because they have nuclear weapons, they are getting mixed signals.

COMMISSIONER THOMPSON: We certainly don't seem to be doing anything with regard to regime change in North Korea either so it seems to me like--

DR. AHRARI: We're not doing anything about regime change in North Korea because--this is how Iran reads it--North Korea has nuclear weapons.

COMMISSIONER THOMPSON: Which would lead them to want nuclear weapons, which would lead them not to bargain it away for

regime change commitment from this administration when another administration is going to be coming in soon.

DR. AHRARI: Unless we give them a guarantee that there won't be any regime change, and unless they are convinced that in the next ten to 15 years, United States remains committed to the proposition of no regime change; they might be persuaded about not developing nuclear weapons, other their nuclear option is going to be very much alive.

COMMISSIONER THOMPSON: Let me ask, and my time is up, but my opportunity is rare. So with the indulgence of the chair, just on a corollary to that, you mentioned the fact that they seemed to be in somewhat dire straits as I believe you described it economically. What is the possibility of regime instability simply because of internal economic reasons? How serious is it? How serious might it be? Forget anything that United States might do.

DR. AHRARI: I would say that is a serious challenge for the government, sir. I would say that their unemployment rates, I have seen figures somewhere 24 to 48 or even 53 percent, depending upon how questionable the source is. The IMF analysis is not very optimistic about Iran.

So I would say the Janus-faced structure of the government that we see a lot of times when we see good guy/bad guy or good cop/bad cop, that type of Janus-faced structure is also hurting Iran. The fundamentalists and the Islamists have maintained their death grip on certain aspects of economic sectors and they're not allowing economic reforms. So, I'm quite pessimistic about the prospects of economic reforms.

COMMISSIONER THOMPSON: Do you agree, Mr. Berman?

MR. BERMAN: I agree that the prospects of economic reform are very dim. But I also tend to agree with your statement about regime priorities. I think the regime, the drive toward a nuclear bomb has actually accelerated as a result of our lack of a strategy to deal with North Korea.

On the economy, specifically, here is an interesting thing to point out. If you read the Iranian press, the numbers are fairly easy to come by. As of March of this year, the Iranian Central Bank was saying that the regime accumulated \$50 billion in hard currency reserves as a result of high oil prices.

But their imports of refined petroleum products from abroad costs a lot of money: anywhere between \$3 billion and \$8 billion a year, depending on who you ask.

Already, the Iranian government has asked in the fall for the Iranian Parliament to consider a bill to take essentially ten percent of

those hard currency reserves to spend on gasoline. So what you're seeing is that the Iranian regime is already beginning to feel the economic pinch. And we haven't even applied sanctions yet.

It makes me optimistic that if we actually were to do sanctions seriously, outside of the U.N. you could actually at the very least draw down their hard currency reserves and make them have less money to make trouble in Iraq and to slow the pace of their nuclear program, and that I would say is an aggregate benefit.

Unfortunately, China plays a big role here because it has so far impeded us doing that in a way that would satisfy our European allies and Russia and China as well. Doing it outside of the confines of the U.N. obviously would be much less palatable to Beijing, but what we need to be sending clearly is a signal that if you don't help us on this, at least abstain, then what's coming is going to very likely disadvantage you.

HEARING COCHAIR BLUMENTHAL: Thank you, Mr. Berman. I'm going to have to go to the last question.

COMMISSIONER THOMPSON: Thank you for your indulgence.

HEARING COCHAIR BLUMENTHAL: Of course. Commissioner Reinsch.

HEARING COCHAIR REINSCH: Thank you. This is probably beating a dead horse, but I want to pursue this last, not the last thread, but the penultimate thread a little bit more. If--and this is primarily for Mr. Berman, but you're both welcome to comment--if one of the issues here is that the Iranians perceive all of our objectives there through the prism of regime change, and that's our objective, and that leads them to the attitude that you described--this is naive, but it seems to me it follows that if we stop talking about regime change, maybe we'll make more progress on the pending issues.

MR. BERMAN: That's probably a fair assumption to make. Since the end of May, the State Department has essentially made a 180 degree turn, and now it's talking about direct negotiations and giving visas to former Iranian presidents and things like that.

Unfortunately, though, that doesn't seem to have actually sparked a rethink in Tehran. They don't all of a sudden think that their nuclear drive and the types of security constructs that they're building in the region need to be slowed down because we're talking nice to them.

This is, I think, an interesting point, because in the Middle East perceptions tend to account for a lot. And the perception is that we're bogged down in Iraq, and if they can complicate Iraq further for us, U.S.-assisted regime change will not migrate across the border because Iran is next door.

That is an aggregate benefit for the Iranian regime. As much as they say so publicly, privately they're very invested in maintaining this source of instability because they know that the focus will not shift to them as long as we're paying attention next door. The Bush administration has, I would say, made enough of a reversal of course to confuse the Iranian opposition wholeheartedly with regard to whether or not we actually supports regime change. But this has done nothing to dampen the antagonism of the Iranian regime, which I think tells you something about their long-term objectives.

HEARING COCHAIR REINSCH: I think history would suggest that the simple fact that the State Department has said something doesn't necessarily convince everyone that the United States government policy has changed. It's not exactly a new development.

MR. BERMAN: It depends whose State Department, I would think.

HEARING COCHAIR REINSCH: I'm running low on time here. Let me ask a slightly different question if I may and, Dr. Ahrari, we'll save your reaction for another moment.

Mr. Berman, you referred much earlier to Chinese investment in the energy sector in Iran. Why haven't we imposed sanctions against the Chinese under the Iran-Libya Sanctions Act?

MR. BERMAN: That's a very good question. I would say this, and knowing that there are members of the Commission who have been involved in the Iran-Libya Sanctions Act, I would say the Iran-Libya Sanctions Act, at least on paper, is a superb piece of legislation. What's missing from its application is political will. There has simply not been political will from this administration or the previous one to apply sanctions in a way that would be robust, because the understanding is that there will be all sorts of collateral economic crises with China or with Germany or with France or what have you.

ILSA is a vehicle, but it requires activation in order to work, and the same argument can go in spades for the Iran Freedom Support Act, which is now being considered by Congress. There are even more serious sanctions measures that are encapsulated in IFSA, but they still require political will on the part of the executive to execute them. And so far, unfortunately, we've talked a lot about our support for freedom in Iran and our support for helping the Iranian people change their regime, but as a practical matter we have not done things like defund this regime.

HEARING COCHAIR REINSCH: I certainly agree on the political will question. I don't agree that it's a good piece of legislation. It's extraterritorial. It's a terrible piece of legislation and the Iran Freedom Support Act is even worse.

However, I take the point about why we haven't imposed them. It seems to me it reflects the fundamental dilemma of statutes like that. They put the administration in an awkward position. If they do demonstrate the political will you suggest, then they're going to have ancillary problems with the Europeans, the Japanese; if they don't act, then they will have problems with the Congress. Why don't we have one more question. How do you think the Chinese would react if we did impose sanctions under ILSA?

MR. BERMAN: Oh, poorly. But the point is here, and I think this is something that needs to be telegraphed. I tend to travel a fair amount, and everywhere I go, there is a perception on the part of foreign officials that this is a problem, and there's also an idea that, well, we can do whatever we want to do because at the end of the day the U.S. will fix it.

HEARING COCHAIR REINSCH: What is the "this" that's a problem that you're referring to?

MR. BERMAN: Well, the Iranian nuclear issue. And this perception is problematic because there is no corresponding intuition on the part of these officials that says, okay, if the natural progress is sanctions, increasingly robust sanctions, perhaps outside of the U.N., and then possibly the application of military force, that sanctions are obviously less invasive, less destructive than military action.

Instead, there is this idea that military action is bad and therefore nobody will do it, period, end of story. This doesn't really encapsulate the totality of the issue, obviously.

HEARING COCHAIR REINSCH: We could go on, but my time is up, and so is the panel's, I think.

HEARING COCHAIR BLUMENTHAL: Thank you very much for very helpful testimony and Q&A, and we are now dismissed for lunch. Again, thank you very much.

[Whereupon, at 12:00 noon, the hearing recessed, to reconvene at 1:05 p.m., this same day.]

A F T E R N O O N S E S S I O N

[1:05 p.m.]

**PANEL III: CHINA'S RELATIONSHIP WITH NORTH KOREA  
AND ITS ROLE IN ADDRESSING THE NUCLEAR AND MISSILE  
PROGRAMS IN NORTH KOREA**

**OPENING STATEMENT OF COMMISSIONER WILLIAM A.  
REINSCH, HEARING COCHAIR**

HEARING COCHAIR REINSCH: The afternoon session of the hearing will come to order. I have a brief statement and then we'll proceed. Good afternoon and thank you to our witness and hopefully the other soon to arrive witnesses. I am pleased to cochair today's hearing on China's relationships with North Korea and Iran, which have significant implications for U.S. security and for peace in the Middle East and in Northeast Asia.

This morning's panels have been extremely helpful in setting the stage for understanding China's proliferation record to North Korea and Iran, and I look forward to this afternoon's panel on North Korea.

In August, Deputy Assistant Secretary of State Thomas Christensen told the Commission that the most positive example of U.S.-China cooperation has occurred with respect to the North Korean nuclearization issue and China's participation in hosting of the Six Party Talks. The United States applauds those actions by China, especially its support for the U.N. Security Council Resolution 1695, which condemns the July 4 missiles test by North Korea.

However, in assessing China's relationship with North Korea, we must question the extent to which China has the ability to influence Kim Jong Il's policy and actions, and if that potential exceeds the accomplishment to date, why more has not been done by China to achieve the objective of denuclearizing the Korean peninsula.

I hope our witnesses this afternoon will consider some of these questions in their analyses. Thank you again to all of our witnesses today for their testimony. We'll proceed to this afternoon's panel.

The final panel will focus on China's relationship with North Korea and its role in addressing North Korea's nuclear weapons development and missile proliferation. One of our witnesses has not arrived. So we'll begin with Dr. Aaron Friedberg, Professor of Politics and International Affairs at Princeton University.

From 2003 to 2005, Dr. Friedberg served on the Office of the Vice President as Deputy Assistant for National Security Affairs and Director of Policy Planning.

I've already told Dr. Friedberg, and I'll announce to everyone else, that we also will have appearing shortly Congressman Weldon from Pennsylvania, who had planned to appear today at one o'clock, but the House is voting, so he's been delayed. I think we will have time for Dr. Friedberg and to begin questions with him. If we haven't finished the questions, with his permission, we'll interrupt you and take Congressman Weldon when he arrives and then we can return to you. So with that, why don't we just proceed.

Dr. Friedberg, your full statement will be inserted in the record so feel free to abbreviate. Go ahead.  
[The statement follows:]

**Prepared Statement of Commissioner William A. Reinsch  
Hearing Cochair**

Good afternoon, and thank you to our witnesses today. I'm pleased to co-chair this hearing on China's relationships with North Korea and Iran, which has significant implications for U.S. security and for peace in the Middle East and in Northeast Asia. This morning's panels have been extremely helpful in setting the stage for understanding China's proliferation record to North Korea and Iran, and I look forward to this afternoon's panel on North Korea.

In August, Deputy Assistant Secretary of State Thomas Christensen told the Commission that the most positive example of U.S.-China cooperation has occurred with respect to the North Korean nuclearization issue—in China's participation and hosting of the Six Party Talks. The United States applauds these actions by China, especially its support for the UN Security Council Resolution 1695, which condemns the July 4<sup>th</sup> missile tests by North Korea. However, in assessing China's relationship with North Korea, we must question the extent to which China has the ability to influence Kim Il Sung's policy and actions. And, if that potential exceeds the accomplishments to date, why more has not been done by China to achieve the objective of denuclearizing the Korean peninsula.

I hope our witnesses this afternoon will consider some of these questions in their analyses. Thank you again to all of our witnesses today for their testimony, and we'll proceed to this afternoon's panel.

Our final panel of the day will focus on China's relationship with North Korea, and its role in addressing North Korea's nuclear weapons development and missile proliferation.

Joining us today is Dr. David Asher and Dr. Aaron Friedberg to speak on this topic.

Dr. Asher is an adjunct scholar at the Institute for Defense Analyses. Prior to this position, he served as a senior advisor in East Asian affairs for the U.S. State Department, and coordinator of the Bush Administration's North Korea Working Group.

Dr. Friedberg is a Professor of Politics and International Affairs at Princeton University. From 2003-2005, Dr. Friedberg served in the Office of the Vice President as Deputy Assistant for National Security Affairs and Director of Policy Planning.

We are pleased that both of you could join us today, and we look forward to your testimony.

**STATEMENT OF PROFESSOR AARON L. FRIEDBERG  
PROFESSOR OF POLITICS AND INTERNATIONAL AFFAIRS,  
PRINCETON UNIVERSITY, PRINCETON, N.J.**

DR. FRIEDBERG: Thank you very much. I appreciate this



opportunity to appear before the Commission. In the time that's available, I would like to address three sets of questions which I have dwelt on at some greater length in my statement.

First, where does the North Korean nuclear issue fit into the larger picture of China's policies for dealing with the Korean peninsula, East Asia and the wider world?

Second, regarding the nuclear issue itself, what appear to be China's objectives and strategies?

And third, to the extent that China's goals and strategy in the confrontation over North Korea's nuclear programs deviate from our own, as I believe they do, is there anything that we can do to bring them more closely into alignment?

Since the end of the Cold War, certainly since the mid-1990s, China appears to have been pursuing an overall strategy which I think can be summed up in three axioms: first, a desire to avoid conflict, especially with the United States; second, a desire to focus on the development of what Chinese analysts refer to as "comprehensive national power," including military, economic, technological, diplomatic soft power; and third, an inclination to advance incrementally towards wider objectives.

I believe, although I can't prove, that China's current leaders hope eventually to emerge as the preponderant power in East Asia, and in the process to displace or at least to diminish the role of the United States, constricting America's influence and its presence over time, while increasing their own. They see this, I believe, as a gradual process, one that will likely take several decades to unfold.

Chinese strategists recognize that the United States is an Asian power largely by invitation. In other words, its physical presence, and to a considerable degree, its ability to project and to sustain military power in the region are heavily dependent on a handful of political relationships of which America's alliances with Japan and South Korea are clearly the most important.

If China is going to emerge eventually as the preponderant power in East Asia, it's going to have to find some way of weakening and perhaps ultimately of breaking those alliances, and I think much of what China has been doing in the last 15 years is directed at achieving these objectives in the long term.

It doesn't mean that everything they've done has worked. China has been particularly counterproductive in its dealings with Japan. It has tried to intimidate the Japanese which has been counterproductive to say the least, and has tended to drive Japan into even closer alignment with the United States.

With South Korea, on the other hand, Chinese efforts have been

more successful. China has developed dramatically its trade with South Korea, including investment and tourism. It's bolstered diplomatic links at a high level, and even initiated military-to-military contacts.

Since the latter part of the 1990s, the Chinese have been trying to broaden and deepen their relations with South Korea, while at the same time maintaining reasonably good relations with their close, traditional, albeit at times troublesome allies in the North.

Beijing has continued to supply enough aid to keep the DPRK afloat, and at the same time it has sought to nudge the Kim Jong Il regime down the path towards something resembling Chinese style economic reforms.

Beijing's longer-term objective in this appears to be to maneuver itself into a position where it will be able to exert a decisive influence over the timing and terms of eventual Korean reunification.

Chinese strategists may hope one day that they'll be able to orchestrate the creation of a United Korea that is no longer allied with the United States and may lean towards China. But for the time being they want to ensure that they retain a substantial physical barrier between their own border and the potentially contaminating influence of a liberal democracy aligned with the United States.

The current nuclear crisis which really got underway in the fall of 2002, presents real risks to China, but also some significant opportunities. They have thus far been quite successful I think in seizing those opportunities while avoiding the dangers.

At the outset of the crisis in the fall of 2002, until the spring of 2003, the run-up to the American invasion of Iraq, that Chinese strategists may have concluded that it was possible the United States would, in fact, use force preemptively and perhaps unilaterally against North Korea. As a result, they stepped in off the sidelines and inserted themselves into the process and were willing to take on an active role in facilitating and hosting three-way and later six-way negotiations.

Aside from the possibility of direct military action, the Chinese were and are still worried that what they would view as excessive external pressures might cause the North Korean regime to collapse, which could send a flood of refugees across its northern border and leave a mess and a power vacuum on China's doorstep.

To prevent this, Beijing has inserted itself effectively as a buffer between North Korea and those led by the United States and Japan, who are trying to squeeze it even harder. Since the crisis began, not only has China refused to ratchet up economic pressure in a significant way on North Korea, it's actually increased its assistance to the North.

On the positive side of the equation, Beijing has used the nuclear crisis to draw still closer to the South Koreans and to drive a wedge between South Korea and the United States and between Japan and South Korea.

Like the South and in marked contrast to the alleged reckless warmongering of the Americans and Japanese, China prefers to handle the North South with great delicacy and caution, using inducements rather than punishments to try to bring it to heel.

At the same time as it's ingratiated itself with South Korea, Beijing has sought to earn maximum credit from the United States for agreeing to orchestrate the Six Party Talks, and Chinese spokesmen are quick to point out how helpful they've been and to use their role in the nuclear crisis as evidence of their commitment to counter nuclear proliferation and to become a responsible stakeholder in the international system.

Finally, albeit thus far with few tangible results, China appears to be using the present standoff and its willingness to protect the North as leverage to try to encourage Pyongyang to adopt meaningful economic reforms.

The Chinese have managed the current crisis with skill and provided that tensions don't rise precipitously, they may see little advantage actually in bringing it to an early conclusion.

If the standoff is to be resolved, I believe that China's first priority will be to ensure that North Korea remains intact and that it continues to be governed by a friendly regime. A settlement that brought in more outside aid and investment to the North would have the added benefit of reducing some of China's burdens for keeping it going, and with an eye on their longer-term objectives, Chinese strategists would doubtless prefer an outcome that further boosts their perceived influence while subtly reducing that of the United States.

So they probably hope that the United States will eventually agree to back off from its demands for a complete, verifiable, irreversible dismantlement of Pyongyang's nuclear activities, and settle for a return to something like an Agreed Framework arrangement which would freeze North Korea's nuclear activities for an indefinite duration and perhaps be accompanied by security guarantees or some kind of nonaggression pledge.

Finally, and I apologize for going over my time--

HEARING COCHAIR REINSCH: Keep going. You're on a roll.

DR. FRIEDBERG: When I worked in Washington briefly, I had gotten down the art of the five-minute or three-minute commentary. Now that I'm a professor again I can't say anything in less than about a half an hour.

Given Kim Jong Il's evident commitment to developing nuclear weapons, it's highly unlikely that he'll ever agree to give them up unless the alternative to doing so is his own imminent demise. If it wanted to, Beijing could certainly do a lot more to confront Kim with such a choice, including suspending aid, restricting trade, controlling unauthorized movements of people and goods across the North Korean frontier, cracking down on illicit activities that are conducted through or from Chinese territory, and perhaps threatening ultimately to terminate the PRC-DPRK alliance.

While there is no guarantee that Kim Jong Il would capitulate if he was faced with such pressure, it's at least conceivable that he might, especially if he were offered face-saving economic and diplomatic rewards for doing so and if the alternative was total isolation and the mounting likelihood of regime collapse.

The question is, given the existence of this not-yet-utilized leverage, what might persuade China's leaders actually to apply some of this pressure? I would say attempts at sweet reason and pure diplomatic persuasion on our part have not been particularly successful, nor have veiled threats of dire consequences.

The talk that "all options remain on the table," and hints that the United States might at some point use military capabilities to strike the North's nuclear facilities, are, I believe are taken as bluff at this point by the Chinese. They don't believe we'd really do it. And similarly, they don't seem particularly concerned thus far by American suggestions that North Korea's behavior might unleash a wave of proliferation across Northeast Asia.

Finally, they don't seem at this point to be particularly worried that failing to do everything they can to bring the nuclear confrontation to a satisfactory conclusion might eventually jeopardize their overall relationship with us.

Recent American moves against parts of North Korea's illicit financial network appear to have gotten Pyongyang's attention, and I think they've also caused some concern in China as well. If the United States continues down this path, bringing legal action against more banks, businesses, and individuals involved in funneling money to Kim Jong Il, it could end up causing serious embarrassment or worse in China.

If the present standoff continues and is not resolved, and Pyongyang begins to accumulate a substantial stockpile of fissile material, the danger that it's going to be tempted to sell or transfer some of it to other rogue states or terrorists will increase, and under those circumstances I think the United States might find itself forced to consider the possibility of imposing some kind of air and sea

blockade on the North, even if by doing so it ran a heightened risk of confrontation and escalation.

Faced with either of these possibilities, further and increasing financial pressure or ultimately the possibility of some American attempt to screen material coming out of the North, Beijing might prefer to take matters into its own hands, to press Pyongyang to back down rather than allowing it to drag China into a deepening crisis with the United States.

With that, I'll stop, again with my apologies for going long, and try to answer your questions.  
[The statement follows:]

**Prepared Statement of Professor Aaron L. Friedberg,  
Professor of Politics and International Affairs, Princeton  
University, Princeton, N.J.**

**Introduction**

Thank you for this opportunity to appear before the Commission.

In the time available, I would like to address three sets of questions:

First, where does the North Korean nuclear issue fit into the bigger picture of China's policies for dealing with the Korean peninsula, East Asia, and the wider world?

Second, regarding the nuclear issue itself: what, exactly, is Beijing up to? What is its strategy and what are its objectives?

Third, to the extent that China's goals and strategy in this confrontation deviate from our own, is there anything we can do to bring them more closely into alignment? Or, to put it more bluntly, what would we have to do to get China to be more helpful in compelling North Korea to abandon its nuclear ambitions?

**The nuclear issue in strategic context**

Since the mid-1990s, China has been pursuing an overall national strategy (or "grand strategy") that can be summarized in three axioms:

"Avoid conflict" (especially with the United States)

"Build Comprehensive National Power (CNP)"

"Advance incrementally"

I believe (though I cannot prove) that China's current leaders hope eventually to displace the United States as the preponderant power in East Asia – constricting its influence and presence while increasing their own. They see this as a gradual process, one that will likely take several decades to unfold.

Chinese strategists recognize that, while the United States is a Pacific power by virtue of geography, it is an Asian power largely by invitation. Its physical presence and, to a considerable degree, its ability to project and sustain military power into the region, are heavily dependent on a handful of political relationships, of which its alliances with Japan and South Korea are the most-long standing, and arguably the most important. If China is to emerge eventually as the dominant power in East Asia it is going to have to find some way of weakening, and possibly breaking, these alliances.

Instead of trying to woo Tokyo away from the Washington (which it might conceivably have been able to do in the immediate aftermath of the Cold War) Beijing has sought instead to bully and intimidate it. This has been counterproductive, to say the least, and has tended to drive Japan into even closer alignment with the U.S.

Having failed to make progress with Japan, Beijing has chosen instead to concentrate on South Korea. Here it has made considerable gains in the past decade, dramatically increasing the volume of PRC-ROK trade, investment and travel, bolstering high level diplomatic ties and establishing military-to-military contacts.

Since the late 1990s China has been trying to broaden and deepen its relations with South Korea, while at the same time working hard to remain close to its traditional, but often troublesome, allies in the North. The PRC has continued to supply enough aid to keep the DPRK afloat, even as it seeks to nudge Pyongyang down the path towards Chinese-style economic reform. Beijing's longer-term goal appears to be to maneuver itself into a position where it can exert a decisive influence over the timing and terms of eventual Korean reunification. Chinese strategists may hope that they will be able one day to orchestrate the creation of a united Korea that is no longer allied with the U.S. and, preferably, "leans" toward China. For the time being, however, they want to insure that they retain a substantial physical barrier between their own border and the potential contaminating influence of a liberal democracy aligned with the United States.

### **The current stand-off**

The eruption of the current nuclear crisis in 2002 presented real risks to China, but also some significant chances to advance toward its broader strategic objectives. To date Beijing has been remarkably successful at seizing the opportunities while avoiding potential dangers.

Early on in the crisis (especially in the period immediately preceding the American invasion of Iraq), Beijing may have feared that the U.S. would actually attack North Korea, thereby forcing China to choose between its desire to maintain good relations with Washington and its commitment to a traditional ally. This concern is probably what forced the PRC off the sidelines in the spring of 2003 and caused it to take an active role in facilitating and hosting three-way (later six-way) negotiations.

Aside from the possibility of direct military action, Beijing was (and is still) worried that sanctions and other external pressures might cause the Pyongyang regime to collapse, sending a flood of refugees across its northern border and leaving a massive mess, and a potential power vacuum, on China's doorstep. To prevent this from happening Beijing has inserted itself as a buffer between North Korea and those (led by the U.S. and Japan) who seek to squeeze it even harder. Since the crisis began not only has China refused to ratchet up economic pressure, it has actually increased its assistance to the North.

A final risk for China is that the open acquisition by North Korea of nuclear weapons could encourage others in the region to follow suit, including Japan and Taiwan. Pyongyang's provocative actions and bombastic claims have already increased this danger. The best that Beijing can do to keep things under

control is to make sure that the North does not remove all doubt about its capabilities by conducting a weapons test. This is probably a “redline” that the Chinese have warned Kim Jong-Il not to cross.

On the positive side of the equation, Beijing has used the nuclear crisis to draw still closer to Seoul and to drive a wedge between South Korea, on the one hand, and the U.S. and Japan, on the other. Like the South (and in marked contrast to the allegedly reckless war-mongering of the Americans and Japanese) China prefers to handle the North with great delicacy and caution, using inducements rather than punishments to try to bring it to heel.

At the same time as it ingratiates itself with the South Koreans, Beijing has sought to earn maximum credit from the U.S. for agreeing to orchestrate the Six Party Talks. Chinese spokesmen are quick to point out how helpful they have been and to use their role in the nuclear crisis as evidence of their commitment to countering nuclear proliferation and becoming a “responsible stakeholder” in the international system.

Finally, albeit thus far with few tangible results, Beijing appears to be using the present stand off, and its willingness to protect the North, as leverage to try to encourage Pyongyang to adopt meaningful economic reforms.

Beijing has managed the current crisis with skill and, provided that tensions do not rise precipitously, it may see little advantage in bringing it to a conclusion. If the stand off is to be resolved, China’s first priority will be to ensure that North Korea remains intact and that it continues to be ruled by a friendly regime. A settlement that brought in more outside aid and investment would have the added benefit of shifting the economic burdens for the North’s continued support onto other nations. With an eye on their longer-range objectives, Chinese strategists will doubtless prefer an outcome that further boosts their perceived influence while subtly reducing the status of the United States. China’s leaders probably hope that Washington will eventually agree to back away from its demands for the complete, verifiable, and irreversible dismantlement of Pyongyang’s nuclear activities and settle for an Agreed Framework-like “freeze” of indefinite duration, perhaps accompanied by security guarantees or a non-aggression pledge. Such an outcome, which would leave Pyongyang with a “recessed” nuclear deterrent and enhanced international standing, while at the same time being widely viewed as a setback for American “cowboy diplomacy” and a victory for China’s “sober-minded realism.”

### **Getting China to do more**

Given Kim Jong-Il’s evident commitment to developing nuclear weapons, it is highly unlikely that he will ever agree to give them up unless the alternative to doing so is his own imminent demise. If it wanted to, China could certainly do a great deal more to confront Kim with such a choice, including suspending aid, restricting trade, controlling unauthorized movements of people and goods across the North Korean frontier, cracking down on illicit activities conducted through or from Chinese territory, and perhaps threatening to terminate the PRC-DPRK alliance. While there is no guarantee that Kim Jong-Il would capitulate if faced with such pressure, it is at least conceivable that he might, especially if he were offered face-saving economic and diplomatic rewards for doing so, and if the alternative was total isolation and the mounting likelihood of regime collapse.

What would it take to convince China’s leaders to apply real pressure to Pyongyang? Attempts at pure diplomatic persuasion have thus far produced few results. Nor have veiled threats of dire consequences been any more successful. Aware of American and South Korean fears of a possible conventional counterattack, Chinese strategists appear to have discounted the possibility of a U.S. strike on the North’s nuclear facilities and have likely come to regard statements that “all options are still on the table” as little more than bluff. Beijing also does not seem overly worried at this point by American suggestions that

North Korea's behavior may unleash a wave of proliferation across Northeast Asia. Nor does China seem to fear that failure to do all it can to bring the nuclear confrontation to a satisfactory conclusion could eventually jeopardize its overall relationship with the United States.

Recent U.S. moves against parts of North Korea's illicit financial network appear to have gotten Pyongyang's attention, but they have probably caused concern in Beijing as well. If the United States continues down this path, bringing legal action against more banks, businesses and individuals involved in funneling cash to Kim Jong-Il and his cronies, it could end up causing serious embarrassment, or worse, in China.

If the present stand off continues, and Pyongyang begins to accumulate a substantial stockpile of fissile material, the danger that it will be tempted to sell or transfer some of it to terrorists or other rogue states is likely to grow. In such circumstances, the U.S. may be forced to impose some kind of air and sea blockade on the North, even if, by doing so, it runs a heightened risk of direct confrontation and escalation.

Faced with either of these possibilities Beijing might prefer to take matters into its own hands, pressuring Pyongyang to back down rather than allowing it to drag China into a deepening crisis with the United States.

### **Panel III: Discussion, Questions and Answers**

HEARING COCHAIR REINSCH: Thank you very much. Commissioner Donnelly.

COMMISSIONER DONNELLY: Thank you, Mr. Chairman. I take, Dr. Friedberg, from your testimony the sense that there is a fundamentally different approach that the United States and China take to the question of North Korean nuclear weapons and nuclear programs, sort of in this sense: we tend to see the current situation as an end in itself or something to be dealt with on its own terms. We want to see the denuclearization or the end of the North Korean nuclear program. But the Chinese see it more as a means to a larger end, a way to shape the future of the Korean peninsula, in part also to get some credit with the United States.

As you say in your testimony, it's often advanced as a prime piece of evidence that China is on the road to becoming a responsible stakeholder in the international order. So I'd like to see if I am taking the right lessons.

But, secondly, and particularly while you're here, I'd like to invite you to offer some direction to the Commission on what's been kind of our almost overriding effort for the course of the year, and that's to better understand what this concept of a responsible stakeholder, (a) how to measure that, how would we know when we saw one; and secondly, whether we intend that to be to encourage the Chinese to take a really active role in trying to preserve an order that's under some stress, not only in East Asia but in other regions of the



world, or whether simple acquiescence in the world as it is is sufficient to meet that test?

Again, my own view is that one way or the other the international order, the global order, is in a period of stress and so we need all the help we can get to buttress and sustain it, but I take it as an open question in terms of what American expectations of China's behavior are.

So there's the narrower question of the approach to the North Korean crisis, and then again while we've got you, if you are in a mood to give us of your wisdom on stakeholderism more broadly, I'd appreciate it.

DR. FRIEDBERG: Thank you. On the first question, I think that you've summed it up in the way that I would state it as well. It's in part a matter of a different approach, although I think we've sometimes allowed our focus on the process, and China's participation and commitment to the process of the Six Party Talks, to deflect our attention from the question of whether the process is producing or has any prospect of producing the desired results. So those who take the optimistic view of this say they've been very helpful, they've organized these talks, they've repeatedly made efforts to bring the North Koreans back to the table, to which I think the answer is yes, that's correct. But having gotten them to the table, they haven't been willing to apply the kind of further pressure that's necessary to bring results.

But I do think that our bottom lines, and the ways in which I believe Chinese observers and Chinese strategists think about this problem and the way that we've tended to think about it are quite different. I agree with your characterization that the Chinese approach this with an eye towards a longer-term time horizon.

I think they felt that they were doing reasonably well prior to the eruption of the nuclear crisis. In a way, the nuclear crisis was been rather dangerous for them. It had all kinds of dangerous possibilities.

We might have been provoked in some way to use force which would have forced the Chinese to decide whether they were going to help North Korea and go against us or back away from a traditional ally.

There is also the danger that I think they do take seriously, that under some conditions the North might do things that were unpredictable and dangerous. So it's been somewhat risky. At the same time, as I have described, and I think it's accurate, the Chinese have taken advantage of this crisis to continue to move towards their longer-term goals. Certainly on the question of the relationship between the United States and South Korea, the nuclear issue has been a boon to the Chinese.

We are in continual tension with our South Korean allies about how to proceed on this issue, and it's true: Beijing's position and approach is more similar to the South's than it is to ours.

Just briefly on responsible stakeholderhood or "dom," I think it's been very useful to introduce this concept, but it's necessary to go further and to ask, as you have, what are the measures; how do we know when we see that China is becoming a responsible stakeholder?

I would say there are a variety of issues. Obviously, today we're talking about proliferation, and clearly that's extremely important, maybe the most important issue before us. And the question in my mind would be to what extent is China going to be helpful in resolving in a satisfactory way the dangers that we currently face both from North Korea and Iran, and the long-term danger of further proliferation?

On both Iran and North Korea, it doesn't seem to me that they've done all that they could. If either one or the other of those situations turns out badly, it will perhaps, if things continue as they are now, be because China did not do everything in its power, and maybe even, for example, if there's a veto in the U.N. of measures to bring sanctions against Iran, maybe even actively prevented greater pressure from being applied.

On the question of whether it's active or merely acquiescent, well, think of the analogy to responsible citizenship. You want people to obey the rules. You expect them to do so and countries should as well, but you would also hope that they participate in enforcing those rules when the states are the only powers that can enforce them.

So simply going along isn't enough. You'd like to see China play a more active role in trying to enforce these rules that are embodied in the case of proliferation in the NPT.

HEARING COCHAIR REINSCH: Thank you. Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Mr. Chairman. Thank you, Dr. Friedberg, for being here and for your service to the country.

I wanted to ask you two questions. The first won't take too long. I'm not expert on this issue of Korea and nuclear weapons development, but one of our earlier witnesses, Dr. Ahrari said Iran hopes to negotiate a deal whereby the Bush administration would provide guarantees against military action as it is willing to do in North Korea.

Are we willing to engage in a bilateral negotiation with North Korea to guarantee against regime change by military action?

DR. FRIEDBERG: I think there are two issues there. One is our willingness to engage on a bilateral basis. The position of the administration has been that we will talk to our North Korean

counterparts, but we will do so in the context of multilateral negotiations, so we are not going to sit down separately because we feel based on past performance that if the North Koreans sign an agreement only with us and are not held to account by their neighbors, that this will not be sufficient.

So I think the official position is, yes, we'll talk, but we won't have separate bilateral negotiations.

On the question of a security guarantee, I think the position of the U.S. government, and I should emphasize that I don't speak for the administration and don't know the details of the current discussions, has been that we're not at this point threatening anyone and to be asked to not threaten implies that, in fact, we are. I think what we might be willing to do eventually would be to discuss some kind of security arrangement or security guarantees, multilateral guarantees, in which all would participate, which would provide some measure of assurance to the North Koreans.

The question you have to ask in both the Iranian case and the North Korean case is: are regimes like this, which seem in many ways to be extraordinarily cynical about international law and international institutions really going to take seriously a piece of paper? Are they going to accept any guarantee or promise that we make? My hunch is no.

COMMISSIONER MULLOY: You were in the Office of the Vice President from 2003 to 2005 as the Deputy Assistant for National Security Affairs. In your prepared testimony, you tell us the Chinese have a three-point strategy: avoid conflict; build comprehensive national power; advance incrementally. And you say you believe, although you can't prove, that they really want to displace us as the preponderant power in East Asia.

Do you think our present trade and investment and technology and other policies toward China in which we're running this huge trade deficit and which they are clearly incentivizing American companies to go over there and put not only put manufacturing jobs but high tech R&D and other things, do you think we are inadvertently or maybe even consciously helping China build the comprehensive national power by which they will be able to displace us as the preponderant power in East Asia?

DR. FRIEDBERG: When I say that I believe but I can't prove, I'm there agreeing with what has been the kind of consensus view in the intelligence community about China's long-term objectives, although there are disagreements on whether that's the case or what it means for China to displace the United States, and I don't have time to go into all that, but I certainly believe that that's the case.

But really the key question that you ask is whether our trade relationship is in some way helping them do that?

COMMISSIONER MULLOY: Trade and investment and technology transfer and everything else.

DR. FRIEDBERG: Yes. It certainly is helping them develop comprehensive national power. I don't think there's any denying that. It's helping them grow economically and develop technologically, and to some extent that process, even if it's not direct, is helping them develop their military capabilities and become a more influential player in East Asia.

The hope that underlies current policy and has been at the basis of our policy for dealing with China for many years, going back before this administration, is that this process of economic development and greater openness will promote political change in China and eventual liberalization which will make their longer-term interest converges more with ours.

So there's a hope that while at the present they may think they're building up and getting ready to push us out, actually they're changing, we're changing them faster than they're changing us, and that in the long run--

COMMISSIONER MULLOY: Do you believe that hope that is well founded?

DR. FRIEDBERG: Well, I have to say I haven't seen a lot of evidence for it, and I think that's becoming a concern to many people. It's not to say that it couldn't happen. There is some evidence of-- certainly there's dramatic social change in China, but as far as meaningful political reform, by which I would mean the introduction of real political competition, I don't think any serious analyst of China would say that we see evidence of that.

COMMISSIONER MULLOY: Thank you.

HEARING COCHAIR REINSCH: Thank you.

COMMISSIONER MULLOY: And thank you, Mr. Chairman.

HEARING COCHAIR REINSCH: Commissioner Bartholomew.

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you very much. Dr. Friedberg, thank you so much for being here today and thank you for your honesty because I really appreciate the fact that there are people who are willing to say the Chinese interests in this problem that we face are probably not the same as our interests in this problem, and that we have been giving them a lot of credit over a number of years, but they haven't taken the kinds of action that they could have taken.

I really want to note that we have sublimated a number of our other interests in the U.S.-China relationship, taking action on those

interests, to the fact that for at least a decade, members of Congress have been told, well, we can't push on human rights, we can't push on trade, we can't push on this, because we need them on North Korea.

I also want to commend you and acknowledge what you said about drawing a distinction between process and results. For this administration, for the administration before it, and frankly for the first Bush administration, I think sometimes process is all that people believed they could get, and they were too willing to be satisfied with talk and no results came about because of it, and in the case a like North Korea, it's extremely dangerous because it's not as though nothing is happening while the process is going on.

So thank you. I'd like to actually do an unfair question to you, which is to ask your thoughts on a hypothetical. As the North Koreans were saber-rattling about whether they were going to do tests in July, Ash Carter wrote a piece about what we should be doing as a preemptive strike on the site and Newt Gingrich came out in support of that concept. And I just wondered if you had any thoughts about what you think the Chinese government might have done had we taken that action?

DR. FRIEDBERG: It's a good question. I'm glad not to have been in a position where somebody asked me that at the time. I think that it would have been a very bad idea frankly. It would have been extraordinarily provocative. There wouldn't have been any conceivable justification for doing it under international law, and I'm afraid it would have tipped over the apple cart and seriously damaged our relationship with the South Koreans and thereby benefited China in ways that I described.

I think if they were prudent, the Chinese might have not done anything directly but simply have complained vigorously and refused to participate further and brought a motion at the U.N. to condemn American aggression and so on.

I don't think they would have stepped in militarily if all that we had done was knock over a few gantries with rockets on them, but I think they would have felt compelled by their alliance relationship with the North and by their concerns about their standing and stature to be vigorous in denouncing our action. I don't think it would have provoked a war, but it would have disrupted a process that at least has some possibility of results and would have gotten them off the hook frankly for being asked to do the kinds of things that I suggest they might do.

COMMISSION VICE CHAIR BARTHOLOMEW: Do we know if the Chinese have some sort of mutual defense obligation with the North Koreans?

DR. FRIEDBERG: They do have a treaty that goes back to the early Cold War. I don't know exactly what the provisions are on this question of mutual defense, and there has been some discussion of whether the Chinese might consider revising the terms of the treaty.

I don't think that they're in any way automatically committed. I would be surprised if they were automatically committed, but it is a mutual alliance.

COMMISSION VICE CHAIR BARTHOLOMEW: And you're outside of government now. Has any perception of an obligation that the Chinese would have played a role in our consideration of military options for dealing with North Korea?

DR. FRIEDBERG: I would say I believe that people sitting here in Washington and trying to anticipate what would happen if we were to use military force on a large scale would have to take into account whatever information they had on the existence of understandings about Chinese action in that case, but regardless of what was written or not written, I think they'd have to be very concerned that unless they had Chinese agreement and acquiescence, there would be some kind of response, not necessarily against the United States, probably not, but maybe Chinese themselves taking up some position in North Korea to protect their borders, to stabilize North Korea, if they feared that an American attack was going to overturn the existing regime.

So we would have to be worried about that. I don't know that we can anticipate with great accuracy what the result would be. My impression has been that the concern is more what the North Koreans themselves would do in response to some limited use of force and you've, I'm sure, heard people talk about however many thousand artillery tubes it is in range of Seoul. I think the concern has been much more about what the North Koreans would do than what China would do.

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you.

HEARING COCHAIR REINSCH: Thank you. Let me say I think we'll have time for another round, at least an abbreviated one. Commissioner Thompson.

COMMISSIONER THOMPSON: Thank you, Dr. Friedberg. In trying as best we can to determine how the Chinese view their own self-interests, let me pose a bit of an analysis and see whether or not if you agree with its accuracy in terms of the balance here with regard to the issue of nuclear proliferation.

It would seem, to me anyway, that they would have an interest in lack of development and proliferation because of the reaction that Japan might have; that as far as North Korea is concerned, there's always the possibility if they go too far, the United States might take

some action which would cause instability in North Korea, which regime failure and economic disaster, which I assume is a great concern of theirs. Both things kind of militate toward there being concern about proliferation prospects, and the Middle East, one would think that they would be concerned if things got out of hand there and we took action, military action in particular.

It would have ramifications as to the price of oil and perhaps even the availability of oil. So all those things, I would ask you whether or not those would kind of militate toward their being concerned about the prospects of continued proliferation with regard to what our actions might be?

On the other hand, would we not say that militating against that would be their prospect now of continuing under the present course of things, to continue to stymie the United States? North Korea as it stands right now has got the United States interest and concern. It is a card perhaps that the Chinese can play now or later as they see it necessary. So therefore it's useful to them.

With regard to Iran, on the short term, their interest is commerce and oil availability and that seems to be going very well right now. So is that a decent analysis of how we perceive or how you perceive they perceive their self-interest with regard to the issue of proliferation?

DR. FRIEDBERG: Yes, I think you're right.

COMMISSIONER THOMPSON: Add to or take away any of those.

DR. FRIEDBERG: Let me start by saying I think the Chinese attitude toward nuclear proliferation certainly has changed a lot in the last several decades. In the '60s and '70s, into the '80s, their attitude was much more relaxed and they were helpful to Pakistan and provided equipment and knowledge which allowed nuclear weapons to spread.

They've become much more concerned about that, much more conservative. I don't think they see it as being in their interests for nuclear weapons to multiply if only because that would reduce the value of their own arsenal if everybody has them and if people, particularly around their borders, have them, that may be worrisome.

So if they could snap their fingers right now and stop North Korea from getting nuclear weapons or stop Iran from doing it, they probably would prefer that. But they don't have complete control, and as you say, I believe they see benefit in the current situations, both in North Korea and in Iran. These confrontations are dangerous. There's the possibility that they could explode which would be worrisome and possibilities also that the United States could blame China for not doing enough to bring them to a successful conclusion.

But for the time being, the continuation of these standoffs puts

China in a position of being able to exert a considerable influence over us, being able to say that they're being very helpful, to restrain us from doing things that we might otherwise be inclined to do, and to hold out always the promise that eventually they'll deliver.

So they've improvised. They've taken advantage of these situations.

COMMISSIONER THOMPSON: How do you think they view the situation with Japan and their potential?

DR. FRIEDBERG: I think it's more in my written statement than what I have said here. I think to a certain extent the Chinese seem at least for the moment to have discounted this possibility. That could change. They may have concluded that the Japanese eventually are going to get nuclear weapons regardless of what happens in North Korea. They may have concluded that there are too many constraints on the Japanese to acquire nuclear weapons in the near term so they're not particularly worried about it.

They may also believe or they may have believed in the last several years that as long as there was some doubt about the extent of North Korea's development, that fact would restrain this danger of nuclear dominos falling one after another.

One red line that I believe--again, I don't know, but I believe--that the Chinese have laid down to the North Koreans is on nuclear testing because if the North does test, it removes all doubt and Chinese might feel that that was a very significant line, which if crossed would be more likely to trigger this process of proliferation, which I don't think they want to see happen.

But that doesn't mean that they couldn't live with a recessed North Korean nuclear deterrent or a virtual Iranian nuclear capability that was very close to being operational, and that I think is a bottom line that's very different from ours.

In one sense, I think both of these crises are like kites or planes. The Chinese are flying this thing and it's going along, and it's going pretty well. The question is how do you bring it in for a landing? As long as it's up in the air, I think that they feel that they have some control, but what happens if and when these issues have to be resolved, if they come to a point?

For now, on the North Korean question, I think they continue to believe that this can be played out, dragged out, perhaps over time we'll come to terms with the reality of a North Korean nuclear capability. Maybe there will be a new administration in Washington in two years which will have a different attitude towards this issue. Who knows?

But at some point, I think there could be a problem, and they



will have to recalibrate their strategy if they feel that the status quo can't just continue.

COMMISSIONER THOMPSON: Thank you very much.

HEARING COCHAIR REINSCH: Thank you. For the information of commissioners, our other witness for this panel is on his way and will be here shortly. The votes continue in the House and Congressman Weldon has been delayed so that means we have more time to talk with Dr. Friedberg.

Commissioner Donnelly, you have a remaining question?

COMMISSIONER DONNELLY: It may seem like I'm just going to ask the same question again, but I'll try to do it in an entertaining way or at least one that might illuminate other aspects of it.

I'm entertained by your metaphor of bringing this crisis in for a landing, but might suggest that the airspace is getting kind of crowded and there are a lot of airplanes competing for landing rights, so to speak.

COMMISSIONER THOMPSON: That's very good.

COMMISSIONER DONNELLY: Peter Rodman told us today essentially the same thing. He said that the failure of the international community to impose costs on problem-making countries was creating a systemic risk and then he went on to ask the question how it serves China's interests which was something that my colleagues got at.

My question would be how do the Chinese actually see this crowded airspace? Is it a system that is essentially robust and healthy and can endure these crises and there's no timely need to resolve them?

You yourself said they see at least a mix of benefits and risks associated with it.

Again, if it's in their interests to resolve these crises in a timely fashion, and we also talked about the Darfur crisis in the same context.

Why is it that they see benefits in the international community's inability to solve its problems?

DR. FRIEDBERG: It's a good question. First I would say that the Chinese, like other human beings and societies, as good as they may be in certain respects in thinking about the longer term and behaving in a strategic fashion, are prone to the kinds of errors at times that we've seen in the case of other states. It may be that they're enjoying the short to medium-term a little too much and not thinking enough about what the longer-term implications may be. That certainly has happened in the past.

I don't believe that they would benefit, in fact, from a breakdown of the existing system. I don't think that they believe that they would benefit.

So if the NPT were to completely unravel, that is something that

could be very worrisome to them. Are they doing enough to uphold it?

No. Are they gaining from the protraction of this crisis and standoff?

Yes. I think part of the reason why in addition to the leverage that they may feel that they've gained with us in the sort of short to medium term by being in a position of importance and value from these standoffs is-- and this is something that's inference only. I don't think that they shed any tears, particularly after the last several years at seeing us stymied and at causing our stock and perceptions of our power and our ability to get what we want in a number of different situations without others, and particularly without their consent and assistance, to fall--so I don't think they're concerned at this picture that Mr. Rodman painted of the United States and others, but the United States principally, huffing and puffing and not being able to blow the house down.

I think it suits them rather well to have others reassess their estimate of our power and to increase their estimate of Chinese power in the long run.

HEARING COCHAIR REINSCH: Thank you. Our witness has arrived, but if we have a couple more questions, and if Dr. Friedberg is willing, we'll continue on.

Commissioner Bartholomew, you had a question?

COMMISSION VICE CHAIR BARTHOLOMEW: Yes. I want to take up the issue of regime change, which Senator Thompson mentioned in the context of Iran. I understand the Chinese government's concern about hoards of North Koreans going across the border, but I think if we look at the circumstances under which the majority of the North Koreans are currently living, their lives are really desperate and change in regime could only serve to improve the lives of the people of North Korea.

I don't think that the state of what's happening to the North Korean people is of that much concern to the Chinese government. But what role should regime change or the concept of it be playing in our policy as we--it seems that the stalemate that we have vis-à-vis North Korea has been going on for a decade.

I just don't know that this situation is going to be resolved the way that we're currently doing it. So we have to think about other things. What are your thoughts on what role it should be playing?

DR. FRIEDBERG: I suppose it depends on what you mean by regime change. I think what the Chinese don't want to see is collapse and the absence of any regime or chaos. Do they have a sentimental attachment to Kim Jong Il? My guess is no. My hunch is they regard him as an irritant and are annoyed at various things that he's done.

It doesn't mean that they have the capability or, if they had the

capability, that they would exercise it simply to remove him and put someone else in. I don't think that they could easily do that.

I believe that the answer they give themselves and the answer that they perhaps give to the South Koreans to this question is, well, we're trying to persuade the North to make some sensible economic reforms. We're trying to encourage them in effect to do things that we ourselves, the Chinese, have done, so recently the Chinese authorities hosted Kim Jong Il on a visit to China and took him around to various plants and facilities and cities and he nodded and beamed as he was shown all of this, and the assumption I think is that, at least the message that's being conveyed, is that the Chinese are trying to encourage him to adopt economic policies that would promote growth in North Korea and would make the lives of ordinary North Koreans better.

That I think is their answer, that it's a long-term process and that's the only way that things are going to improve. The question I have is whether there is any prospect that the current leadership of North Korea is going to agree, in fact, to even the kind of limited economic reforms which would involve some degree of openness, greater trade and investment from the outside? Are they going to allow that or will they see that as profoundly threatening to their continued grip on power?

I think sometimes we imagine that if only the North Korean regime were presented with enough benefits for its people--sometimes we talk this way--Kim Jong Il can make a choice. He can improve the lives of ordinary North Koreans and so on. It assumes (a) that he cares about that; and (b) that he does not see such openness as threatening to his own survival. And I don't think either of those is the case.

COMMISSION VICE CHAIR BARTHOLOMEW: I think he's demonstrated that he doesn't care about those things.

DR. FRIEDBERG: Right. Yes.

COMMISSION VICE CHAIR BARTHOLOMEW: But to get to the issue that you raised about the Chinese government not being, or having an interest in having a buffer state. Do we have any reason to believe that they're interested in the democratizing Korean peninsula?

DR. FRIEDBERG: I don't think they would--they're certainly not interested in seeing a democratized country on their immediate frontier if they can avoid it. I think they would see that as potentially threatening, a source of ideological contamination that they would rather not have to deal with, given all of their other concerns about internal stability.

That doesn't mean that they don't accept that in the long run

there could be unification which is not going to be under the North, the model of the North, but ultimately would be modeled on the basis of the society in the South. Then the question is what would be the diplomatic alignment of that unified Korea? If and when it happens, if it is, in fact, a liberal democracy, is it going to continue to be aligned with the United States? I think they would clearly prefer that that not be the case or I infer, I guess that they would prefer that that not be the case.

There is another possibility in all this. We tend to think of problems as having solutions, situations as having to come at some point to an end. The Korean peninsula has been divided for over 50 years. That has for the most part suited China. Perhaps they believe that it could be under some circumstances divided for a lot longer and what they're aiming for is increased influence, commercial relationships in the North that will allow them to exert a greater control over time and what happens there. They don't want to have this little isolated dangerous state that's also a burden on them.

In the long run, they probably would prefer to see reforms that would leave a Communist Party firmly in control of the North, but would lead to some greater economic development and would make North Korea less of a burden and maybe an asset to them.

If that's a second-best solution perhaps to unification, I think they could live with that for a long time.

HEARING COCHAIR REINSCH: Thank you. Commissioner Mulloy has one final question.

COMMISSIONER MULLOY: Dr. Friedberg, I was looking again at your bio and you've had vast experience. I know you're here to testify about North Korea--could you opine on Iran as well?

DR. FRIEDBERG: In what regard?

COMMISSIONER MULLOY: On this issue of the nuclear problem in Iran. The Security Council, I think finding itself deadlocked as to how to move ahead now. One of our earlier witnesses said that they may be seeking this kind of dialogue that North Korea was looking for, a separate dialogue with us, about cessation of activities dealing with regime change and other things.

Do you think that's a wise way for the United States to proceed, assuming that the Security Council gets deadlocked?

DR. FRIEDBERG: I think, as in the case of North Korea, the only way that I can see for there to be a prospective peaceful satisfactory outcome to the nuclear standoff with Iran is if the great majority of the relevant players in the international system, which includes China and Russia and the Europeans as well as the United States, are willing and demonstrably willing to apply greater pressure,

economic and diplomatic pressure.

Without that, there's no prospect of a satisfactory resolution. Would the Iranian regime agree to abandon its nuclear programs in return for security guarantees or economic benefits of various kinds, I have to say I'm very skeptical for reasons that I suggested earlier.

I don't think they would be inclined to accept written security guarantees. I think they believe that--the current leadership believes that the nuclear programs have become a symbol of national power and prestige that they would be reluctant to abandon. And I don't think that they feel themselves to be in a position where they have to give them up because of the absence of pressure, because of the deadlock in the Security Council and so on.

So I know that one of the suggestions that's been made is we ought to offer them a grand bargain that would include security and economic guarantees, and I suppose under some circumstances, it might be worth trying that. But my hunch is they would take as much as they could from that and not give up the core of a nuclear program.

HEARING COCHAIR REINSCH: Thank you.

DR. FRIEDBERG: And they've said as much.

HEARING COCHAIR REINSCH: Thank you, Dr. Friedberg.

COMMISSIONER MULLOY: Thank you.

HEARING COCHAIR REINSCH: We need to move on to Dr. Asher. A pleasure to have you here. Dr. Asher is an adjunct scholar at the Institute for Defense Analysis. Prior to that position, he served as a senior adviser in East Asian affairs for the U.S. State Department, and as coordinator of the Bush Administration's North Korea Working Group.

As I said to Dr. Friedberg, your full statement will be placed intact in the record, so feel free to summarize.

DR. ASHER: Okay.

HEARING COCHAIR REINSCH: As I also had said, we were awaiting Congressman Weldon, but I don't think he's going to be able to make it. Well, then, proceed.

**STATEMENT OF DAVID L. ASHER, Ph.D.  
INSTITUTE FOR DEFENSE ANALYSES, ALEXANDRIA, VA**

DR. ASHER: Thank you very much for the opportunity to address the Commission today. I applaud the work that your Commission is doing. It's very important for our country. I speak to you as someone, as you know, who spent a considerable amount of time in the first term of the Bush administration working on North Korea matters for the State Department and coordinating the National

Security Council's North Korea effort as well regarding the pressure side of our policy, not the diplomatic side.

I also was a delegation adviser to the Six Party Talks so I was an active participant in our diplomacy with North Korea. I want to make five points. Let me say before that, though, that I am speaking, of course, on a personal basis. I'm no longer a government official. Sometimes people in the media refer to me as if I'm still in the government. I'm not and I'm not sure that the administration will necessarily concur with some of the things that I'm about to say.

I want to make five points today regarding the China-DPRK relationship and how we should approach it.

First, working closely with China obviously is very important, but we need to be realistic about our differences. We all should appreciate the role that China has played as the host of the Six Party Talks, and I have no doubt that China's leaders are sincerely interested in some form of diplomatic resolution of the core issues on the Korean peninsula.

They have done a magnificent job bringing the parties together and facilitating dialogue on a critical issue at the Diaoyutai State Guest House. All of us who have been involved thank them. At the same time, I am convinced that the Six Party Talks mean something very different for China than they do for the U.S. or Japan.

In fact, I sense that for many in the Chinese leadership, the Six Party Talks have become more about managing the U.S. and Japan in order to temper the possibility of us taking unilateral actions or bilateral actions that could disrupt North Korean stability rather than seriously promoting the denuclearization of North Korea.

Despite its leading status in the talks, China has only on rare occasions been willing to put pressure on North Korea to denuclearize.

Instead, the sporadic pressure it has applied has been more geared to trying to get the DPRK to act somewhat more civilized and less menacing, aiming to control rather than to eliminate the DPRK nuclear menace.

There even may be some in the Chinese military who feel that their North Korean ally, by possessing nuclear weapons and delivery systems, can serve as a proxy to intimidate Japan, impair our alliance with the ROK, and indeed put pressure on the United States directly.

Perhaps they also reason the U.S. can be deterred from taking action by North Korea's possession of a robust arsenal of weapons, of nuclear weapons and missiles in a way that we would not be if the North had a much smaller capability.

For example, the large-scale deployment of North Korean nuclear capable missiles over the last decade that can readily strike Japan

never seems to have become a sufficient problem for the PLA to protest.

Likewise, the development of a North Korean ICBM that could hit the United States has not elicited any significant negative feedback that I'm aware of, let alone serious pressure from China.

One would rationally expect the Chinese might make these missile developments make or break issues with the DPRK given the fact that their deployment might induce the United States to take a unilateral strike at some stage, encourage Japan to develop its own offensive capabilities, potentially including intermediate range ballistic missiles and nuclear weapons.

And of course, increases the urgency for the U.S. and Japan to deploy missile defense systems that reduce the effectiveness of China's deterrence against us. Frankly, I am puzzled and disturbed by the PRC's passivity regarding North Korea's combined nuclear and missile build-up.

The bottom line, as judged through its actions more than its words, is that China apparently believes that it can live with a nuclear-armed North Korea as long as the DPRK maintains its stability and is integrated gradually both economically and politically into the international community.

I believe Beijing would find it especially easy to accommodate a nuclear-armed North Korea if the North returned to the Nonproliferation Treaty and adopted some form of safeguards for its weapons and programs. In fact, this might represent the most we could hope the PRC would hope to get out of the Six Party Talks.

These steps while important fall far short of the headline aims of the Six Party Talks and the fundamental objective of the Bush administration to seek a denuclearized North Korea, an aim that I support wholeheartedly.

I feel that China's differing perspective on the denuclearization of North Korea seriously hampers the viability of the Six Party Talks as an effective negotiating forum. And of course, I was involved in creating the Six Party Talks so I say this with some humility.

One year after the last meeting, at which a major agreement was reached, an agreement that Pyongyang promptly dismissed, we need to rethink our strategy. It is obvious to all that the process of holding the Beijing talks has become less a means to an end and more an end to itself.

Efforts to get North Korea back to the table have been placed ahead of what North Korea does at the table, as well as what others are willing to do to North Korea if it doesn't change its behavior. The talks also have served to hamper us from taking certain defensive

measures that we should have taken long ago, but didn't do so because of a fear of disrupting the talks.

They probably also have hindered what could have been a meaningful independent dialogue with elements in the North Korean power structure outside of the foreign ministry buffers we'd be wise to have contact with, especially as we turn up the heat, or if indeed we are serious about testing the DPRK's willingness to set a new course.

This doesn't mean that at the appropriate stage we should not reconvene the Six Party Talks, but we need to be mindful of when and where such a forum will be useful. The real utility of the forum will be once North Korea through dialogue or pressure, internal or external, feels compelled to shift directions, give up its nuclear weapons and seek a new path for its people.

At that point, all the parties will need to be involved in settling the Korean War and creating a normalized state of relations with a unified Korea or a one that has peacefully adopted some form of confederation. Until then, I think we maybe will be far more effective at influencing the North Korean regime via a multi-tiered approach with multilateral, bilateral, and unilateral elements of diplomacy and pressure that has at its core an active unwillingness to accept the status quo inside North Korea and a firm determination to change it.

Such a Cold War style approach will be much more appropriate toward our last remaining Cold War adversary in Asia.

Second point, China has long served as a safe harbor for North Korean proliferation and illicit trading networks and a transport hub for these networks via its airports and airspace, harbors and sea space.

Moreover, in the past decade, there have been way too many incidents of Chinese companies actively fronting for North Korea in the procurement of key technologies for its nuclear weapons program.

Some of these incidents suggest lax enforcement of export controls, poor border controls, and a head-in-the-sand attitude of senior authorities. Others suggest active collusion and/or deliberately weak enforcement of international laws and agreements against WMD and missile proliferation.

I can't get into the details, but there is a great body of information and the Chinese are well aware of our grave concerns. For many years, China also has exhibited a remarkable tolerance of the DPRK's deep relationship with organized crime in China and the use by Chinese organized crime groups of North Korea as a sort of criminal's paradise to produce illegal items both for sale in China and export internationally.

Ironically, China has long been the biggest victim of North Korean illicit activity, including the passage of counterfeit U.S.



currency, North Korean drug dealing, and the distribution of DPRK-produced counterfeit cigarettes, a gigantic business for North Korea.

There are even public reports that North Korea is counterfeiting the renminbi. Given North Korea's flagrant disregard of Chinese law, I always hoped China would want to be an active partner in the Illicit Activities Initiative. However, in my time, at least, PRC authorities offered little cooperation, especially compared to those in other countries.

China's uneven record in the first term of the administration contrasts sharply with the very positive improvement and cooperation with Taiwan. Taiwan's record was historically lax, both in terms of export control enforcement and law enforcement cooperation against domestic organized crime groups who had been partnered with North Korea.

However, under our watch, we formed a high level task force, commenced a wide range of cooperative efforts and joint investigations. These included steps toward a full revamping of the Taiwanese export control system, and a variety of joint law enforcement efforts of considerable importance against North Korea. Taiwan has volunteered to do what the mainland unfortunately has resisted.

Third, we need to recognize that China has responded favorably only when its bottom line is directly affected or it felt under serious but reasonable pressure. American appeals based on China's responsibility to uphold international laws and agreements as some form of stakeholder typically fall on deaf ears.

If we want Chinese government officials to act, we need to either present the specifics in a way that is beyond dispute or suggest that if they don't get a grip on the facts and do something themselves, there will be significant economic consequences. Appealing to their self-interest is much more persuasive than appealing to their purported to their purported sense of global responsibility.

For example, from early on in our time at the State Department, we repeatedly raised the issue of rampant DPRK money-laundering crime and proliferation activity in Macau with our PRC counterparts. The response to suggestions in Beijing or even in Macau that they crack down was typically met with comments such as that's the first I've ever heard of it, but we'll look into it, or we find no evidence that this suspicious activity is going on.

Of course, a compilation of the press alone on North Korea's use of Macau as a money laundering center probably could equal the length of an encyclopedia, and we knew that Chinese authorities were well aware of the crooked reality of North Korea's presence in Macau.

Still, they were unwilling to act. That is until September of last year when the U.S. Treasury Department designated a small Macau bank named Banco Delta Asia, under Section 311 of the Patriot Act. This designation specifically cited the role the bank played in facilitating North Korean illicit activities. It triggered immediately a run on Banco Delta Asia that forced the government to take it over.

Chinese authorities, moreover, then froze roughly \$24 million in North Korean funds at the bank. Furthermore, according to press accounts that White House spokesman Tony Snow publicly confirmed on July 26, China took other much more significant actions against North Korean illicit funds in Macau.

Although I'm not aware of the details, since I had already left the government, I had certainly hoped Chinese authorities would take proper action when the time came when I was involved in shepherding the process of planning this action against Banco Delta. I believe they did this less because of a desire to punish North Korea for its performance in the Six Party Talks, as has been alleged, and more out of a recognition that other banks of far greater importance to China's national economic interests and bottom line could have been affected, and because frankly it's in China's economic interest to improve Macau's anti-money laundering and financial supervision standards.

The facts certainly were neatly aligned as well. For example, the role of several Macanese banks in North Korean illicit activity had been documented in law enforcement investigations conducted pursuant to the illicit activities, that not coincidentally had been unsealed in public indictments two weeks before and which Chinese authorities were made aware of.

Other information was readily available thanks to a South Korean investigation into the hundreds of millions of dollars of bribes deposited into Macau banks by North Korea to buy the 2000 summit between North and South Korea.

One of these banks was getting ready for a multi-billion dollar initial public offering of its stock and I think was particularly conscious of its need to comply with international anti-money laundering standards.

The bottom line is that the Chinese are pragmatic and expedient, and when their financial or economic interest is affected, and they see a clear case for taking action, they'll take action. I think it is much more persuasive for them thinking from an economic perspective than it is from a geopolitical perspective.

Despite problems and setbacks in the past, I should note, though, that there seems to be a qualitative and quantitative improvement in the cooperation going on between our governments related to North

Korea.

Reports that the PRC froze significant sums of money not only in Banco Delta but elsewhere in Macau are encouraging. Likewise, the fact that the Chinese Central Bank has publicly advised Chinese banks to be on the look out for counterfeit U.S. currency and the laundering of its proceeds offers further encouragement. They've never done anything like that before.

Finally, China's willingness to sign on to U.N. Resolution 1695 could be a historic development. That resolution, as you're well aware, requires the member states to take all necessary means to crack down on DPRK WMD and missile activity including the underlying finances that support the activity.

Fourth, and coming toward the end, in line with U.N. Resolution 1695, we need to insist that China take more significant measures to counter North Korean proliferation activities. Among others, let me suggest some broad as well as specific steps.

First, China must join the PSI. The PSI now has some serious legs. In the past, it was more talk than action. Now, I think it's much more action than talk. I'm very impressed by what Under Secretary Joseph is doing. It's exactly the right thing, and the proliferation of WMD offers the surest way to undo the stability regionally and globally that China relies on for its prosperity as a trading state.

It's in China's interest to be a partner rather than a free rider in the global counter proliferation arena.

HEARING COCHAIR REINSCH: Are we coming to an end soon?

DR. ASHER: That's right. I am.

HEARING COCHAIR REINSCH: Good.

DR. ASHER: They also should join the Illicit Activities Initiative, and China, I think, needs to police the trade that North Korea conducts through its borders and inside China much more effectively.

There are way too many containers coming through Chinese ports from North Korea being shipped into the international system that have never been inspected and no one has frankly any idea what's inside of them.

If North Korea is going to ship WMD around the world, much like the Khan network was able to ship WMD around the world; the international containerized cargo system offers a very facile way to do that.

Finally, I think that Beijing needs to take a zero tolerance approach to the proliferation and procurement networks that have been identified publicly within its borders including a range of trading companies that the United States has sanctioned, which as far as I

know continue to operate.

And finally, they also need to I think be much more vigilant about the use of the DPRK diplomatic presence in China as a means of conducting proliferation related and illicit trading activity.

Final point is that we need to also appreciate a positive aspect of China's approach to North Korea. China in my mind is engaged in a process of flooding North Korea with a range of consumer goods and encouraging a range of investment activity that is not happening just in a spontaneous manner. I get the sense, and I don't this for sure, that there is some sort of policy aspect to it.

I think this is best evidenced by the fact that the renminbi seems to be actively supplanting the yuan as the currency in North Korea. Somebody is pumping Chinese currency into North Korea it seems to me well above and beyond what traders are just carrying in.

In this regard, I believe we can identify what may be an economic regime change policy toward North Korea, that in time may undermine the rule of the Kim dynasty inside and out. I believe we can work with China to spread the sunshine of capitalism in North Korea even as we compel it to crack down on the moonshine that satiates the North Korean elite and supports the DPRK's WMD programs.

In conclusion, I've tried to paint a realistic appraisal of where China stands and where we stand vis-à-vis a nuclear armed North Korea. I welcome your questions and comments.

### **Panel III: Discussion, Questions and Answers**

HEARING COCHAIR REINSCH: Thank you. Commissioner Bartholomew.

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you very much. Thank you, Dr. Asher. Interesting and comprehensive testimony. I'm noting in particular your comment, your statement that China has exhibited a remarkable tolerance of the DPRK's deep relationship with Chinese organized crime and the use by Chinese organized crime groups of North Korea as a sort of criminal's paradise to produce illegal items both for sale in China and export internationally.

Do you think that one of the reasons they might be willing to tolerate this is because there are corrupt Chinese government officials who are benefiting from it?

DR. ASHER: I'm sure there are government officials who are corrupt who are benefiting from it. I don't think it's at the center of the government. I'm sure they don't support it. They have taken some

measures to cut back on, for example, the tobacco trade along the border, but they don't seem to have a full control over the state power apparatus for controlling the flow of goods across that border in a way that is consistent with their export control policies and their law enforcement policies.

COMMISSION VICE CHAIR BARTHOLOMEW: But they seem to be quite insistent on focusing on controlling the flow of people across that border.

DR. ASHER: Yes, that's true. But it's a relatively long border, relatively porous border, and a lot of stuff can get across that avoids the major crossing points.

COMMISSION VICE CHAIR BARTHOLOMEW: And these goods that are being illegally produced, I presume that some of that is intellectual property rights violations?

DR. ASHER: Oh, sure. North Korea is probably the second-largest producer of counterfeit tobacco products, particularly counterfeit cigarettes, in the world today and is counterfeiting a multitude of foreign-brand cigarettes including Chinese brand cigarettes and American brand of cigarettes.

Normally what they do is they export these in containers from their containerized-cargo ready ports on the west and east coast. Najin, up near the Russian border, is the one that's been most associated with the counterfeit cigarette trade. They will ship those to let's say Shanghai and then they would be transshipped around the world.

COMMISSION VICE CHAIR BARTHOLOMEW: And the Chinese government has been--how shall I put this--less than successful in efforts to address the intellectual property rights violations, the shipment of IPR violated goods produced in China itself.

DR. ASHER: Sure.

COMMISSION VICE CHAIR BARTHOLOMEW: Why would we believe that they would be interested in or willing to try to address the issue of goods that are coming out of North Korea?

DR. ASHER: It would be a tragic thing if a nuclear weapon or related systems were exported from North Korea via a Chinese port into the international system. China has an interest in economic stability that is really far deeper than ours globally.

We have an interest, but their trade, they're much more dependent economically on international trade than the United States is. We all want to see stability. China needs to take responsibility for policing the use of its ports, airspace, sea space, and harbors by North Korea in the conduct of its transnational illicit activities and

proliferation.

It is apparent that they have trouble controlling their own domestic groups. Many of these domestic groups, by the way, are in partnership with North Koreans and they are located inside North Korea, but irrespective of that, this is a government in North Korea that has said that it might export nuclear weapons, and I have every reason to believe that they would, and I know that their direct links to the international trading system are being curtailed. They can't, it's very hard for a North Korean flag vessel to go from somewhere in North Korea to let's say the Middle East uninspected.

But they certainly could ship a container from any number of their ports through the port of Shanghai, the port of Hong Kong, or others, and it could go to all sorts of countries including the United States. We received many containers from North Korea in the conduct of the "Royal Charm" and "Smoking Dragon" investigations that I was deeply involved in over the last four years.

North Korea was selling tens of millions of dollars of counterfeit tobacco products and counterfeit currency into the United States directly.

COMMISSION VICE CHAIR BARTHOLOMEW: Thank you.

HEARING COCHAIR REINSCH: Commissioner Donnelly.

COMMISSIONER DONNELLY: Thank you, Mr. Chairman. Dr. Asher, thank you for your testimony. I was particularly impressed with your exposition of the spirit of U.N. 1695 and what would follow on from that. We've been thrashing for some time to try to define what a responsible stakeholder in the international system would look like, and those bullet points, and I commend them to my colleagues, go pretty long ways toward defining what that means in proliferation and in regard to illicit activities.

However, I'd like you to talk a bit about how to make this so. I think you quite correctly said earlier, early in your testimony, that sort of appeal to, sort of abstract appeal to the idea of becoming a stakeholder is not likely to produce a result.

On the other hand, contrary to what you say in your testimony, I think it certainly is in China's near-term interest to be a free rider in the international system as long as possible. That has also an appeal to many of our European allies as well.

You went on to suggest that actually some form of more coercive activities in the United States in the terms of--and you suggested what sounded to me like economic sanctions in order to not simply encourage China to become a partner but to actually impose some costs to ensure that it become a full-fledged partner and, again, in line with 1695, a vigorous and active partner in enforcing international norms.

So if you could kind of walk us through, again, whether I've summarized your testimony correctly and what we ought to be willing to do by way of, maybe coercive is not the right word, but again, maybe a cost-imposing approach to incentivizing the Chinese to become responsible stakeholders.

DR. ASHER: I don't think you can punish the Chinese into cooperation, but I do think you can create a greater incentive structure, and you can certainly enforce your laws against financial institutions, for example, in China, that are actively violating U.S. laws, that we are bound to enforce, regarding the use of the international financial system for conducting transnational illicit activity or weapons proliferation in a way that contradicts the U.N. resolution you cited.

I think that the Chinese understand that. They're just not going to volunteer to take actions, but I think that we need to be active, very active in trying to push them to do things. I think that we have leverage that we should be willing to utilize.

I don't think we necessarily need to do it in a sort of rough and tumble fashion. They are a partner in the Container Security Initiative, for example. I am deeply concerned about this container issue from North Korea. They have the means to inspect containers and to conduct intelligence on containerized cargoes and transshipment methods, freight forwarders, et cetera.

They've done that, developed this in conjunction with U.S. Customs officials on the ground in China, and it's been working quite well as far as container cargoes destined toward the United States. What I would suggest is that we apply the same techniques toward the several thousand containers that are coming out of North Korea and being transmitted through Chinese ports into the international system.

It's not a particularly complex challenge. Now, if they don't want to cooperate, it might have some bearing on their ability to process trade as efficiently as they might like into the port of Long Beach or other ports I would argue.

COMMISSIONER DONNELLY: It does seem like a veiled threat if not overt. At some point you have to come to the therefore clause of this proposition.

DR. ASHER: I think the first thing we have to do is we have to propose a coherent form of cooperation to them, and then we have to work it and we have to see what happens.

They get the message on the financial angle. We didn't--there's an old saying in Chinese, "You kill the chicken to scare the monkeys."

We didn't to go out and cite a multitude a Chinese financial institutions that have been publicly identified as working with North

Korea over the years including in the conduct of illicit activity for the Chinese to crack down.

We did need to designate one small one though, and that one small one sent a message to all the other ones, that they had to get in line, and it was timed to coincide with other information that we were making public, that indicated that there were several Chinese banks that had been involved in the transmission of money related to substantial North Korean illicit activity in the United States of America.

I think they got the message. So I take your point. We can't just approach it sort of naively; we need to be realistic. We need to focus on it. We need to try to align our financial and economic interests. I do think, though, the use of some pressure, including veiled pressure, is effective.

I think we have to try that before we go to something--

COMMISSIONER DONNELLY: One really quick concluding question. Are you content with the pace of progress in integrating China or encouraging China to abide by international norms in this regard?

DR. ASHER: No, I'm not content. I'm obviously not content at all. As I said in my testimony, there are major Chinese companies that have been caught engaged in fronting for North Korean nuclear proliferation networks. That's not acceptable. They can say, oh, well, we had no idea about it. It was just some corrupt local official.

There's a chain of command, especially when you're dealing with military industries. I think we have to insist on that being upheld, and I don't accept the Chinese explanation. But I think we have to try to work with them.

HEARING COCHAIR REINSCH: Thank you.

COMMISSIONER DONNELLY: Appreciate the indulgence of the chair.

HEARING COCHAIR REINSCH: Commissioner Thompson.

COMMISSIONER THOMPSON: On that point, your statement here was Chinese companies actually were fronting for North Korea procurement of key technologies for the DPRK nuclear program. Of course, that's the standard operating procedure for many, many years now. Say, oh, this was an isolated company. We sanctioned a subsidiary of a bigger company, and you argue as to whether or not there's a relationship and all that, and go on our merry way.

I was wondering before you clarified it just a minute ago, whether or not any of this technology is coming from the United States?

DR. ASHER: Not that I'm aware of. But the problem is when



you've got a foreign trading partner who is willing to do your dirty business for you, it's quite possible that it could be. They certainly have been able to buy Japanese technology. Mitusio [ph] Company has had a big incident recently in Japan where one of their machine tools was pictured in a North Korean promotional video. A company that said it had never shipped anything to them. It's quite possible that a North Korean front company, let's say in a place like Macau or in Dalian, or a Chinese partner would buy it for them.

In the case of Optronic, the one that I can talk about because it's public, Shenyang Aircraft was publicly identified as fronting for North Korea's most notorious procurement officer in the nuclear area and buying aluminum tubes that were absolutely the right tubes for making I think it's P2 centrifuges.

This is a significant issue that's been all over the German--

COMMISSIONER THOMPSON: What was the United States response to that?

DR. ASHER: We expressed a very deep concern. I did it myself to the Vice Minister of Foreign Affairs of China, and they understand, but they've got to do something. They least have acted much more seriously. In my experience, at least toward the end, they weren't denying these things the way they had before.

I think frankly the activities of your Commission have forced them to take some of these issues more seriously, but they really need to get set up. What we did with the Taiwanese, and it's still a process that's unfolding, is they basically agreed that their export control system was not effective, and they said, okay, United States, help us rebuild it, and that's what's been going on.

COMMISSIONER THOMPSON: So you've got to want to do something?

DR. ASHER: You've got to want to do it, but Taiwan understood that its access to the international trading system was vital for its economic--

COMMISSIONER THOMPSON: It's an old, old story, and the question is why we don't do better, and the answer is that we've become apparently so economically interdependent that nobody wants to mess up the trade, and there you go, and along those lines, I've been fascinated over the last several months in reading about--you mentioned Macau--the tremendous gambling operations, casino operations that American companies now have started there in Macau, and it's gotten to be--there's one operation there now, and I understand Steve Wynn is going to be going in. Tremendously huge operations.

I had not heard anything about this North Korea banking situation and the Chinese concern and so forth, money laundering

going on. What--this is kind of a provincial question, I guess--but what should United States or United States companies, how can that be relevant to us what's going on there in terms of these financial transactions?

DR. ASHER: Senator, you raise a really good point. And this is where we have leverage and we have huge leverage. We're talking about billions of dollars in revenue, which is going to be taxed and which is going to provide billions of dollars in turn of revenue for the Chinese Communist Party and for China's government.

The Nevada Gaming Commission and the New Jersey Gaming Commission hold the keys as to whether our casinos can operate there. They have to comply with U.S. standards. Of course, Macau is infamously associated with gangsters and money laundering, et cetera, and the largest casino operator in Macau is a man named Stanley Ho, who has been a partner of Kim Jong Il in a casino in Pyongyang, North Korea.

What this man's relationship is to the casino industry right now in North Korea--I don't know that there is much of one. I'm not sure. I think he pulled out for some reason. I think the Chinese authorities actually put some pressure on him to pull out. But there's been a lot of rumors for years about his relationship with North Korea's presence in Macau.

I can't really comment on that. I don't know the facts, but just in terms of leverage, his daughter, Pansy Ho, is trying to enter a partnership with MGM to build a huge casino. Actually the casino is being built right now. The licensing of that casino is something that can be used as leverage to apply, to encourage that the Macau authorities uphold much higher standards.

We did some work with the Nevada Gaming Commission on this, and I think we continue to use it. We can use it effectively. As you know, this affects their bottom line, billions of dollars. And we hold the key to whether that moves ahead or not. It gives us a lot of leverage. I don't think it should be used outside of the Macau arena. I don't think we should hold that over the nuclear talks or something. I just think it wouldn't work.

But I think that cleaning up Macau would be a very important thing, and it is moving forward I think a little better than some people expected, but there's a long way to go. There's been a lot of terrorism and proliferation funds that have gone through there, and North Korea has used it as sort of a playground. So we have some levers there to improve the situation.

COMMISSIONER THOMPSON: Thank you very much.

DR. ASHER: Thank you, sir.

HEARING COCHAIR REINSCH: Thank you. Dr. Friedberg, you've been patient. Do you have any comments on anything that Dr. Asher said?

DR. FRIEDBERG: No, I don't.

HEARING COCHAIR REINSCH: You don't. Safe answer.

DR. ASHER: We think so alike. We had a great relationship when we were in the government.

HEARING COCHAIR REINSCH: We were hoping for an argument, but if you're going to avoid the opportunity, fine. I don't see anyone with any other questions, so we will thank you.

Let me also thank Marta McLellan, our staff assistant, who planned the hearing, and thank you to these two witnesses and the others. Your full testimony will be in the record, as I said, and the hearing is adjourned.

DR. ASHER: Thank you very much.

[Whereupon, at 2:30 p.m., the hearing was adjourned.]

**STATEMENT OF RUSSELL D. FEINGOLD  
U.S. SENATOR FROM WISCONSIN**

**U.S.-China Economic and Security Review Commission  
Hearing on China's Proliferation Record and Ties to Iran and North Korea  
September 14, 2006**

I would like to thank the members of this Commission for holding this timely and important hearing, and for giving me the opportunity to offer my thoughts on this critical issue.

I know I do not need to convince anyone here today that Iran and North Korea represent real threats to our own national security. As a known sponsor of international terrorism, and in light of President Ahmadinejad's apocalyptic statements calling for the destruction of Israel, Iran simply must not be allowed to develop nuclear weapons. History teaches that we cannot ignore the stated intent of those who seek to destroy other nations. A nuclear-armed Iran would pose a grave threat to the region, to Israel, and to the entire international community.

Similarly, Kim Jong Il's provocative missile launches this summer and his consistent defiance of international treaties in his pursuit of nuclear weapons demonstrate the threat his regime poses to the world.

We must be concerned not only by the possibility that North Korea could someday launch missiles aimed at us or our allies, but also by the grave risk that it will sell WMD technology to other groups that seek to do us harm.

The bottom line is that we must do all we can to prevent the further spread of weapons technology to these regimes. This requires a comprehensive approach, and China has an absolutely crucial role to play—starting with ending its sales of weapons and technology that contribute to the weapons programs of rogue states like Iran and North Korea. The Director of Central Intelligence has reported to Congress that China continues to be a “key supplier” of weapons technology, particularly missile or chemical technology.

The fact that China remains a serial proliferator is deeply troubling, and is one of the reasons I introduced with Senator Kyl a bill to tighten portions of the Iran and Syria Nonproliferation Act (ISNA). I would like to point out that this bipartisan bill mirrors recommendations that were made by this commission last year regarding ways to strengthen U.S. export controls. It extends sanctions to the parent company of a sanctioned entity, as well as any successor, subunits, and subsidiaries, and broadens sanctions to include prohibitions on any U.S. investment, financing, and financial assistance to proliferators. While ISNA is not targeted at the behavior of any one country in particular, Chinese entities have too often been cited as violators, and this bill will increase pressure on the Chinese government to crack down on these illicit activities.

The panelists and experts speaking today will explore the issue of China's proliferation activities in greater depth, and I look forward to reviewing their conclusions and recommendations about how to address them.

China also needs to do more to support international efforts aimed at ending illicit weapons programs in Iran and North Korea—in the words of former Deputy Secretary of State Zoellick, China must demonstrate that it is a “responsible stakeholder” in the international system. UN Security Council Resolution 1696—which China supported—was an important signal from the international community that Iran should immediately cease its attempts to develop nuclear weapons. However, the UN deadline for Iran to halt its enrichment activities has now passed, and Iran continues to obfuscate and delay. As we enter the next phase of this situation, it is crucial that we have the full range of tools at our disposal—including tough

sanctions—to convince Iran to change its behavior. Unfortunately, China has signaled that it would not support sanctions, indicating that there is still some distance left to travel before China can be considered a truly “responsible” stakeholder.

China maintains significant ties to both Iran and North Korea, raising the question: to what degree are China’s economic interests working against international security? Have China’s investments in Iran’s energy sector contributed to its reluctance to pursue sanctions? Do China’s links to North Korea keep it from exerting the full weight of its pressure on Kim Jong Il to convince him to return to the negotiating table? These are important questions that I hope the Commission will probe.

Finally, since this hearing is part of a series devoted to looking at China’s role in the world, I would like to briefly touch on one additional concern: China’s influence in Africa.

I have served on the Senate Foreign Relation Committee Subcommittee on African Affairs for over 13 years, and have had occasion to travel widely throughout the continent. As I noted in a hearing held by this commission last year, I have been struck by the energetic campaign of engagement in Africa that is being conducted by the PRC. This should not necessarily be cause for alarm—not every Chinese policy is a threat, and China’s increased engagement may be beneficial in some ways—but it does call for careful analysis and sustained attention by U.S. policy makers.

One area of China’s engagement that is of particular concern to me and many of my colleagues is the role that China is playing in Sudan. Two weeks ago, China’s ambassador to the UN, Wang Guangya, stated that China refused to support a UN resolution calling for the deployment of UN peacekeepers in Darfur. China has a great deal of influence in Sudan due to its significant investments in Sudan’s oil industry, but has failed to use that influence to convince the Sudanese government to accept a UN peacekeeping force. The results may be tragic; according to UN humanitarian chief Jan Egeland, Darfur is in “freefall” and hundreds of thousands of people are at risk if a sizeable peacekeeping force does not come in soon.

This once again raises the question whether China’s economic interests—particularly related to its search for energy resources—are obstructing international efforts to establish peace and security. China cannot simply sit on the sidelines on these issues; by claiming impartiality China actually undermines our efforts to end the genocide. China needs to demonstrate that it has become a true world power by cooperating with the international community’s efforts to bring peace and stability in places like Sudan. This is where the rubber meets the road.

Thank you for this opportunity to share my views, and thank you for the work that the Commission is doing. I look forward to reviewing the results of this hearing.

**Statement by Representative Edward J. Markey (D-MA)  
Hearing on China's Proliferation to North Korea and Iran, and  
Its Role in Addressing the Nuclear and Missile Situations in Both Nations  
September 14, 2006**

Good morning. I would like to thank the United States-China Economic and Security Review Commission for the opportunity to discuss China's recent proliferation record.

Since I testified before the Commission in March 2005, China has continued its mixed record on nonproliferation of the previous few years. Of course, a judgment of China's nonproliferation record is highly dependant on Beijing's relationship with states of proliferation concern such as Iran and North Korea, and the steps that China has taken in concert with the international community to address these challenges. The bottom line is that China can and must do more to assist the international community in confronting Iran and North Korea and ending their nuclear weapons programs.

China must come to the unambiguous conclusion that preventing the nuclearization of Iran and North Korea far outweighs Beijing's other interests in those two countries – both political and economic. Unfortunately, this does not seem to have happened yet, and China continues to let its 2<sup>nd</sup>- and 3<sup>rd</sup>-order interests, such as winning petroleum exploration rights in Iran, dominate its 1<sup>st</sup>-order interest of preventing the deterioration of international security and stability by further nuclear proliferation.

Another crucial issue on which China has unfortunately taken a two-steps-forward, one-step-back approach is the drafting and implementation of domestic export control regulations.

It is clear that over the last decade China has greatly improved its domestic laws controlling the export of sensitive materials and technologies. At the same time, these improved laws have not been satisfactorily implemented and there is significant doubt as to whether they are being followed by Chinese businesses. The gaps between China's announced nonproliferation policies and its concrete behavior are extremely troubling, and raise serious questions about whether China's new export control regulations are simply window-dressing.

The Bush administration has announced sanctions against Chinese entities (not the Chinese government) for dual-use WMD or missile transfers on 16 occasions since entering office. The most recent announcement was June 13 of this year, when 5 Chinese entities were sanctioned. These sanctions came on the heels of sanctions on 6 Chinese entities announced by the Bush Administration on December 23, 2005. If China's export control system was really working as advertised, these sanctions would not have been necessary. Unfortunately, the evidence suggests that many Chinese business entities continue to engage in proliferant activities, and we simply cannot yet say that China has truly committed to improving its domestic nonproliferation system. While doing the hard work on improving Chinese export controls may not garner headlines, it is up to the Bush administration not to ignore this crucial issue where the nonproliferation rubber hits the road.

In 2002, China issued important new export control regulations regarding biological agents, chemicals and missile-related technology. This was a positive step. Yet China was rebuffed when it expressed its intent to join the Missile Technology Control Regime (MTCR) in 2003, as MTCR-member states did not believe that Beijing had adequately implemented its previous missile-technology control rules.

The subject of export controls is a very difficult one because of its highly technical and legalistic nature. Yet if the A.Q. Khan experience has taught us anything, it is that even well-meaning and well-constructed export control systems can be defeated by a determined technology acquisition program. China can not

simply improve the rules on its books; it must be totally committed to the consistent enforcement of those rules.

Another nonproliferation issue of concern stems from the ill-conceived nuclear cooperation agreement between the United States and India. Given the enormous benefits that will accrue to India, the impact of this agreement upon the security and stability of South Asia cannot be overstated. Neither China nor Pakistan will ignore the fact that the U.S. nuclear cooperation agreement will allow India to increase its nuclear weapon production from an estimated 7 bombs a year to 40 or 50.

Since the US-India nuclear deal was inked, we have heard worrying hints from Beijing and Islamabad that dramatically expanded nuclear cooperation between China and Pakistan would necessarily follow the US-Indian example. Press reports from a Chinese delegation to Islamabad in late August reported that Pakistani President Pervez Musharraf requested the construction of 6 new nuclear power plants. Of course, any such agreement would be against the current rules of the international Nuclear Suppliers Group (NSG), since Pakistan (like India) refuses to accept full-scope International Atomic Energy Agency safeguards on all of its nuclear activities. However, since the United States is in the process of forcing a rule change in the NSG to allow its nuclear agreement with India to go forward, we will have precious little leverage to stop China from seeking identical treatment for its nuclear ally, Pakistan.

Even more worryingly, we learned in late July 2006 that Pakistan is currently constructing an enormous new plutonium-production reactor at Khushab which will allow it to increase its nuclear weapons production from an estimated 2 or 3 bombs a year to 50. Considering that China assisted Pakistan in the construction of its first reactor at Khushab, and given the public comments from both Beijing and Islamabad concerning increasing nuclear cooperation, it is incumbent upon China to prove that it is not now, and will not in the future, be assisting Pakistan in the construction of its new plutonium-production plant. Furthermore, it seems that the Bush administration has known about the reactor under construction at Khushab for some time

Thank you for the opportunity to discuss these important issues with you this morning.