CHINA'S FOREIGN POLICY: CHALLENGES AND PLAYERS

HEARING

BEFORE THE

U.S.-CHINA ECONOMIC AND SECURITY

REVIEW COMMISSION

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

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APRIL 13, 2011

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UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

WASHINGTON : 2011

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The Commission's full charter is available at www.uscc.gov.

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U.S.-CHINA ECONOMIC & SECURITY REVIEW COMMISSION

WILLIAM A. REINSCH, CHAIRMAN
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May 2, 2011

The Honorable Daniel Inouye
President Pro Tempore of the Senate, Washington, D.C. 20510
The Honorable John A. Boehner
Speaker of the House of Representatives, Washington, D.C. 20515

DEAR SENATOR INOUYE AND SPEAKER BOEHNER:

We are pleased to notify you of our April 13, 2011 public hearing on *"China's Foreign Policy: Challenges and Players."* The Floyd D. Spence National Defense Authorization Act (amended by Pub. L. No. 109-108, section 635(a)) provides the basis for this hearing.

At the hearing, the Commissioners heard from the following witnesses: Congressman Dana Rohrabacher (R-CA), Acting Deputy Assistant Secretary of State for East Asian and Pacific Affairs Daniel Kritenbrink, Principal Director for East Asia Policy in the Office of the Secretary of Defense David Helvey, Dr. Alan Wachman, Mr. Andrew Small, Dr. J. Peter Pham, Dr. Victor Cha, Dr. John Garver, Dr. Richard Weitz, Dr. Yu-Wen Julie Chen, Dr. Erica Downs, and Ms. Susan Lawrence. In addition, Congressman Bill Johnson (R-OH) submitted written testimony. The subjects covered included the growing assertiveness of China's foreign policy; Beijing's responses to recent developments in the Middle East and North Africa; China's bilateral relationships with North Korea, Iran, and Russia; and the emergence of new actors in China's foreign policymaking process.

We note that the full transcript of the hearing will be posted on the Commission's website, www.uscc.gov, when completed. The prepared statements and supporting documents submitted by the witnesses are now posted on the Commission's website. In addition, members and the staff of the Commission are available to provide more detailed briefings. We hope these materials will be helpful to the Congress as it continues its assessment of U.S.-China relations and their impact on U.S. security.

The Commission will examine in greater depth these issues, and the other issues enumerated in its statutory mandate, in its 2011 Annual Report that will be submitted to Congress in November 2011. Should you have any questions regarding this hearing or any other issues related to China, please do not hesitate to have your staff contact our Congressional Liaison, Jonathan Weston, at 202-624-1487 or via email at jweston@uscc.gov.

Sincerely yours,

William A. Reinsch
Chairman

Daniel M. Slane
Vice Chairman

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CHINA'S FOREIGN POLICY: CHALLENGES AND PLAYERS

WEDNESDAY, APRIL 13, 2011

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Washington, D.C.

The Commission met in Room 216, Hart Senate Office Building, Washington, D.C. at 8:40 a.m., Chairman William A. Reinsch, and Commissioners Carolyn Bartholomew and Peter T.R. Brookes, (Hearing Co-Chairs), presiding.

OPENING STATEMENT OF COMMISSIONER CAROLYN BARTHOLOMEW HEARING CO-CHAIR

HEARING CO-CHAIR BARTHOLOMEW: Good morning, everyone. Thank you all for being here today.

This is the fifth hearing of this year's annual reporting cycle. We're going to be focusing on China's foreign policy: challenges and players.

I'm Carolyn Bartholomew, the co-Chair of this hearing, and I'll do an opening statement, and then my co-Chair, Peter Brookes, will do his, and we'll wait for Congressman Rohrabacher.

As China's overseas interests and presence expand, so too will the range of foreign policy challenges Beijing faces. Addressing these challenges adeptly and successfully will require new ways of thinking about foreign policy priorities and new ways to implement them.

At the same time, an increasing presence on the world stage inevitably creates tension for the Chinese government between safeguarding its overseas interests and its long-standing state position of opposing interference in other countries' internal affairs. How elastic is the concept of noninterference in internal affairs?

For example, as the West has struggled to respond to events in Libya, a country with 36,000 Chinese workers and a large source of Chinese oil imports, Beijing supported U.N. sanctions against the Qadafi regime. It then abstained from supporting the use of military force to prevent a humanitarian crisis and subsequently criticized the actions of Western coalition forces.

Can we expect China to move further along the continuum of foreign policy actions? Will the Chinese government's decisions be systematic or on an ad hoc basis? Is there a new emerging China doctrine influenced and shaped by new parties, and if so, what does this mean for U.S. diplomacy?

As Beijing flexes its muscles, it has strong new tools to employ, including increased economic leverage especially in light of the global financial crisis.

Both developing and developed countries welcome Chinese trade, investment and economic aid. Europe, for example, is actively pursuing Chinese assistance for addressing its sovereign debt crisis, and countries from Suriname to Kenya to Tonga are recipients of the fruits of China's growing economic power. So too are a number of "countries of concern."

Yet, Beijing's open arms and deep pockets raise concerns in many countries. For example, some in the developing world see Beijing's investment as a new form of colonialism while many struggle with displacement of domestic production by Chinese goods.

The acquisition of resources is clearly guiding much Chinese investment. What else will the Chinese government expect in return for its generous terms and large investments? Will Chinese investment around the world shape the willingness of countries to challenge China on its policies or behavior?

And while the challenges China faces in foreign policy grow in scope and complexity, there may also be changes occurring in China's foreign policy apparatus. Some of our witnesses today will discuss the emergence of new, or newly empowered, voices in China's foreign policymaking process. The roles of traditional foreign policy actors, such as the Ministry of Foreign Affairs and the People's Liberation Army, may be evolving.

New actors, such as resource companies, financial institutions, local governments, and netizens, are coming on the scene. What role are they playing in the development of China's foreign policy?

All of these issues may result in a Chinese foreign policy that radically differs from the past.

We will be joined today by a number of experts from the administration, academia and private organizations, who we hope will help us answer some of these questions. In particular, we'll be pleased this morning to welcome Congressman Dana Rohrabacher from California, who is taking time out of his busy schedule to join us, as well as Mr. Daniel

Kritenbrink from the State Department and Mr. David Helvey from the Department of Defense to present the Obama administration's perspectives.

Before I turn it over to my colleague for his remarks, I'd also like to thank Senator Ben Nelson and his staff for helping us to secure today's magnificent hearing room.

I'd also like to thank Congressman Johnson from Ohio for submitting written testimony.

And with that, I'll turn it over to my co-Chair Peter Brookes.

[The written statement follows:]

PREPARED STATEMENT OF COMMISSIONER CAROLYN BARTHOLOMEW HEARING CO-CHAIR

As China's overseas interests and presence expand, so too will the range of foreign policy challenges Beijing faces. Addressing these challenges adeptly and successfully will require new ways of thinking about foreign policy priorities and new ways to implement them. At the same time, an increasing presence on the world stage inevitably creates tension for the Chinese government between safeguarding its overseas interests and its long-standing stated position of opposing interference in other countries' internal affairs. How elastic is the concept of non-interference in internal affairs?

For example, as the West has struggled to respond to events in Libya, a country with 36,000 Chinese workers and a large source of Chinese oil imports, Beijing supported UN sanctions against the Qadafi regime. It then abstained from supporting the use of military force to prevent a humanitarian crisis, and subsequently criticized the actions of Western coalition forces. Can we expect China to move further along a continuum of foreign policy actions? Will the Chinese government's decisions be systematic or on an ad hoc basis? Is there a new emerging "China doctrine," influenced and shaped by new parties? If so, what does this mean for U.S. diplomacy?

As Beijing flexes its muscles, it has strong new tools to employ, including increased economic leverage, especially in light of the global financial crisis. Both developing and developed countries welcome Chinese trade, investment, and economic aid. Europe is actively pursuing Chinese assistance for addressing its sovereign debt crisis. And countries from Suriname to Kenya to Tonga are recipients of the fruits of China's growing economic power. So, too, are a number of "countries of concern."

Yet Beijing's open arms and deep pockets raise concerns in many countries. For example, some in the developing world see Beijing's investment as a new form of colonialism while many struggle with displacement of domestic production by Chinese goods. The acquisition of resources is clearly guiding much Chinese investment, but what else will the Chinese government expect in return for its generous terms and large investments? Will Chinese investment around the world shape the willingness of countries to challenge China on its policies or behavior?

And while the challenges China faces in foreign policy grow in scope and complexity, there may also be changes occurring in China's foreign policy apparatus. Some of our witnesses today will discuss the emergence of new, or newly empowered, voices in China's foreign policy making process. The roles of traditional foreign policy actors, such as the Ministry of Foreign Affairs and the People's Liberation Army may be evolving. New actors such as resource companies, financial institutions, local governments, and netizens are coming on the scene. What role are they playing in the development of China's foreign policy?

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perspectives.

Before I turn it over to my colleague for his remarks, I'd also like to thank Senator Ben Nelson and his staff for helping us to secure today's hearing room.

OPENING STATEMENT OF COMMISSIONER PETER T.R. BROOKES HEARING CO-CHAIR

HEARING CO-CHAIR BROOKES: Thank you, Carolyn, and thanks to our witnesses today for helping us to further understand recent developments concerning China's foreign policies.

Earlier this month, China released its most recent defense white paper, an authoritative document that purports to reflect Beijing's official views. In this white paper, China claimed that it is actively seeking to integrate into global society, and, quote, "strives to build through its peaceful development a harmonious world of lasting piece and common prosperity."

Yet China continues to develop economic, political and military ties with rogue countries such as Iran and North Korea, and despite international condemnation of North Korea's sinking of a South Korean vessel and the shelling of a South Korean island, Beijing refuses to condemn Pyongyang's actions, even going so far as to provide an official reception for Kim Jong-il's state visit late last year.

China's ties with both North Korea and Iran frequently flout U.S. and U.N. sanction regimes and indirectly add to development of these nations' nuclear weapons programs.

China's relationship with Russia, while not of the same level of concern as China's relationship with Iran and North Korea, has often been used to counter U.S. influence globally and as a means for disregarding efforts to promote democratization and human rights.

Despite Beijing's claim to build a, quote, "harmonious world of lasting peace and common prosperity," its foreign policy actions in recent years are increasingly assertive and, in some cases, deeply troubling.

China's harassment of U.S. Navy vessels in international waters in March 2009, its labeling of the South China Sea as a "core interest" last year, and unilateral embargo on rare earth exports to Japan over territorial disputes are not the actions of a nation seeking to build a "harmonious world."

Instead it appears that China may be moving away from Deng Xiaoping's 1990s' advice of "hide your capabilities and bide your time," toward a policy that seeks to pursue China's interests in a more direct manner.

However, this more assertive foreign policy may have undone much of

the goodwill towards China that Beijing had previously cultivated regionally and globally. In Asia, for example, several states, such as Australia, India, Japan, the Philippines and Vietnam, have announced changes to their military posture and procurement plans partially as a result of China's activities.

We have excellent witnesses today who are all experts on these complex issues and will offer unique insights into our unanswered questions. I would like to ask that each witness limit his or her remarks to just seven minutes in order to leave plenty of time for questions and answers.

And with that, I think we'll first hear from Congressman Dana Rohrabacher, who has joined us in the hearing room.

Good morning. Currently serving his 12th term in Congress, Dana Rohrabacher represents California's 46th congressional district. The Congressman is a forceful spokesman for human rights and democracy around the world, and during the 110th Congress he championed the effort to boycott the 2008 Beijing Olympics due to China's human rights violations.

As chairman of the Oversight and Investigations Subcommittee of the House Foreign Affairs Committee, Congressman Rohrabacher has used his position to shed much needed light on China's policies and their implications for the United States.

Congressman, we're glad to have you as a friend of the China Commission, and we are happy to have you with us to discuss these important issues.

[The written statement follows:]

PREPARED STATEMENT OF COMMISSIONER PETER T.R. BROOKES (HEARING CO-CHAIR)

Thank you Commissioner Bartholomew, and thanks to our witnesses today for helping us to further understand recent developments concerning China's foreign policies.

Earlier this month, China released its most recent defense white paper, an authoritative document that purports to reflect Beijing's official views. In this white paper, China claimed that it is actively seeking to integrate into global society, and "strives to build, through its peaceful development, a harmonious world of lasting peace and common prosperity." Yet China continues to develop economic, political, and military ties with rogue countries such as Iran and North Korea. And despite international condemnation of North Korea's sinking of a South Korean vessel and the shelling of a South Korean island, Beijing refuses to condemn Pyongyang's actions, even going so far as to provide an official reception for Kim Jeong-il's state visit late last year. China's ties with both North Korea and Iran frequently flout U.S. and UN sanction regimes, and indirectly aid the development of these nations' nuclear weapons programs. China's relationship with Russia, while not of the same level of concern as China's relationship with Iran and North Korea, has often been used to counter U.S. influence globally and as a means for disregarding efforts to promote democratization and human rights.

Despite Beijing's claim to build a "harmonious world of lasting peace and common prosperity," its foreign policy actions in recent years are increasingly assertive—and, in some cases, deeply troubling. China's harassment of U.S. Navy vessels in international waters in March 2009, its labeling of the South China Sea as a "core interest" last year,

and the unilateral embargo on rare earth exports to Japan over territorial disputes are not the actions of a nation seeking to build a "harmonious world." Instead, it appears that China may be moving away from Deng Xiaoping's 1990s advice of "hide your capabilities, and bide your time," towards a policy that seeks to pursue China's interests in a more direct manner. However, this more assertive foreign policy may have undone much of the goodwill towards China that Beijing had previously cultivated regionally and globally. In Asia, for example, several states, such as Australia, India, Japan, the Philippines, and Vietnam, have announced changes to their military postures and procurement plans partially as a result of China's activities.

We have excellent witnesses today who are all experts on these complex issues and will offer unique insights into our unanswered questions. I'd like to ask that each witness limit his or her remarks to just seven minutes in order to leave plenty of time for questions and answers.

PANEL I: CONGRESSIONAL PERSPECTIVES

STATEMENT OF DANA ROHRABACHER
A U.S. REPRESENTATIVE FROM THE STATE OF CALIFORNIA

MR. ROHRABACHER: I want to thank you very much for giving me this opportunity, and I just want you to know that I have a cold and caught the flu, but it's not the Chinese flu, I just want you to know.

The United States-China Economic and Security Review Commission was chartered by Congress in 2000 and has served as one of the best sources of frank and realistic information and analysis to the challenges posed to the United States by the rise of China, which is still under the control of a brutal, ambitious Communist Party.

The House Foreign Affairs Committee and its subcommittees have held six hearings this year that touched on the People's Republic of China. The Committee's first major hearing on China coincided with President Hu's state visit, and Larry Wortzel of the Commission was the lead witness.

My own Subcommittee on Oversight and Investigations has held a hearing on the pro-democracy broadcasting into China and will soon hold a hearing on cyber-espionage and technology transfers to China, which have been a primary factor in China's rise as a peer competitor to the United States around the world.

The Chinese Communist Regime identifies the United States as its enemy. It understands that its tyrannical one-party rule will inevitably bring Beijing into conflict with our nation. Thus, Beijing has been taking an increasingly harder line as it has endeavored to lead the developing world against the Wwestern world which it sees as being led by the United States.

When imprisoned democracy activist Liu Xiaobo--I believe--was awarded the Nobel Peace Prize, the Chinese Communists labeled the fact that he got the Nobel Peace Prize as a Western plot to impose its values on China. Freedom obviously it sees as a Western value.

The Party proclaimed China "refused to be westernized" and drew

parallels with the Western campaign against the Soviet Union, thus implicitly identifying itself with the Cold War framework, and it keeps telling us that we should abandon Cold War thinking.

Beijing criticized the United States House for passing a resolution honoring Liu for his Nobel Prize, declaring that the United States was arrogant and rude. As for China's heavy-handed regime, the more--the theory has been--the more economic interaction, the more prosperous China would become; the more prosperous would mean that it would become more democratic. The more democratic it would become, it would become less belligerent, and thus less threatening.

Well, that was a nice vision, but that hope has been dashed by China in both word and deed. Permitting China to have a one-way free trade policy, which was part of that theory, has made that backward Marxist dictatorship of four decades ago into a powerful force in the world, a negative force, which is a monster of our own making.

China continues to provide diplomatic support to Iran and North Korea, as they continue their nuclear programs.

Does anyone doubt that China is the real source of Pakistan's nuclear program, which may now have grown--now means their arsenal may have grown to something that's bigger than the nuclear arsenal of Great Britain. Beijing's trade and investment continues to undermine the proliferation sanctions imposed on rogue states.

China sought to protect North Korea, and we have gone, I notice we were going into some of that discussion when I came in. Here North Korea sank a South Korean vessel and China just stepped up unequivocally supporting it, and when artillery shells were fired into North Korean or South Korean towns, again, China immediately stood up and backed them unequivocally, and then China deployed its fleet in the Yellow Sea in an attempt to discourage the United States from entering these waters in support of Seoul when their country was under attack.

Then bellicose statements and editorials warned that any show of force against North Korea and its wrongdoing was considered a threat to China, and these are, and, of course, at that same time, they used the words like, for example, they used the words about their new weapons. They said they were designed to "kill" American aircraft carriers.

All of this, all of this is happening right in front of us. Yet, we still have irrational optimists claiming that Beijing will restrain or reform North Korea. So here we have China/the Chinese Communist Party doing everything they can to back them up, but yet people are still saying that we're going to restrain them, and especially considering the fact, it's probably Beijing that gave them the technology needed to build those nuclear weapons in the first place.

But, of course, those people who think that we can just try to win

them over by not having a confrontation, this only confirms to the Chinese leadership that the West is weak, and that we're on our way out, and that they will be the dominant country in the years ahead, while Chinese troops, aircraft carriers, warships held exercises along the Pacific Rim last summer and into fall in support of its illegal claims on East China and the South China Seas.

Such claims on all islands and resources of these seas are disputed by other nations from Vietnam to Japan. China claims these claims undermine peace and stability, even as they pose a threat to the vital sea lanes upon which Japan and South Korea depend.

Similarly, an independent Taiwan has been a long frustration for the Chinese efforts to make the South China Sea into a Chinese lake, and though the Taipei government has tried to ease tensions with the mainland, clearly that is, the Communist Chinese have not retreated from their commitment to subjugate the people of Taiwan, and it has, in fact, named its new aircraft carrier after the Chinese commander of a fleet that conquered Taiwan for a short time during the 17th century.

Thus, it is still important for us to provide Taiwan with the arms it needs to defend itself, as is mandated by the Taiwan Relations Act, which Congress passed in 1979.

In attempt to ease--I'll hurry up with this--in an attempt to ease tensions with Beijing, President Obama has turned to the business community. Yet this arena has its problems and severe limitations. The $2 trillion we have sent to Beijing via the trade deficit in the last ten years is only one measure of what has been the largest bilateral transfer of raw economic power in the history of the world.

There has never been an example of the type of economic power and technology and capability and pure wealth taken from one people and given to another as a matter of policy. This, I would say, infamy is that this was done hopefully to make it a more democratic society. Well, it hasn't, of course, succeeded at all in making it more democratic and less threatening, and yet the American firms over there have been eager to transfer critical capabilities to China both through direct investment, construction of factories, research centers, the use of America's market to support the Chinese expansion.

We've overwhelmed our enemies in the past, but that was because we could outproduce them. This may not be the case with China. The "arsenal of democracy" may well be surpassed by the "bastion of tyranny" clearly capable of maintaining an arsenal that surpasses our own in the years ahead, and this was seen very easily when Robert Gates, our Secretary of Defense, was in Beijing and what happened last January when they pulled out their new, their new J-20 stealth warplane. The Communist media proclaimed China's stealth jet and carrier-killer missiles are changing the

strategic balance in the Western Pacific.

Well, it is changing the balance of power in the Western Pacific. It's what happens during peacetime that determines the balance of power. When confrontations and conflict happen in the future, we cannot keep our heads in the sand. We must respond to China's hostile intentions and growing capabilities.

We must rebuild, reposition, and, if possible, lengthen the lead we have over Beijing's regime rather than helping it catch up.

And one last thought. Our hope in preserving the peace of the world--no one wants to have war--facing facts doesn't mean you're more likely to have war. I'm saying these things because I abhor war, and anyone who has seen bloodshed doesn't want to have young men out murdering each other and innocent people being killed, as happens in these conflicts, but our hope lies not in changing the attitude of China's still Leninist regime.

Our hope lies with the people of China; they are our greatest ally, and they must know that we are on their side and that we are on their side in both spirit, and the soul of our own country is not reflected in America's tycoons and quick-buck CEOs, whose influence on American policy have made them fabulously wealthy at the expense of the economic well-being of our people and the security of our country.

So we must make sure--we did this with Russia. Russia was under--Russia was never our enemy. It was the Soviet Union. It was Soviet Communism that was our enemy, and I feel we should have embraced Russia more once the Communism was discarded, but they haven't discarded any of that Communist-Marxist-Leninist claptrap that has imprisoned their people for so long.

So that's my testimony. Thank you very much.

[The written statement follows:]

I want to thank Commissioners Carolyn Bartholomew and Peter Brookes for the opportunity to testify today. The U.S.-China Economic and Security Review Commission was chartered by the Congress in 2000 and has served as one of the best sources for frank and realistic information and analysis of the problems posed to the United States by the rise of a China still under the control of a brutal and ambitious Communist Party.

The House Foreign Affairs Committee and its Subcommittees have held six hearings this year that touched on the People's Republic of China. The committee's first major hearing on China coincided with President Hu Jintao' state visit and Larry Wortzel of the Commission was the lead witness providing a wealth of data on Chinese capabilities. My own Subcommittee on Oversight and Investigations will hold a hearing on cyber-espionage and technology transfers to China which have been a primary factor in Beijing's rise as a peer competitor to the United States around the world.

The Chinese Communist regime has identified the United States as its enemy. It understands that its tyrannical one-party rule will inevitably bring Beijing into conflict with this nation. We cannot keep our heads in the sand; not responding to its hostile intentions.

Last year, the Nobel Committee awarded its Peace Prize to Liu Xiaobo, a pro-democracy activist who was

sentenced in December 2009 to 11 years in prison for “subversion” after co-authoring the "Charter 08" manifesto calling for political reform and broader human rights in China.

The Beijing regime was outraged. Zhu Wenqi, a professor of international law at Renmin University of China, said China was a vast and populous country, and its stability had direct bearing on the world order. “Responsible international organizations and institutions should weigh their actions against the interests of a peaceful world order,” he warned.[1] Beijing claimed to have rallied the support of 100 other countries in condemning the “Western values” represented by the Nobel Prize.

The Chinese Foreign Ministry criticized the U.S. House of Representatives for voting a resolution congratulating Liu on his award. "We urge relevant U.S. lawmakers to stop their wrongdoing on this issue, change their arrogant and rude attitude and show due respect for the Chinese people and China's judicial sovereignty," said a Foreign Ministry spokesperson.[2]

The Communists know who their enemy is, and say so. An editorial in the Communist Party newspaper *Global Times* argued, "Many Chinese feel the peace prize is loaded with Western ideology. Last century the prize was awarded several times to pro-West advocates in the former Soviet Union.” An Oct. 14 editorial in the same paper asserted, “China "refuses to be westernized. The rejuvenation of the Chinese civilization is its dream. The more China learns from the West, the more confident it becomes in its own culture."

It was a matter of faith in America after the Cold War that there was only one model for the future, the model of democratic capitalism based on free people and free enterprise. China would evolve in the direction of Western values and become a “responsible stakeholder” in the existing international system and abandon its role as the leader of revolutionary movements and rogue states seeking to overturn the world order. That hope has been dashed by China in word and deed.

In the wake of popular agitation for reform in the Middle East, Beijing has intensified its crackdown on dissidents and tightening its control over communications. The artist and social critic Ai WeiWei was detainment for being “a maverick of Chinese society.” As a Communist Party editorial put it, “In such a populous country as China, it is normal to have several people like Ai Weiwei. But it is also normal to control their behaviors by law.”[3]

But Beijing is not just acting defensively. China is exporting its growth model of “state capitalism” with the message “A rising China with different fundamental principles disturbs the West, which is beleaguered in deep economic woes.” Beijing is exploiting the failure of the United States to get its fiscal house in order, even as it benefits from America’s twin deficits in trade and budgets which have given China the largest hard currency reserves in the world.

China is expanding its Confucius Institutes around the world, with some 500 now and the aim of 1,000 by 2020. There are some 64 in the U.S. in 37 states. They are usually associated with universities under the guise of teaching the Chinese language, but they do so by focusing on Chinese history and philosophy taught from the Communist Party perspective. They are clearly agents of influence. We are again engaged in a Cold War of ideas, even as Beijing constantly warns us not to return to Cold War thinking. Yet, the Communist regime openly laments the fall of the Soviet Union under the pressure of Western power built on concepts of capitalism and democracy that Beijing rejects as vehemently as the Soviets did.

When President Barack Obama welcomed Chinese President Hu Jintao for a state visit January 19, he referenced Deng Xiaoping as the man who had ushered in the new era of U.S.-China relations. Deng was the great post-Mao

[1] “China has backing of more than 100 countries, organizations on Nobel Peace Prize” Xinhua, Dec. 7, 2010
[2] “China expresses firm opposition to U.S. resolution on Liu Xiaobo” Xinhua, Dec. 9, 2010.
[3] “Law will not concede before maverick”, *Global Times*, April 6, 2011.

"reformer" who shifted the economy towards “market socialism” (or state capitalism) in pursuit of the "four modernizations" of industry, agriculture, national defense, and science and technology. Yet, Deng’s strategy was not rooted in any long term commitment to a Western-style international order. As he said in 1979, "Some people are afraid that China will take the capitalist road if it tries to achieve the four modernizations with the help of foreign investment. No, we will not take the capitalist road."

In Deng’s vision, the Communist Party would stay firmly in control, with state-owned enterprises (or state-controlled) dominating strategic industries. Joint ventures would keep the foreign firms subservient. Deng was no classical liberal. Although he never assumed the title of Communist Party chairman, he did take the title of chairman of the party's Central Military Commission, which gave him control of the People's Liberation Army, upon which he built his political base. He used the PLA to crush the student democracy movement in the Tiananmen Square massacre of 1989. For President Obama to praise Deng was very disturbing.

One of Deng's most cited slogans---including by President Hu, is “Hide one’s capacities and bide one’s time; seek concrete achievements.” Its origin goes back to ancient times and is a paraphrase of the advice from the great Chinese military strategist Sun Tzu, "Although capable, display incapability to them. When committed to employing your forces, feign inactivity.” The notion of a "peaceful rise" is part of the "way of deception" at the core of this strategy. America must not become alarmed at Chinese ambitions or it will cease to send capital and technology to China to further help it expand.

Deng's emphasis on economic development has led many in America to naively believe Beijing's propaganda that the country is engaged in a "peaceful rise" that threatens no other country. Yet, as Chinese wealth and capabilities have grown, so has its ambitions. It now seems that Hu has become impatient with Deng's cautious approach. In every trouble spot around the world, the United States and China are on opposite sides.

Beijing continues to support Iran as its nuclear program moves forward. The January talks between Iran and the five permanent members of the UN Security Council plus Germany ended with the Islamic regime defiant. Tehran knew it was not facing a united front, as China has blocked any actions that could truly be dangerous to the regime.

On the Libya issue, the Communist Party press has called for China to lead the world “anti-interventionist” movement against “the Western supremacist interest.”[4]

The summer saw competing naval and military exercises all along the Pacific Rim. China sought to protect North Korea from the consequences of Pyongyang's sinking of a South Korean warship, artillery fire across the border, and the exposure of a secret uranium processing plant. China deployed its fleet in the Yellow Sea west of the peninsula in an attempt to deter the U.S. from entering these waters in support of Seoul. There were bellicose speeches and editorials about how any show of force against Pyongyang was a threat to China, and that Beijing needed weapons to "kill" American aircraft carriers.

When North Korea fired artillery at the small island of Yeonpyeong, which is in the Yellow Sea not far from where the *Cheonan* was sunk, the U.S. had to finally call the Chinese bluff and head into the area. Beijing protested, asserting again its illegal interpretation of the law of the sea. "We hold a consistent and clear-cut stance on the issue. We oppose any party to take any military actions in our exclusive economic zone without permission," said a statement by Chinese Foreign Ministry Spokesman Hong Lei.[5]

Besides the Yellow Sea, China also continued to claim all the islands in the East and South China seas as its

[4] “Anti-interventionist voices must be heard” *Global Times*, March 22, 2011; see also “UN resolution legality needs a gatekeeper” *Global Times*, March 29, 2011.

[5] “Tensions persist on Korean Peninsula despite calls for restraint” *People’s Daily*, Nov. 28, 2010.

territorial waters, bringing it into confrontation with Japan and Vietnam. In these cases, Washington did show its opposition to Beijing. Secretary of State Hillary Clinton's diplomacy in support of the members of the Association of Southeast Asian Nations (ASEAN) was backed by the deployment of a U.S. Navy aircraft carrier group.

In a workshop held at the U.S. Naval War College in June, 2009, retired PLA Maj. Gen. Peng Guangquian, then deputy secretary of the China Committee for National Security Policy Studies in Beijing, felt bolt enough to tell the audience, "China's 'sea territory' includes its territorial waters, the contiguous zone, the exclusive economic zone, and the continental shelf, which in total are approximately one-third the size of China's land territory. China's sea territory or 'blue-colored land' is an important part of its entire national territory."[6] China claims all the islands in these adjacent seas. "The Bo Hai Sea, Yellow Sea, East China Sea and South China Sea are all connected to each other and possess enormous geostrategic value" said Peng, who called the South China Sea "the maritime Silk Road." The Bo Hai Sea is an inland body of water, the rest are considered to be international waters. For Beijing to assert "jurisdiction" over these vital trade routes as if they were mere Chinese lakes poses a threat of the first order to the rest of Asia. Yet, Chinese officials often speak of such control as a "core interest" of the regime, implying something they will fight to achieve.

Any look at a map reveals the importance of Taiwan in the Chinese plan for maritime expansion. Should the democratic island fall under the control of Beijing, the South China Sea really would take on the look of a Chinese lake. It is thus important to provide Taiwan with the arms it needs to defend itself and to maintain our own capacity to resist any resort to force or other forms of coercion by China that would jeopardize the security of the people on Taiwan. This is what is called for in the Taiwan Relations Act, which Congress passed in 1979.

The dispute with Japan over the Senkaku Islands southwest of Okinawa took a different turn. Beijing reacted strongly to the short detention of a Chinese fishing boat captain for trespassing near the islands. Beijing started blocking shipments of rare earth minerals to Japan in retaliation. Rare earth metals are vital for high-tech products such as hybrid cars, wind turbines, computers, aircraft-- and precision guided weapons. China accounts for 97 percent of world output, having gained a monopoly by underselling rivals in the U.S. and Australia to drive them out of business. China has now lifted its embargo, but has cut back its aggregate export to all foreign customers.

An Oct. 21 editorial in *Global Times,* a publication of the Chinese Communist Party, claimed China is merely protecting its mineral supplies which it needs for its own industry. "It is countries like the US and Japan that disobey business ethics. According to their mentality, they should be able to buy whatever they need in any volume at any time." the party newspaper argued, "Such practices of forced business are reminiscent of gangsters."

The overt use of Chinese economic leverage for strategic gains sent shock waves through the world trading system, but Beijing's actions have an economic objective as well. On March 1 of this year, new regulations were announced that would further centralize control of the industry, forcing small firms into the hands of larger firms and raising entry barriers to new miners. The resulting concentration will make it easier for the government to allocate the available supply for strategic uses, and to reward domestic firms and obedient foreign firms with favorable access. Beijing has been using its monopoly position to lure foreign high tech firms to locate in China, where additional demands can be imposed.
The proper American response has been to reopen the rare earth mine at Mountain Pass in California. It was closed in 2002 because of environmental concerns and the then low prices China was charging for exports. American production may reach 40,000 tons by 2014, compared to 150,000 tons in China this year.

Another arena for international rivalry and political battles aimed at changing the balance of wealth and power has been the United Nations climate talks. At the UN climate talks held in the Chinese port city of Tianjin in early

[6] Peng Guangqian, "China's Maritime Rights and Interests" *Military Activities in the EEZ* edited by Peter Dutton (Naval War College, China Maritime Studies Institute, Number 7, 2010) pp. 15-16.

October last year, State Councilor Dai Bingguo demanded that China's right to economic development be guaranteed. It was up to the West alone to cut back its activities if it wanted to fight global warming. At both the UN and the World Trade Organization, Beijing has positioned itself to lead a clash of civilizations of the developing countries against the developed West.

U.S. policy has been both good and bad at the UN. Bad, in the attempt to impose universal mandates that would limit economic growth to combat the fictional threat of global warming. This has been unacceptable to most of the world and has only served to push countries like India into the arms of China in opposition. Good, in that under both Presidents Bush and Obama, the U.S. has refused to accept asymmetrical mandates that would put it at a competitive disadvantage relative to China and other developing countries. China's strong push for asymmetrical mandates that would cripple the American economy while leaving Beijing free to advance unimpeded by environmental restraints is clearly motivated by a desire to steal a march on the U.S. The UN climate talks have never been about the weather.

In an attempt to ease tensions with Beijing, President Obama has turned to the business community. At a roundtable of American and Chinese business leaders held during Hu's state visit, Obama noted, "There has been no sector of our societies that have been stronger proponents of U.S.-China relations than the business sector." Yet, this arena has its problems too, because the national economy of America is in competition with the national economy of China. China became the largest exporter in the world in 2009 and recently passed the United States to become the largest manufacturer in the world. And it is manufacturing that most directly relates to military power, which is why the United States was called the "Arsenal of Democracy" during World War II and the Cold War.

We defeated our enemies because we could out produce them. This may not be the case with China. And the infamy of this is that American firms have helped transfer critical capabilities to China, both by direct investment in the construction of factories and research centers, and by the use of the American market to support the expansion of Chinese industry. The $2 trillion we have sent to Beijing via the trade deficit in the last ten years is only one measure of what has been the largest bilateral transfer of raw economic power in the history of the world.

The week before Hu's state visit, while Secretary of Defense Robert Gates was in Beijing trying to improve military-to-military relations with the People's Liberation Army, the Chinese revealed the latest product of their economic growth, the J-20 "stealth" warplane. The Communist media hailed "Reports about China's stealth jet and 'carrier-killer' missile are changing the strategic power balance in the West Pacific."[7]

It is what happens during "peace time" that determines the balance of power that then governs the outcome of confrontations. I'm a free trader, but my rule is "free trade with free people." Trade with a strategic rival does not foster peace; it only empowers the rival, especially when the trade runs so strongly in one direction.

Last year, I co-sponsored a bill that would have allowed action against Beijing for currency manipulation, just one of many tactics used to warp trade flows in China's favor. The bill passed the House 348-79, with majorities in both parties. So there is a bi-partisan consensus that action needs to be taken against predatory Chinese policies, at least in the House.

In a recent *Los Angeles Times* op-ed, Joseph Nye, who served in the Clinton Administration when the overly optimistic notion of a benign Chinese rise took shape, recounted, "On a recent visit to Beijing, I asked a Chinese expert what was behind the new assertiveness in China's foreign policy. His answer: 'After the financial crisis, many

[7] "Chinese stealth jets tests U.S. confidence" *Global Times*, January 12, 2011.

Chinese believe we are rising and the U.S. is declining.'"[8] So economic change produces changes in foreign policy, which means we cannot ignore international economics or leave it to an "invisible hand" because that hand turns out to belong to someone else who does not have our interests at heart.

This Commission is one of the few institutions that explicitly puts economics and security concerns together and its reports to Congress are of great value.

HEARING CO-CHAIR BROOKES: Thank you very much, Congressman, for sharing your thoughts with us this morning and in particular for taking time out of your busy schedule, especially considering the fact that you may be fighting a cold on this wet and dreary day—and also for your support of the U.S.-China Economic and Security Review Commission.

MR. ROHRABACHER: All right.

HEARING CO-CHAIR BARTHOLOMEW: Thank you, Congressman.

MR. ROHRABACHER: Is that it?

HEARING CO-CHAIR BARTHOLOMEW: That's it.

MR. ROHRABACHER: Okay.

HEARING CO-CHAIR BROOKES: Thank you.

PANEL II: ADMINISTRATION PERSPECTIVES

HEARING CO-CHAIR BARTHOLOMEW: Moving on to our second panel today, we're honored to have two witnesses with us from the Obama administration:

Mr. Daniel Kritenbrink from the Department of State, and Mr. David Helvey from the Department of Defense.

Mr. Kritenbrink is the Acting Deputy Assistant Secretary for East Asian and Pacific Affairs at State. He is the former Director of Chinese and Mongolian Affairs, also at the State Department.

Mr. Helvey is the Principal Director for East Asia Policy in the Office of the Secretary of Defense. He has previously served as the Country Director for China, Taiwan and Mongolia at the Department of Defense, as well as a China military affairs analyst at the Defense Intelligence Agency.

We thank you both for being here today. I also want to particularly thank you for your service to our country.

MR. KRITENBRINK: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: And we look forward to your testimony. We'll start with you, Mr. Kritenbrink, if you're ready.

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[8] Joseph S. Nye, "U.S.-China relationship: A shift in perceptions of power" *Los Angeles Times*, April 6, 2011.

STATEMENT OF DANIEL KRITENBRINK, ACTING DEPUTY ASSISTANT SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, D.C.

MR. KRITENBRINK: Good morning.

Commissioner Bartholomew, Commissioner Brookes, and all members of the Commission, I do want to say it's a real honor to be here, and I look forward to our discussion today. If it's okay, I'll go ahead and read my statement, and I very much welcome your questions.

Again, I do want to thank you for inviting me here today to discuss U.S. policy toward the People's Republic of China. As it well known, the United States is committed to pursuing a positive, cooperative and comprehensive relationship with China that is grounded in reality, focused on results, and true to our principles and our interests.

We welcome a strong, prosperous and successful China that plays a greater role in world affairs, and we are committed to working with China and the international community on critical global issues.

Moreover, we believe that a strong U.S.-China relationship serves to bolster stability and security in the Asia-Pacific region.

At the same time, however, we have no illusions about the many obstacles to our cooperation and the many differences that continue to exist between us.

While we have made progress in some important areas, it is clear that much more needs to be done. As Secretary Clinton has said, "You cannot build a relationship on aspirations alone."

We, therefore, are engaging with the Chinese leadership to emphasize the steps we believe are necessary to bring us closer to our shared goals of regional stability and increased prosperity.

I would first like to comment generally on the U.S. approach to China. Contrary to claims by some commentators, the United States is not attempting to contain or counter China's rise. Our approach to China is multifaceted. We encourage China to play a greater role internationally in ways supportive of international development and stability, and in ways consistent with prevailing international rules, norms and institutions.

As others have noticed, U.S. global influence and our active presence in East Asia have, in fact, helped create the stable environment for China's remarkable economic transformation of the past few decades.

The United States has a strong interest in continuing its tradition of economic and strategic leadership, and Asia has a strong interest in the United States remaining a dynamic economic partner and a stabilizing military influence.

The United States is an Asian-Pacific power, and there should be no doubt about our commitment to defending U.S. interests and values in the

region.

But while the United States and China will inevitably have differences from time to time, it is far from preordained that China's rise should lead to conflict. As Secretary Clinton stated, in the 21st century, it does not make sense to apply zero-sum theories of how major powers interact.

We need new ways of understanding the shifting dynamics of an increasingly complex international landscape, a landscape marked by emerging centers of influence, but also by nontraditional, even non-state actors, and unprecedented challenges and opportunities created by globalization. We believe this is especially applicable to the U.S.-China relationship.

As Secretary Clinton outlined in her January 14 speech, one important element of our policy is to work with allies and partners in Asia to foster a regional environment in which China's rise is a source of prosperity and stability for the entire region. Or, as some others have said, to get China right, you have to get the region right.

By practicing what Secretary Clinton has called "forward-deployed diplomacy," the United States has expanded its presence in the region, beginning by renewing and strengthening bonds with our allies and our partners in the region.

At the same time, we have strengthened our engagement and cooperation with regional and multilateral fora, which we believe contributes to regional stability and prosperity. The Obama administration has made a renewed effort to expand our engagement with institutions such as ASEAN, the ASEAN Regional Forum, the ASEAN Defense Ministers' Meeting Plus, and the East Asia Summit, which I note President Obama will attend later this fall in Indonesia.

This engagement is important both because of the centrality of issues of Asia to our own security and prosperity, and because of the region's increasingly global significance.

Engagement with ASEAN member states is important in its own right, but these multilateral institutions also offer a unique opportunity for cooperation with China. Having ASEAN at the center of each of these institutions should allow us to more effectively promote cooperation and innovative solutions to problems.

A second critical element of our policy is focused on building bilateral trust with China. We need to form habits of cooperation and respect that help us work together more effectively and weather disagreements when they do arise.

The most notable of these efforts is the Strategic and Economic Dialogue, or S&ED, a "whole of government" dialogue with participation from hundreds of experts from dozens of agencies across both of our governments. The goal of these meetings is not only to discuss an

unprecedented range of subjects, but as Secretary Clinton has said, "to inculcate that ethic or habit of cooperation across our two governments."

We look forward to hosting our Chinese counterparts at the next round of the S&ED in May in Washington.

The United States engages in broad outreach to all elements of the Chinese government and society as part of our effort to gain greater trust and understanding. This is all part of what the Secretary has described as "a steady effort over time to expand the areas in which we cooperate and to narrow the areas where we diverge, while holding firm to our respective values."

This approach includes building a healthy, stable, continuous, and reliable military-to-military relationship, which President Obama and President Hu have affirmed is an essential part of our bilateral relationship.

The two leaders have also agreed to expand people-to-people exchanges between our countries and emphasized the importance of continued interaction between our legislatures, including institutionalized exchanges between the National People's Congress and the U.S. Senate and House of Representatives.

We have also developed ways to expand the ties between our governments at the sub-national level, including through launching the U.S.-China Governors Forum. This broad interaction with Chinese society will be increasingly important in the run-up to the Chinese leadership transition in 2012 when a new group of civilian and military officials will assume power.

This sort of bilateral engagement also involves managing issues over which we have significant differences. For example, on Taiwan, we have been encouraged by the progress between the Mainland and Taiwan in terms of greater dialogue and economic cooperation.

At the same time, however, our approach continues to be guided by our one-China policy based on the three Joint Communiques and the Taiwan Relations Act. We frequently reiterate that, while we encourage greater dialogue and exchange between the two sides, we also seek a reduction in Chinese military deployments, and remain committed to meeting our responsibilities under the Taiwan Relations Act.

We also continue to have significant differences over human rights. As Secretary Clinton stated on April 8 when releasing the 2010 Country Reports on Human Rights Practices, we remain deeply concerned about continuing reports that since February, dozens of people, including public interest lawyers, writers, artists, intellectuals and activists have been arbitrarily arrested and detained.

We continue to urge China to release all of those who have been detained for exercising their internationally recognized right to free expression and to respect the fundamental freedoms and human rights of all of the citizens of China.

Promotion of human rights will remain an essential element of U.S. foreign policy, and we will continue to raise human rights in our meetings with Chinese officials, including at the next round of the bilateral human rights dialogue.

A third critical element of our policy toward China is expanding our cooperation with China to address common global and regional challenges, ranging from Iran and North Korea to climate change and economic growth.

Through the S&ED and other bilateral engagements, as well as through work in international and other fora, we intend to continue expanding to the maximum extent possible our practical cooperation with China to meet a range of common global interests. I plan to expand on those efforts further below.

At this point, I'd like to turn to addressing some of the specific questions on China's foreign policy that the Commission would like to explore in this hearing, and that will also provide an opportunity to expand on U.S.-China cooperation to deal with common global challenges that I mentioned a moment ago.

In our view, China's foreign policy continues to be driven primarily by its desire to sustain its economic growth and maintain social and political stability at home. As part of this effort, China has sought to develop a wide range of relationships with regional and rising powers as well as traditional world powers. At the same time, China has used its growing role in global affairs to enhance its diplomatic stature.

China has played an important role in diplomatic efforts to address the threat posed by Iran's nuclear program. We have been pleased with the unity that China and other P5+1 partners have maintained in our negotiations with Iran, and we continue to jointly insist that Iran comply with its international obligations.

We worked closely with China to pass U.N. Security Council Resolutions 1929 last June, which placed tough new sanctions on Iran. We have called upon China to ensure this resolution is fully implemented and to take additional steps to restrict any new economic activity with Iran that might provide support to its nuclear program.

Iran's nuclear program was a key topic of President Obama's talks with President Hu, and it was also the focus of several senior level meetings with the Chinese in the lead-up to President Hu's visit.

China reiterated during the State visit that it is committed to implementing U.N. Security Resolution 1929 and other resolutions on Iran fully and faithfully. We welcome that assurance and look forward to continuing to consult with China on these subjects.

China has also been an important diplomatic player on North Korea, including playing a central role as chair of the Six-Party Talks, and has repeatedly stated that it shares our goal of a denuclearized Korean

Peninsula.

We have worked closely with China in recent years to pass UN Security Council Resolutions 1718 and 1874, which imposed additional sanctions against North Korea and called for the international community to take steps to curb North Korean proliferation activities.

The United States is committed to standing with our allies the Republic of Korea and Japan in the face of North Korea's threats. Our alliance was exemplified in the historic December 2010 U.S.-Japan-South Korea Trilateral Ministerial, in which the three ministers affirmed that a North Korean threat to one of the countries will be met by solidarity from all three nations.

Our ability to work together on North Korea is an important sign that we can cooperate to address issues of common concern. We expect China to use its close relationship with North Korea to persuade the North Korean regime to cease its reckless behavior.

President Obama discussed North Korea with President Hu during Hu's state visit in January. In their joint statement, the two Presidents sent an important signal to North Korea and the region that the U.S. and China agree on the critical importance of maintaining peace and stability on the Korean Peninsula, the need for sincere and constructive inter-Korean dialogue, and the crucial importance of denuclearization of the Peninsula.

China also took the important step of expressing concern regarding North Korea's claimed uranium enrichment program. We urge China to press North Korea to take additional steps to improve relations with South Korea, to denuclearize, and to abide by its international commitments and obligations.

We also continue to work with China on the full and transparent enforcement of sanctions against North Korea adopted by the Security Council.

Regarding Russia; in the face of China's remarkable economic growth of the past decades, Russia's main exports to China, energy and raw materials, are rising rapidly. The countries share many overlapping interests and have cooperated on political and economic matters as BRIC nations and permanent members of the U.N. Security Council and the Shanghai Cooperation Organization.

The United States engages closely with both China and Russia on a range of issues, including the challenges posed by North Korea and Iran. We look forward to continued cooperation on important multilateral issues, such as nonproliferation, arms control, counter-terrorism, and regional security.

China in recent years has also been active in pursuing what it sees as its maritime rights. The United States has made clear our views on the principles of freedom of navigation. As Secretary Clinton stated at the

ASEAN Regional Forum in Hanoi last year, the United States has enduring national interests in the South China Sea, including continued peace and stability and respect for international law, as well as freedom of navigation and unimpeded lawful commerce.

We oppose the use of force or the threat of force by any claimant to advance its claim. While the United States does not take sides on the competing territorial disputes over land features in the South China Sea, the United States does support a collaborative diplomatic process by the claimants for addressing territorial disputes.

Like the United States and our allies, China appears to have been watching closely recent developments in the Middle East and North Africa. China has a strong interest in protecting its citizens in the region and ensuring that crucial energy supply lines are maintained.

Nevertheless, we are concerned that China's reaction to these events has caused it to take harsh measures to silence political debate. Over the past few weeks, as Secretary Clinton stated last Friday, we have seen a large number of forced disappearances, extralegal detentions, and arrests and convictions of human rights activists, artists, writers and lawyers, as well as tightened restrictions on foreign journalists.

We have repeatedly raised our concerns with Chinese officials and urged them to end this crackdown. And we will continue to make our position clear publicly and privately.

The United States respects China's extraordinary achievements in economic reform and in lifting hundreds of millions out of poverty in the past 30 years. But during the recent visit of President Hu, President Obama emphasized our belief that human rights are essential to building a stronger, more prosperous and resilient society.

For instance, freedom of expression fosters the open exchange of ideas that is essential to economic innovation and productivity. An effective legal system can protect citizens' property and guarantee that investors profit from their ideas. And a robust civil society can help to ensure that citizens' concerns about everyday issues like food safety, the environment, and urban development are addressed.

All societies benefit from the free exchange of ideas, and all governments benefit from the feedback of their citizens.

In closing, I would like to reiterate that our engagement with China is part of a wider strategy that seeks to reaffirm the United States' commitment to the Asia-Pacific region and encourage China to reach its full potential as a partner in addressing global issues. President Obama has underscored that "the rise of a strong, prosperous China can be a source of strength for the community of nations." Clearly this is a bilateral relationship of critical importance to the United States and to China.

Thank you very much for inviting me here today, and I welcome your

questions. Thank you.

[The written statement follows:]

PREPARED STATEMENT OF MR. DANIEL J. KRITENBRINK
ACTING DEPUTY ASSISTANT SECRETARY FOR EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Commissioner Bartholomew, Commissioner Brookes, thank you for inviting me here today to discuss U.S. policy toward the People's Republic of China (PRC). As is well known, the United States is committed to pursuing a positive, cooperative, and comprehensive relationship with China that is grounded in reality, focused on results, and true to our principles and interests. We welcome a strong, prosperous, and successful China that plays a greater role in world affairs, and we are committed to working with China and the international community on critical global issues. Moreover, we believe that a strong U.S.-China relationship serves to bolster stability and security in the Asia-Pacific region.

At the same time, we have no illusions about the many obstacles to our cooperation and the many differences that continue to exist between us. While we have made progress in some important areas, it is clear that much more needs to be done. As Secretary Clinton has said, "You cannot build a relationship on aspirations alone." We therefore are engaging with the Chinese leadership to emphasize the steps we believe are necessary to bring us closer to our shared goals of regional stability and increased prosperity.

U.S.-China Relationship

I would first like to comment generally on the U.S. approach to China. Contrary to claims by some commentators, the United States is not attempting to contain or counter China's rise. Our approach to China is multifaceted. We encourage China to play a greater role internationally in ways supportive of international development and stability – and in ways consistent with prevailing international rules, norms and institutions. As others have noted, U.S. global influence and our active presence in East Asia have, in fact, helped create the stable environment for China's remarkable economic transformation of the past few decades. The United States has a strong interest in continuing its tradition of economic and strategic leadership, and Asia has a strong interest in the United States remaining a dynamic economic partner and a stabilizing military influence.

The United States is an Asia-Pacific power, and there should be no doubt about our commitment to defending U.S. interests and values in the region. But while the United States and China will inevitably have differences from time to time, it is far from pre-ordained that China's rise should lead to conflict. As Secretary Clinton has stated, in the 21st century, it does not make sense to apply zero-sum theories of how major powers interact. We need new ways of understanding the shifting dynamics of an increasingly complex international landscape – a landscape marked by emerging centers of influence, but also by non-traditional, even non-state actors, and the unprecedented challenges and opportunities created by globalization. We believe this is especially applicable to the U.S-China relationship.

As Secretary Clinton outlined in her January 14 speech, one important element of our policy is to work with allies and partners in Asia to foster a regional environment in which China's rise is a source of prosperity and stability for the entire region. Or, as some others have said, to get China right, you have to get the region right. By practicing what Secretary Clinton has called "forward-deployed diplomacy," the United States has expanded its presence in the region, beginning by renewing and strengthening bonds with our allies and partners in the region.

At the same time, we have strengthened our engagement and cooperation with regional and multilateral fora, which we believe contributes to regional stability and prosperity. The Obama Administration has made a renewed effort to expand our engagement with institutions such as the Association of Southeast Asian Nations

(ASEAN), the ASEAN Regional Forum, the ASEAN Defense Ministers' Meeting Plus, and the East Asia Summit, which President Obama will attend later this fall in Indonesia. This engagement is important both because of the centrality of the issues of Asia to our own security and prosperity, and because of the region's increasingly global significance. The engagement with ASEAN member states is important in its own right, but these multilateral institutions also offer a unique opportunity for cooperation with China. Having ASEAN at the center of each of these institutions should allow us to more effectively promote cooperation and innovative solutions to problems.

A second critical element of our policy is focused on building bilateral trust with China. We need to form habits of cooperation and respect that help us work together more effectively and weather disagreements when they do arise. The most notable of these efforts is the Strategic and Economic Dialogue, or S&ED, a "whole of government" dialogue with participation from hundreds of experts from dozens of agencies across both of our governments. The goal of these meetings is not only to discuss an unprecedented range of subjects, but as Secretary Clinton has said, "to inculcate that ethic or habit of cooperation across our two governments." We look forward to hosting our Chinese counterparts at the next round of this dialogue in May in Washington.

The United States engages in broad outreach to all elements of Chinese government and society as part of our effort to gain greater trust and understanding. This is all part of what Secretary Clinton has described as "a steady effort over time to expand the areas where we cooperate and to narrow the areas where we diverge, while holding firm to our respective values." This approach includes building a healthy, stable, continuous, and reliable military-to-military relationship, which President Obama and President Hu have affirmed is an essential part of their shared vision for a positive, cooperative, and comprehensive U.S.-China relationship. The two leaders have also agreed to expand people-to-people exchanges between our countries and emphasized the importance of continued interaction between our legislatures, including institutionalized exchanges between the National People's Congress of China and the U.S. Senate and House of Representatives. We have also developed ways to expand the ties between our governments at the sub-national level, including through launching the U.S.-China Governors Forum. This broad interaction with Chinese society will be increasingly important as the PRC leadership turns over in 2012 and a new group of civilian and military officials assume power.

This sort of bilateral engagement also involves managing issues over which we have significant differences. For example, on Taiwan, we have been encouraged by the progress between the Mainland and Taiwan in terms of greater dialogue and economic cooperation. At the same time, however, our approach continues to be guided by our one China policy based on the three Joint Communiqués and the Taiwan Relations Act (TRA). We frequently reiterate that, while we encourage greater dialogue and exchange between the two sides, we also seek a reduction in PRC military deployments, and remain committed to meeting our responsibilities under the TRA.

We also continue to have significant differences over human rights. As Secretary Clinton stated on April 8 in releasing the 2010 Country Reports on Human Rights Practices, we remain deeply concerned about continuing reports that, since February, dozens of people, including public interest lawyers, writers, artists, intellectuals, and activists have been arbitrarily detained and arrested. We continue to urge China to release all of those who have been detained for exercising their internationally recognized right to free expression and to respect the fundamental freedoms and human rights of all of the citizens of China. Promotion of human rights will remain an essential element of U.S. foreign policy, and we will continue to raise human rights in our meetings with Chinese officials, including at the next round of our bilateral human rights dialogue.

A third critical element of our policy toward China is expanding our cooperation with China to address common global and regional challenges, ranging from Iran and North Korea to climate change and economic growth. Through the S&ED and other regular bilateral engagement, as well as through work in international and other fora, we intend to continue expanding to the maximum extent possible our practical cooperation with China to meet a range of common global interests. I plan to expand on these efforts further below.

<u>China's Diplomacy</u>

At this point, I would like to turn to addressing some of the specific questions on China's foreign policy that the Commission would like to explore in this hearing and that will also provide an opportunity to expand on U.S.-China cooperation to deal with common global challenges that I mentioned above. In our view, China's foreign policy continues to be driven primarily by its desire to sustain its economic growth and maintain social and political stability at home. As part of this effort, China has sought to develop a wide range of relationships with regional and rising powers, as well as traditional world powers. At the same time, China has used its growing role in global affairs to enhance its diplomatic stature.

China has played an important role in the diplomatic efforts to address the threat posed by Iran's nuclear program. We have been pleased with the unity that China and other P5+1 partners have maintained in our negotiations with Iran, and we continue to jointly insist that Iran comply with its international obligations. We worked closely with China to pass UN Security Council resolution 1929 last June, which placed tough new sanctions on Iran. We have called upon China to ensure that this resolution is fully implemented and to take additional steps to restrict any new economic activity with Iran that might provide support to its nuclear program. Iran's nuclear program was a key topic of President Obama's talks with President Hu, and it was the also the focus of several senior-level meetings with the Chinese in the lead-up to President Hu's visit. China reiterated during the State visit that it is committed to implementing UN Security Council Resolution 1929 and other resolutions on Iran fully and faithfully. We welcome that assurance and look forward to continuing to consult with China on these subjects.

China has also been an important diplomatic player on North Korea (the Democratic People's Republic of Korea, or DPRK), including playing a central role as chair of the Six-Party talks, and has repeatedly stated that it shares our goal of a denuclearized Korean Peninsula. We have worked closely with China in recent years to pass UN Security Council Resolutions 1718 and 1874, which imposed additional sanctions against the DPRK and called for the international community to take steps to curb DPRK proliferation activities. The United States is committed to standing with our allies the Republic of Korea (ROK) and Japan in the face of North Korea's threats. Our alliance was exemplified in the historic December 2010 U.S.-Japan-ROK Trilateral Ministerial in which the three ministers affirmed that a DPRK threat to one of the countries will be met by solidarity from all three nations.

Our ability to work together on North Korea is an important sign that we can cooperate to address issues of common concern. We expect China to use its close relationship with North Korea to persuade the DPRK regime to cease its reckless behavior. President Obama discussed North Korea with President Hu, during Hu's state visit in January. In their joint statement, the two Presidents sent an important signal to North Korea and the region that U.S. and China agree on the critical importance of maintaining peace and stability on the Korean Peninsula, the need for sincere and constructive inter-Korean dialogue, and the crucial importance of denuclearization of the Peninsula. China also took the important step of expressing concern regarding the DPRK's claimed uranium enrichment program. We urge China to press North Korea to take appropriate steps to improve relations with South Korea, to denuclearize, and to abide by its international commitments and obligations. We also continue to work with China on full and transparent enforcement of sanctions against North Korea adopted by the Security Council.

Regarding Russia, in the face of China's remarkable economic growth of the past decades, Russia's main exports to China, energy and raw materials, are rising rapidly. The countries share many overlapping interests and have cooperated on political and economic matters as BRIC nations and permanent members of the UN Security Council and the Shanghai Cooperation Organization. The United States engages closely with both China and Russia on a range of issues including the challenges posed by North Korea and Iran. We look forward to continued cooperation on important multilateral issues such as nonproliferation, arms control, counter-terrorism, and regional security.

China in recent years has also been active in pursuing what it sees as its maritime rights. The United States has made clear our views on the principles of freedom of navigation. As Secretary Clinton stated at the ASEAN Regional Forum in Hanoi last year, the United States has enduring national interests in the South China Sea,

including continued peace and stability and respect for international law, as well as freedom of navigation and unimpeded lawful commerce. We oppose the use of force or threat of force by any claimant to advance its claim. While the United States does not take sides on the competing territorial disputes over land features in the South China Sea, the United States supports a collaborative diplomatic process by the claimants for addressing the territorial disputes.

Like the United States and our allies, China appears to have been watching closely recent developments in the Middle East and North Africa. China has a strong interest in protecting its citizens in the region and ensuring that crucial energy supply lines are maintained. Nevertheless, we are concerned that China's reaction to these events has caused it to take harsh measures to silence political debate. Over the past few weeks, as Secretary Clinton stated last Friday, we have seen a large number of forced disappearances, extralegal detentions, and arrests and convictions of human rights activists, artists, writers, and lawyers, as well as tightened restrictions on foreign journalists. We have repeatedly raised our concerns with Chinese officials and urged them to end this crackdown. And we will continue to make our position clear publicly and privately.

The United States respects China's extraordinary achievements in economic reform and in lifting hundreds of millions out of poverty in the past 30 years. During the recent visit of President Hu, President Obama emphasized our belief that human rights are essential to building a stronger, more prosperous and resilient society. For instance, freedom of expression fosters the open exchange of ideas that is essential to economic innovation and productivity. An effective legal system can protect citizens' property and guarantee that inventors can profit from their ideas. And a robust civil society can help to ensure that citizens' concerns about everyday issues like food safety, the environment, and urban development are addressed. All societies benefit from the free exchange of ideas, and all governments benefit from the feedback of their citizens.

Conclusion

In closing, I would like to reiterate that our engagement with China is part of a wider strategy that seeks to reaffirm the United States' commitment to the Asia-Pacific region and encourage China to reach its full potential as partner in addressing global issues. President Obama has underscored that "the rise of a strong, prosperous China can be a source of strength for the community of nations," and clearly this is a bilateral relationship of critical importance to the United States, and to China.

Thank you for inviting me to testify today. I welcome your questions.

HEARING CO-CHAIR BARTHOLOMEW: Mr. Helvey.

STATEMENT OF MR. DAVID HELVEY, PRINCIPAL DIRECTOR FOR EAST ASIA POLICY, OFFICE OF THE SECRETARY OF DEFENSE, ARLINGTON, VIRGINIA

MR. HELVEY: Commissioner Bartholomew, Commissioner Brookes, members of the Commission, good morning. Thank you for the opportunity for allowing me to appear today to discuss Department of Defense perspectives on China's current and emerging foreign policy priorities.

This is an important topic that has direct and enduring impact on our national and regional security policies and our strategic interests.

I know this is not the first time that the Commission has examined China's interactions with Iran and North Korea, and I commend the

Commission's continuing interest in these and other important issues.

I've submitted a written statement that includes responses to the questions posed in the hearing invitation letter, and I look forward to taking your questions. So what I'd like to do is use these brief opening remarks to summarize that written statement and to describe how the Department of Defense engagements with China fit within the broader context of overall U.S. policy and strategy.

In January of this year, President Obama and China's President Hu Jintao reaffirmed their vision for a U.S.-China relationship that is positive, cooperative, and comprehensive. Both leaders agreed that the military-to-military relationship is a necessary and a central part of this comprehensive relationship.

We've made modest progress towards normalizing military contacts in recent months with the convening of a Military Maritime Consultative Agreement Plenary meeting last October, Under Secretary-level Defense Consultative Talks in December, Secretary Gates' trip to China in January, and again just this week when we convened Deputy Assistant Secretary of Defense-level Defense Policy Coordination Talks in Beijing.

We think it's in the interest of both countries to maintain this momentum through the remaining months of 2011 and beyond and to break the on-again/off-again cycle that has characterized the military-to-military relationship in years past.

Such dialogue is necessary if we're to expand upon those areas where we can cooperate, but also to maintain open channels of communication through which we can speak frankly about those issues over which we differ, to improve mutual understanding, and to reduce the risk of miscalculation.

We believe it is precisely because there exist differences and concerns between our two countries that a healthy, stable, reliable and continuous dialogue between our two militaries is so integral to the health of the overall bilateral relationship.

As the President said in the National Security Strategy:

"We welcome a China that takes on a responsible leadership role in working with the United States and the international community to advance priorities like economic recovery, confronting climate change, and nonproliferation."

"We will continue to monitor China's military modernization program and prepare accordingly to ensure that our interests and those of our allies, regionally and globally, are not negatively affected."

Our strategy towards China rests on three primary elements: the first is a sustained effort to strengthen and expand areas of bilateral cooperation in meeting regional and global challenges; the second is to place our China policy within the context of our overall Asia strategy, including by strengthening our relationships with our allies and partners; and third is to

insist that China abide by existing global rules, laws, norms and institutions as it emerges.

With that bit of context, I'd like to turn now and directly address some of the issues that the Commission outlined in its invitation.

North Korea is one of the least open countries in the world. China remains North Korea's largest supplier of food and fuel, and China perhaps has more interaction with North Korea than any other country. Ties between the Chinese People's Liberation Army and the Korean People's Army have fluctuated over time. Forged in the Korean War, China's military relationship with the North includes a mutual defense agreement signed in 1961 and a history of exchanges and arms trade.

Over time, this relationship has frayed and faded, and some within China may see North Korea today as more of a liability than an asset. However, the ties between the two militaries continue, including a visit last fall by General Guo Boxiong, China's senior-most uniformed officer and a Vice Chairman of their Central Military Commission.

The PLA appears to retain access and influence with North Korea's regime, and we'd like for China to use these tools to greater effect to support the international community's interest in the peaceful process of denuclearization of North Korea.

More broadly, China has played a central role by chairing the Six-Party Talks and has been supportive of efforts in the United Nations Security Council calling for denuclearization of the Korean Peninsula.

For example, following North Korea's announced nuclear tests, China took the important step to vote for U.N. Security Council Resolutions 1718 and 1874, imposing sanctions that prohibit North Korea from buying or selling nuclear, ballistic missile, or other weapons of mass destruction and conventional related arms and materiel.

And in January of this year, in the Joint Statement by President Obama and President Hu Jintao, China reiterated the need for concrete and effective steps to achieve the goal of denuclearization and for full implementation of the other commitments made in the September 19, 2005 Joint Statement of the Six-Party Talks.

We are disappointed, however, that China has not condemned North Korea's attack against the South Korean naval ship, Cheonan, last year, nor has it condemned North Korea's artillery attack against Yeongpyong Island.

We have urged China to transparently implement the relevant U.N. Security Council resolutions and to support the international community's interests in addressing North Korea's provocations and disruptive behavior. We look forward to continuing to consult closely with China on these subjects.

China's comprehensive strategic partnership with Russia has contributed to China's military modernization and enabled deeper

cooperation on diplomatic interests. China's purchases of Russian military equipment has had the effect of accelerating China's military modernization by providing the People's Liberation Army immediate solutions to fill capability gaps, such as organic ship-borne air defense, fourth generation fighter aircraft, modern surface-to-air missile systems, and highly effective anti-ship cruise missiles.

Russia continues to be China's main source for high-tech weapon systems and components. However, as discussed in the Department of Defense's Report to Congress on Military and
Security Developments Involving the People's Republic of China in 2010, in recent years, we've seen China focus less on platforms in favor of purchasing weapon systems and components.

This shift may be more a result of a greater sophistication of China's indigenous defense industries, but it may also reflect a long-standing reticence on the part of the Russians to provide China access to its most capable technologies and weapon systems.

In 2010, China overtook Germany to become Russia's largest trading partner. China has made major investments in Russian oil and gas infrastructure, often acting as Russian's lender of last resort. Russia is also an important supplier of iron, timber and scrap metal to China, while China provides a wide range of inexpensive consumer goods to Russia and is an important source of labor for Russia's depopulated Far East.

Beyond economic and defense-industrial cooperation, as described in a March 2010 report by the CNA Corporation, the "Russia-China partnership has primarily been built on the two partners' concerns about threats to their domestic stability and unity, their key security interests, and their status in what they see as a U.S. dominated world order."

China's motives in the partnership seem to be focused more on acquiring the needed equipment and expertise to counter internal domestic threats, whereas Russia tends to derive benefit in terms of its international prestige and avoiding what Russia may perceive as isolation from the West.

This fundamental divergence and lingering mutual distrust underscores the limits of the relationship over the long term. Indeed, we witnessed evidence of this divergence in China's refusal to endorse Russia's recognition of South Ossetia and Abkhazia in 2008.

China has a long-standing relationship with Iran, and has extensive economic and energy interests there. China today is Iran's largest international trading partner. We have not seen evidence of new PRC investments in Iran's energy sector, but it has maintained its investments there even as other countries, notably Japan and South Korea, have pulled back. China is also investing in many of Iran's other extractive resources such as aluminum, copper and coal.

China's significant investment in Iran mitigates the impact of

international efforts to promote positive change in Iran's policies and behaviors.

On the other hand, as part of the P5+1 and U.N. Security Council, China contributed to the crafting of U.N. Security Council Resolution 1929 and plays a constructive role in efforts to reach a resolution on the international community's serious concern about Iran's nuclear program.

While we may not see eye-to-eye on all of our tactics to address Iran's nuclear developments, the subject of Iran and implementation of sanctions against Iran is an important item on the U.S.-China bilateral agenda, and we discuss it regularly at the highest levels.

Turning now to China's foreign and security policy, over the past 30 years, China has risen to become the world's second-largest economy with interests in securing access to energy resources and markets. These expanding global economic interests are giving rise to a greater set of foreign policy and security interests.

China's expanding interests combined with its greater capacities, including military capabilities, are in turn enabling China to undertake a more active posture in foreign and security affairs.

On the positive side, China has shown a greater willingness to participate in the delivery of international public goods. For example, in 2010, China had over 2,100 personnel committed to U.N. peacekeeping operations, the most of any permanent member of the United Nations Security Council. China also has been active since 2009 in the counter-piracy effort in the Gulf of Aden.

In other cases, however, China's behavior has precipitated regional tensions and instability, such as what we saw last year in the South China Sea. As Secretary Gates said at the Shangri-La Dialogue in Singapore in June:

"It is essential that stability, freedom of navigation, and free and unhindered economic development be maintained. We do not take sides on any competing sovereignty claims, but we do oppose the use of force and actions that hinder freedom of navigation. We object to any effort to intimidate U.S. corporations or those of any nation engaged in legitimate economic activity. All parties must work together to resolve differences through peaceful, multilateral efforts consistent with customary international law."

We continue to discuss with China its maritime claims and behaviors in the South China Sea, as well as in the East China Sea and Yellow Sea, and consistent with U.S. policy, we encourage China to peacefully resolve these disputes through dialogue.

The Commission's fourth question asks whether the PLA is playing a larger role in China's foreign policy making process. This is an issue that the Department of Defense is watching closely and is very interested in.

The PLA does play an important role in China's overall decision-making, and as the PLA modernizes and becomes more able to function farther and farther from China, we can expect it will play a larger role in China's foreign policy.

We're seeing a foreshadow of the kinds of operations we expect to see more of in the future today. These include the counter-piracy operations I already mentioned, the evacuation of Chinese nationals from Libya, security assistance in countries where China is seeking to gain greater access or influence, and the military exercises it conducts with many countries around the world.

Likewise, as we saw with the 2007 anti-satellite weapon test and the January 2011 flight test of the J-20, China's military modernization itself will have increasingly significant foreign policy consequence.

How China's leaders choose to manage this aspect of civil-military relations, however, remains an open question.

Commissioner Bartholomew, Commissioner Brookes, members of the Commission, China's activism in foreign and security affairs present the United States and the international community both opportunities and challenges. As we work to fulfil our common vision for a positive, cooperative and comprehensive U.S.-China relationship, we seek to maximize the potential for positive outcomes while developing ways to manage our differences in a manner that supports regional stability.

Thank you again for the opportunity to appear before this Commission, and I look forward to taking your questions.

[The written statement follows:]

PREPARED STATEMENT OF MR. DAVID HELVEY, PRINCIPAL DIRECTOR FOR EAST ASIA POLICY, OFFICE OF THE SECRETARY OF DEFENSE, ARLINGTON, VIRGINIA

Madame Chair Bartholomew, Chairman Brookes, members of the Commission, thank you for the opportunity to appear today to discuss Department of Defense perspectives on China's current and emerging foreign policy priorities. This is an important topic that has a direct and enduring impact on our national and regional security policy and our strategic interests. This is not the first time the Commission has examined China's interactions with Iran and North Korea, and I commend the Commission's continuing interest in these and other important issues. I look forward to addressing the questions posed in the hearing invitation letter. However, before I do that, I would like to offer some context on where Department of Defense engagements with China fit within broader context of overall U.S. policy and strategy toward China and the region.

In January of this year, President Obama and China's President Hu Jintao reaffirmed their vision for a U.S.-China relationship that is positive, cooperative, and comprehensive. Both leaders agreed that military-to-military relations are a necessary and essential part of this comprehensive relationship. We have made modest progress towards normalizing military contacts in recent months with the convening of a Military Maritime Consultative Agreement Plenary meeting in October 2010, at a meeting of the Undersecretary-level Defense Consultative Talks in December, during Secretary Gates' trip to China in January, and again just this week as we convened Deputy Assistant Secretary of Defense-level Defense Policy Coordination Talks (DPCT). We think that it is in the interest of

both countries to maintain this momentum through the remaining months of 2011 and beyond. Such dialogue is necessary if we are to expand upon those areas where we can cooperate, but also to maintain open channels of communication through which we can speak frankly about those issues over which we differ and to improve mutual understanding, and to reduce the risk of miscalculation. We believe it is precisely because there exist differences and concerns between our two countries that a continuous dialogue between our two militaries is so integral to the health of the overall bilateral relationship.

As the President said in the National Security Strategy, "We welcome a China that takes on a responsible leadership role in working with the United States and international community to advance priorities like economic recovery, confronting climate change, and non-proliferation. We will continue to monitor China's military modernization program and prepare accordingly to ensure that our interests and those of our Allies, regionally and globally, are not negatively affected." An important part of this process is to build a military-to-military component of this relationship that is healthy, stable, reliable, and continuous, and that breaks the on-again/off-again cycle that has characterized the military relationship in years past.

Our strategy toward China rests on three primary elements. First is a sustained effort to strengthen and expand areas of bilateral cooperation in meeting regional and global challenges. Second is to place our China policy within the context of our overall Asia strategy, including by strengthening our relationships with our Allies and partners. And third, to insist that China abides by existing global rules, laws, norms and institutions as it emerges.

My State Department colleague has addressed our overall policy toward China in greater detail in his testimony, so for our purposes and as a witness from the Defense Department, I would like to provide additional comment on the second element, which relates to strengthening our alliances and other partnerships in the region.

Our treaty alliances with Japan, South Korea, Australia, Thailand, and the Philippines and our network of partnerships throughout the Asia-Pacific and beyond remain key components of our strategic engagement in the region and remain critical to ensuring that we shape the context within which China emerges and meet the challenges that we face in the region. By working to increase alliance capacity and working with them to update and enhance roles, missions, and capabilities we will, together, be better prepared for 21st century challenges.

One such challenge, which comes as no surprise to members of this Commission, is the threat posed by an increasingly provocative and unpredictable North Korea. As we have witnessed in the last 12 months, North Korea has attacked and sunk a ROK naval vessel, killing 46 sailors, publicly revealed a uranium enrichment program in contravention of multiple UN Security Council Resolutions and North Korean commitments, and launched an artillery attack that killed both ROK Marines and civilians. These sorts of provocations serve as a stark and somber reminder of the active threat that North Korea poses to the United States and our Allies, and our need to remain forward deployed to encourage greater engagement from China on North Korea issues.

Mr. Chairman, with that bit of context I would like to turn now and directly address the North Korea issues and the others that the Commission outlined in its invitation. In particular I would like to provide some insight into China's security and military relations with North Korea, Iran, and Russia, and discuss how these relationships may affect international sanctions efforts. Additionally, I was asked to discuss the degree to which China's foreign policy has become more assertive in recent years; and whether the People's Liberation Army (PLA) is playing a larger role in China's foreign policy making process.

<u>North Korea</u>

North Korea is one of the least open countries in the world. As such, it is difficult to know with certainty what is happening in that country, especially regarding its military. China remains North Korea's largest supplier of food and fuel, and China perhaps has more interaction with North Korea than any other country.

In the defense sphere, ties between the Chinese People's Liberation Army and the Korean People's Army have fluctuated over time. Forged in the Korean War, China's military relationship with the North includes a mutual defense agreement signed in 1961 and a history of exchanges and arms trade. Over time the relationship has frayed and faded, and some in China may see North Korea as more of a liability than an asset. However, the ties continue, including the visit last fall by General Guo Boxiong, the senior most uniformed officer in China's military, and Vice Chairman of the Central Military Commission. The PLA appears to retain effective avenues of access and influence within North Korea's regime. We would like for China to use these to greater effect in support of the international community's interest in the continued peaceful process of denuclearization of North Korea.

More broadly, China's activities with North Korea are, on some issues, helpful to U.S. and Allied interests in the region, and on other issues less so. China has played a central role by chairing the Six-Party Talks and has been supportive of efforts in the United Nations Security Council (UNSC) calling for the denuclearization of the Korean Peninsula. For example, following North Korea's announced nuclear tests China took the important step to vote for UNSC Resolutions 1718 and 1874 imposing sanctions that prohibit North Korea from buying or selling nuclear, ballistic missile, other WMD and conventional related arms and materiel. And, in January of this year, the Joint Statement by President Obama and President Hu, China reiterated the need for "concrete and effective steps to achieve the goal of denuclearization and for full implementation of the other commitments made in the September 19, 2005 Joint Statement of the Six-Party Talks."

We are disappointed however, that China has not condemned North Korea's attack against the South Korean naval ship, Cheonan, last year, nor has it condemned North Korea's artillery attack against Yeongpyong Island. We have urged China to transparently implement the relevant UN Security Council resolutions and to support the international community's interest in addressing North Korea's provocations and disruptive behavior. We look forward to continuing to consult closely with China on these subjects.

Russia

China characterizes its relationship with Russia as a comprehensive strategic partnership. China's partnership with Russia has contributed to China's military modernization and enabled deeper cooperation on diplomatic interests.

The collapse of the Soviet Union in 1991 assuaged PRC concern over a major conflict, enabling the PRC and Russia to begin resolving longstanding border disputes, promote trade and build what became a fairly robust arms trade. China's purchases of Russian military equipment had the effect of accelerating China's military modernization by providing the PLA immediate solutions to capability gaps, such as organic ship-borne air defense, 4th generation fighter aircraft, modern surface-to-air missile systems, and highly effective anti-ship cruise missiles. Russia continues to be China's main source for high-tech weapons systems and components. However, in the past several years, we have seen a change in the types and quantity of systems China is purchasing from the Russians.

As discussed in the "Military and Security Developments Involving the People's Republic of China: 2010," China has focused less on platforms in favor of purchasing weapon systems and components for use by land, sea, and air forces. This shift may be a result of a more sophisticated indigenous defense industry within China, but also may reflect a longstanding reticence on the part of the Russians to provide China access to its most capable technologies and systems over concerns about the protection of its intellectual property and the long-term prospects of competing with rapidly advancing Chinese defense technology in the global defense market.

In 2010, China overtook Germany to become Russia's largest trading partner. Chinese exports to Russia increased by 69 percent and amounted to $29.6 billion compared with 2009, while Russian exports to China increased by 21.7 percent to $25.8 billion. China has made major investments in Russian oil and gas infrastructure, often acting as Russia's lender of last resort. As part of a Russia-China deal for 300 million tons of oil in exchange for $25 billion in loans, Russia extended a branch of its East Siberian-Pacific Ocean oil pipeline to China. Gazprom continues to negotiate gas sales to China, with prices being the sticking point, and would like to eventually build a gas pipeline

to China. Russia is also an important supplier of iron, timber, and scrap metal to China, while China provides a wide range of inexpensive consumer goods to Russia and is an important source of labor for Russia's de-populated Far East.

Beyond economic and defense industrial cooperation, as described in a March 2010 report by the CNA Corporation, the, "Russia-China partnership has primarily been built on the two partners' concerns about threats to their domestic stability and unity, their key security interests, and their status in what they see as a U.S. dominated world order." China's motives in the partnership seem focused more on acquiring the needed equipment and expertise to counter internal domestic threats, whereas Russia tends to derive benefit in terms of its international prestige and in avoiding what Russia may perceive as isolation from the West. This fundamental divergence and lingering mutual distrust underscores the limits of this relationship over the long term. Indeed, we witnessed evidence of this divergence in China's refusal to endorse Russia's recognition of South Ossetia and Abkhazia in 2008. However, in the near and mid-terms, we can anticipate that the China-Russia partnership will continue to be an important factor shaping international diplomacy—particularly in the UN Security Council, where both nations hold a veto.

Iran

China has a longstanding relationship with Iran, extensive economic and energy interests. China, today, is Iran's largest international trading partner. We have not seen evidence of new PRC investments in Iran's energy sector, but it has maintained its investments there, even as other countries—notably Japan and Korea—have pulled back their investments. China is also investing in many of Iran's other extractive resources – aluminum, cooper, and coal. China's significant investment in Iran mitigates the impact of international efforts to promote positive change in Iran's policies and behaviors.

On the other hand, as part of the P5+1 and UN Security Council, China contributed to the crafting of UNSCR 1929 and plays a constructive role in efforts to reach a resolution of the international community's serious concerns about Iran's nuclear program. While we may not see eye-to-eye on all of our tactics to address Iran's nuclear program, China shares the international community's concern over Iran's noncompliance with its international obligations and its nontransparent conduct in its nuclear activities. China continues to support consensus with the P5+1 on major issues dealing with Iran. China supported UNSCR 1929, and there was broad agreement among of the P5+1, including China, in talks with Iran earlier this year in Geneva and Istanbul.

The subject of Iran and implementation of sanctions against Iran is an important item on the U.S.-China bilateral agenda and we discuss it regularly at the highest levels. China has stated that it is committed to implementing UN Security Council Resolution 1929 and the other resolutions on Iran fully and faithfully. We welcome that assurance and look forward to continuing to consult with China on these subjects.

China's Activism in Foreign and Security Policy

Over the past 30 years, China has sustained economic growth rates above 8.5% per year on average, even over the past 3 years of financial uncertainty. Fifteen of the twenty largest ports in the world are in the Asia-Pacific region. Nine of these are in China. Commensurate with that trade volume, China is now the largest trading partner of Japan, India, Taiwan, Australia, South Korea, and Russia. This enormous economic growth has led China to become the world's second largest economy with interests in securing access to the energy, resources, and markets it needs. These expanding global economic interests are giving rise to a greater set of foreign policy and security interests. China's expanding interests combined with its greater capacities – including military capabilities – are in turn enabling China to undertake a more activist posture in foreign and security affairs.

On the positive side, in recent years China has shown a greater willingness to participate in cooperative international security. One example has been the increase in China's participation in peacekeeping efforts. In

2010, China had over 2100 personnel committed to UN Peacekeeping exercises—the most of any permanent member of the Security Council. China has also been active since 2009 in the counter-piracy effort in the Gulf of Aden, with PLA Navy ships escorting commercial vessels through that dangerous part of the world.

In other cases, however, China's more active diplomatic and security behavior has precipitated regional tensions and instability, such as what we saw last year in the South China Sea. As Secretary Gates said at Shangri-la Dialogue in June last year, "it is essential that stability, freedom of navigation, and free and unhindered economic development be maintained. We do not take sides on any competing sovereignty claims, but we do oppose the use of force and actions that hinder freedom of navigation. We object to any effort to intimidate U.S. corporations or those of any nation engaged in legitimate economic activity. All parties must work together to resolve differences through peaceful, multilateral efforts consistent with customary international law." We also continue to discuss with China its maritime claims and behaviors in the South China Sea, as well as the East China Sea and Yellow Sea, and consistent with the U.S. policy, encourage China to peacefully resolve these disputes through dialogue.

The PLA's role in Foreign Policy

The Commission's fourth question asks whether the PLA is playing a larger role in China's foreign policy making process. This is an issue the Defense Department is actively watching and interested in. The PLA does play in important role in China's overall decision-making process.

The People's Liberation Army's budget has increased at double digit rates for over 15 years. This gives it both greater resources and a greater capacity to act in support of PRC foreign policy objectives which may give PLA leaders greater credibility and voice in foreign policy discussions. Moreover, as China's interests have expanded, there is a greater intersection between China's defense and foreign policies, giving the PLA a greater role in shaping debates – particularly public debate – on foreign and security policy.

As the PLA continues to modernize, it is becoming more professionalized and specialized. Successive civilian leadership changes have resulted in a leadership that has no experience in, and little experience with, the PLA. Further, the limited opportunity for formalized interactions between the civilian leadership and the military leadership suggests that there are fewer opportunities for the civilian leaders to gain alternative viewpoints and recommendations regarding matters that fall within the purview of the military.

Lastly, China's overall leadership structure is undergoing change. The level and extent of PLA participation in the highest levels of the Party is less now than before—the PLA now occupies only two seats on the 25 member Politburo and no seats on the nine-member Politburo Standing Committee. But at the same time, the more collective approach to leadership provides multiple bureaucratic actors greater opportunities to influence decisions.

As the PLA modernizes and becomes more able to function further from China, we can expect it will play a larger role in China's foreign policy. We are seeing a foreshadowing of the kinds of operations we will expect more of in the future. These include: counter-piracy operations in the Gulf of Aden; the deployment of a frigate to the Mediterranean to support the evacuation of Chinese nationals from Libya; security assistance in countries where China is seeking to gain access or influence and the military exercises it conducts with militaries of many countries around the world. Likewise, as we saw with the 2007 anti-satellite test, and the January 2011 flight test of the J-20, China's military modernization itself will have increasingly significant foreign policy consequence. How China's leaders chose to manage this aspect of civil-military relations remains an open question.

Conclusion

Madame Chair, Mr. Chairman, members of the Commission, China's activism in foreign and security affairs present

the United States and the international community both opportunities and challenges. As we work to fulfill our common vision for a positive, cooperative, and comprehensive U.S.-China relationship, we seek to maximize the potential for positive outcomes while developing ways to manage our differences in a manner that supports regional stability. We seek greater cooperation from China to resolve the nuclear ambitions of both North Korea and Iran and will use dialogue to help manage differences. We will not agree on all issues, but we will be clear and frank with China on those issues over which we differ.

As we have said before, China's future is not set and we must be prepared for multiple outcomes in the U.S.-China relationship. There are any number of questions about China's foreign policy and foreign relations that will help us to understand better the direction China's rise will take.

Some of these questions include:

- What are the ways in which China's rise is altering current international rules and norms?
- In what ways is China's posture cooperative to the U.S. and others in the region?
- As China continues to develop, what indicators should we look for to demonstrate China is, or is not, taking on more responsibilities in global problem solving?

Thank you for the opportunity to appear before this Commission.

PANEL II: DISCUSSION, QUESTIONS AND ANSWERS

HEARING CO-CHAIR BARTHOLOMEW: Thank you, gentlemen, both of you, for your interesting testimony.

I would note after some of us have been serving on this Commission for between eight and ten years, that it seems like today's testimony is of a more measured and somber nature than I think that we heard certainly eight years ago. So with that, we'll start questioning.

Commissioner Fiedler.

COMMISSIONER FIEDLER: I'll address this to both of you. Mr. Helvey, you just mentioned together the ASAT test and the stealth bomber revelation as examples of military modernization affecting foreign policy.

Those are also examples, as I recall, of some question about the leadership's understanding, the central leadership's understanding about whether they had knowledge of those events or not beforehand.

MR. HELVEY: Yes.

COMMISSIONER FIEDLER: I want to make an assumption. Let's assume for the moment they did not know, which I have a hard time believing. That's a more dangerous situation; that would be a situation where the PLA is acting more like a rogue. But then let's assume that they did know but pretended, as they did publicly, that they didn't.

What does that, in fact, tell us about the role of the PLA in the determination of foreign policy and our reaction to it? What does that tell us about their role--those two incidents particularly, not generally?

MR. HELVEY: Well, thank you. Thank you for that question.

With both of these cases, I think what we saw is evidence of the potential for disconnects within the Chinese bureaucracy. In the case of the J-20, Secretary Gates happened to be in China at that time, and he asked President Hu directly, what was the meaning of this test, and President Hu told him that it was a pre-planned event and the timing was unrelated to his visit to China, and we take China's president at his word on that.

In terms of your larger question regarding what this means about the PLA's role in foreign policy, I think this just underscores the point that I made in the opening statement, that China's military modernization itself is going to have significant consequences for its foreign policy, and so that shows a role that the PLA plays.

Part of what we're trying to do with our policy is to engage the PLA in a sustained way so we can get a better understanding of the direction that they're taking and get a better understanding of the intentions.

I do anticipate that as China's political system continues to evolve, you may have these types of frictions, but I don't see this as evidence of a rogue PLA or anything like that.

MR. KRITENBRINK: Mr. Commissioner, could I just respond to that as well? I largely agree with what my colleague Mr. Helvey has said. I would just emphasize and agree with your point. It's hard to believe that the Chinese leadership did not know of such significant events, but I think it really does underscore the need for greater transparency, and I guess from the standpoint of the U.S. government, we'd like to see greater transparency both regarding the PLA's military modernization but also the Chinese government policymaking structure.

It is largely opaque and difficult to understand, but again I think it's hard to believe that the Chinese leadership did not know of those events. Now, were they fully coordinated within the Chinese government? That's another question.

COMMISSIONER FIEDLER: Let me ask one final follow-up. Does the State Department note a diminished influence in policy determinations by the Ministry of Foreign Affairs?

MR. KRITENBRINK: I don't think that I would say that we note a diminished influence. I think what we would say is that we view the Ministry of Foreign Affairs, while being the State Department's primary counterpart, we would view them as being one of several voices and institutions involved in the making of Chinese foreign policy, and I think that our primary view would be, given the structure of the Communist Party and the Chinese government, that many of those decisions, the ultimate

decisions, are made at a much higher level.

So I would not diminish the role of the Ministry of Foreign Affairs. Again, they're the primary interlocutor, and I think they have quite a capable diplomatic service, but again I would just reiterate, I think they are one of several actors within the system, and again many of those really important decisions I think are being made at the Politburo level. I hope that's responsive.

COMMISSIONER FIEDLER: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Thanks very much, gentlemen.

Commissioner Shea.

COMMISSIONER SHEA: Thank you both for being here.

There's been a lot of concern about Chinese state-owned energy companies displacing other foreign companies who have decided to leave Iran because of Iran's nuclear program. So I just would like you to both comment on that concern. But before that, I would like to read just a brief segment of testimony from John Garver who will be testifying here later today.

He says: "Between 2002 and 2009, nearly 40 Chinese entities were sanctioned 74 times by the United States under U.S. legislation and Executive Orders. Interestingly, however, none of China's oil majors were among the Chinese firms sanctioned in spite of those firms vigorous entry into Iran's energy sector in the late 2000s and in spite of the apparent applicability of U.S. sanctions laws to those firms' investment in Iran's energy sector.

"Beijing was willing"--then he goes on to say--"Beijing was willing to tolerate U.S. sanctions against Chinese equipment and technology suppliers but not against China's oil majors. Beijing apparently succeeded in deterring U.S. sanctions against its oil firms."

So, just as a matter of information, Iran does not have adequate refining capacity. Doesn't this, the sale of gasoline by Chinese state-owned companies into Iran, violate the U.S. sanctions law? That's the first question.

And, secondly, if so, is there a conscious decision not to apply the U.S. sanctions law to these large state-owned energy companies?

MR. KRITENBRINK: Thank you, Mr. Commissioner.

Let me do my best to answer each of your questions. I think the general point on Iran that maybe I would just reiterate, is that this is one of the top U.S. foreign policy priorities, and it's one of our top priorities in our engagement with China.

We have made very clear to China that we expect them to show restraint in investments in the energy sector, and this is both in line with U.N. Security resolutions and with U.S. law. China has voted in favor of these Security Council resolutions, and stated that it shares our goal in fully

implementing them. And we watch this very carefully and will continue to do so. If we find instances of where Chinese firms have violated those obligations, I can assure you we're going to look at that very carefully and engage with the Chinese very seriously.

My understanding is that, in fact, the provision of refined petroleum products would be a violation, and so that would be something we would look at very seriously. So I can assure you there are a number of very qualified people who look at this very closely. There is, if I remember correctly the commentary by someone else, the other person's testimony you mentioned--

COMMISSIONER SHEA: Garver.

MR. KRITENBRINK: --there is no effort to somehow shield Chinese companies here. I think we take this issue very seriously and our obligations very seriously. We're going to look at it very closely, and we're going to continue to engage the Chinese very intensively.

COMMISSIONER SHEA: I appreciate your answer. So just to be clear, the sale of refined oil products to Iran would technically violate U.S. sanctions?

MR. KRITENBRINK: Well, I will confirm that for you, but my understanding is the provision of refined petroleum products would be a violation. That is my understanding.

COMMISSIONER SHEA: Do you have any doubt that Chinese state-owned companies are selling refined petroleum products to Iran?

MR. KRITENBRINK: As I said, I think we're going to continue to look at that very, very closely, and if there are some instances where we see that Chinese entities have acted in violation of our law or U.N. Security Council resolutions, that is something we're going to take very seriously and look into very intensively.

COMMISSIONER SHEA: Thank you.

MR. KRITENBRINK: Thank you very much.

HEARING CO-CHAIR BARTHOLOMEW: Commissioner D'Amato.

COMMISSIONER D'AMATO: Thank you very much, Madam Chairman, and I thank the witnesses for your testimony today and for presenting cogently the administration's position on these issues.

For both of you, I'd like to ask a general question and then a specific one for each. First, the general question is what would you regard as the most important areas of shared goals or convergence between U.S. and Chinese foreign policies today? What is it that we share the most in terms of shared goals or policies?

And, secondly, for Mr. Kritenbrink, in terms of the institutional arrangements that follow up these shared goals, you cite the Strategic and Economic Dialogue. I'm curious as to what the Department regards as the

most important achievement so far in terms of practical results from this Dialogue?

And for Mr. Helvey, you cite the Military Maritime Consultative Agreement as one of those institutional arrangements. Same question for you: what if anything has come out of that arrangement in the way of positive results? I remember former Senator John Warner when he was Secretary of the Navy negotiated an agreement with the Russians that lasted for a long time in terms of military-to-military relations at sea, navy rules of engagement and so on, that were very practical, very useful, and lasted a long time.

Is there anything of that kind that's being developed between us and the Chinese Navy in terms of that dialogue?

MR. KRITENBRINK: Thank you, Mr. Commissioner.

If I could start by attempting to answer your first two questions, let me make sure I understand the first question. What is the greatest area where we share common interests and convergence?

I would say, just generally speaking, I think it's very clear when you look at Chinese statements and think of the many meetings with U.S. and Chinese officials together, that there is obviously a great convergence in terms of our interests in regional and global stability, security, and certainly in economic prosperity.

So just to give a couple of examples that we've talked about here, when we talk about North Korea, when we talk about Iran, and other major challenges, I think at the outset there is always a shared understanding that we have in, as I said, regional and global stability and security.

And so I would say that is one cause for hope and optimism for the future, even though as we've stated here today many times, our tactics differ and sometimes perhaps our short and long-term goals may be different, but I think that those would be the areas where I see our interests most convergent.

Regarding the Strategic and Economic Dialogue, I would focus on a couple of things. I've had the pleasure now of being involved in the first two Strategic and Economic Dialogues, and we're intensively engaged in planning for the next one in May, and I would mention a couple of general things.

I think one of the most important outcomes is not necessarily the kind of thing that you see on the fact sheets that we issue afterward, and that would be the opportunity for our very senior leaders to engage in nearly two full days of intensive consultations, oftentimes in very small settings.

Secretary Clinton, for example, has had the opportunity in the last two S&EDs to have intensive consultations with her counterpart, State Councilor Dai Bingguo, who is the most senior Chinese official in charge of Chinese foreign policy, and they've discussed all of these important issues in great

detail that we've talked about here today.

That is one, I think, important practical outcome, but I would also focus on the fact that in both of the last two S&EDs, and you'll see in this next one, that our press releases have talked about a number of practical outcomes, some 26 at the last one, and particularly I've been struck in the last two S&EDs at the amount, the number of agreements and practical cooperation that we've engaged in on energy, on energy security, on cooperating on the development of clean energy technologies, practical cooperation on combating climate change and those sorts of things.

Those would be just a couple of examples that I would give, but it's that opportunity for high-level dialogue. It's practical results, and then I should add as well a number of other dialogues that have resulted out of the S&ED. So we do think that this is a very important, worthwhile endeavor that we're engaged in.

COMMISSIONER D'AMATO: Thank you.

MR. HELVEY: Thank you for your question, and I would agree with what Mr. Kritenbrink said about the area of greatest shared objectives or convergence.

Indeed, the very premise of the U.S.-China relationship from its inception has been the shared commitment to stability, and I firmly believe that that is one of the areas where we have profound convergence.

You asked a question about the progress or outcomes of the Military Maritime Consultative Agreement. This is an agreement that we've had since 1998. It is focused on operational level dialogue between our military and the People's Liberation Army to improve air and maritime safety.

Our focus is on invigorating this dialogue because we see that it is very important to be able to maintain these types of discussions, and to work cooperatively with the Chinese to improve the safety of their operations on the high seas and airspace above it. This is particularly the case as we start operating more closely to each other, both in the Western Pacific and elsewhere around the world, like in the Gulf of Aden where we are conducting counter-piracy operations together.

You had mentioned the previous agreement that we had with Russia that was the Incidents at Sea or INCSEA Agreement. We're not looking at having that type of arrangement with the Chinese, in part because we have the MMCA, or the Military Maritime Consultative Agreement.

The MMCA captures what we need to have with the PLA. It provides a framework within which the norms, rules and goals of customary international law that are reflected in the U.N. Convention on the Law of the Sea is captured. We don't need to have a separate agreement with the Chinese.

In fact, what we want to be able to do is use the MMCA to promote behavior that is consistent with customary international law as reflected in

UNCLOS.

When we had INCSEA, as you know, we hadn't yet completed negotiations of the U.N. Convention on the Law of the Sea. The current arrangements we have are sufficient in terms of the agreements necessary to encourage the type of behavior that we are seeking from the Chinese.

Our objective is to make sure that we maintain those types of dialogues and those contacts and expand them and invigorate them so that we can again actually encourage China to behave responsibly and safely in their operations.

HEARING CO-CHAIR BARTHOLOMEW: Okay. Commissioner Wessel.

COMMISSIONER D'AMATO: Thank you.

COMMISSIONER WESSEL: Thank you, gentlemen, and to mirror what our co-Chair today said, thank you for your government service. We know that it is increasingly difficult in these times.

MR. KRITENBRINK: Thank you, sir.

COMMISSIONER WESSEL: We appreciate all that you're doing.

COMMISSIONER WESSEL: I'm a little confused and hope that you can help me through that, and I think there is a good portion of the public that's confused as well. You've talked several times today about a commitment to stability, and clearly none of us have ill will towards the Chinese people and their prosperity and their growth.

But if one looks at the current stability of the situation in our bilateral relationship, we have a growing trade deficit; we have displacement of many U.S. jobs or perceived displacement of many U.S. jobs. You mentioned clean energy. We have a number of other areas where we have trade cases going on.

You mentioned earlier that the drive towards a free society may have taken a detour over the last couple of months with certain actions taken by the Chinese government, and when we brought China into the WTO, we had hoped that economic engagement and their participation there would result in them moving more towards a free economy and free market system.

Yet, as we heard at our last hearing two weeks ago, China's state sector has, in fact, increased in size over the last several years, and we see that the current 12th Five Year Plan has associated with it $1.5 trillion in support to achieve its goals.

So I guess as an overall question, is stability, in fact, where we want China to be long-term? Stable? Are we in support of the values that China currently professes of being a non-market economy, of not being a free society? Is stability of that system our goal?

Both witnesses, please.

MR. KRITENBRINK: Mr. Commissioner, that's an excellent question and a very challenging question, and I want to gather my thoughts for a moment.

[Laughter.]

MR. KRITENBRINK: I would say--I mean that very honestly--it's a good one. Let me try to be as absolutely honest and blunt and as clear as possible. We have stated very clearly that our policy is we want to see a stable and prosperous China.

We welcome a successful China that plays a positive role in international affairs, and there should be no doubt about it, and we try to reiterate publicly and privately to our Chinese counterparts and our Chinese friends that despite some of the misperceptions that exist in China, the United States is not out to undermine or to create instability in China.

In fact, we want just the opposite, and I think we all benefit when that's the case. But, again, these are very complex issues, and just because we share those goals and those aspirations for a future China where all Chinese citizens are successful and prosperous and can enjoy many of the freedoms that many of us do, that does not stop us from being very frank and honest about the areas where we think China still has a long ways to go.

I think even our Chinese friends would admit they have a long way to go, but we feel that we have an obligation to speak out very frankly. Let me start by, on the human rights questions that you've--

COMMISSIONER WESSEL: Let me interrupt--

MR. KRITENBRINK: You want to turn it more to the--

COMMISSIONER WESSEL: Let me interrupt you just for a moment.

MR. KRITENBRINK: Yes.

COMMISSIONER WESSEL: And I'm not trying to put you on the spot.

MR. KRITENBRINK: Sure.

COMMISSIONER WESSEL: I'm not seeking instability in China--

MR. KRITENBRINK: Sure.

COMMISSIONER WESSEL: --in terms of overthrow or anything.

MR. KRITENBRINK: Yes.

COMMISSIONER WESSEL: It's a question of what are the values? During the 1980s, Jim Fallows, the author, wrote a book called More Like Us, that there was--

MR. KRITENBRINK: Yes.

COMMISSIONER WESSEL: --we were seeking with Japan to impart our egocentric values that everyone wanted to be like the U.S. Does China want to be like the U.S.? Are we giving them time to migrate to the U.S. system of an economic free market and freedom and democracy? Do we really believe that that's their goal?

MR. KRITENBRINK: I guess what I would say is that when I think of my many Chinese counterparts and friends, I think it would be difficult for me to say that they want to be like the U.S. I'm not sure quite how to answer.

What I can say with some confidence is I think most Chinese friends that I know, living in China today, they seek many of the same things that you and I do: a stable life; the ability to speak their conscience; the ability

to choose the job and the education that they wish; the ability to live free from fear and persecution; the ability to have their property rights protected; the ability to have channels through which to express their grievances and their unhappiness, whether that be a free, independent, impartial judicial system, or a free and open press.

So I think there are a great deal of common goals among our two peoples. I think my greater concern and I think our government's concern over the last year or two, and certainly over the last couple of months, has been that what we see and what we presume is that fear on the part of the Chinese authorities over instability has driven them to take actions that we think are unfortunate, that we think are unwarranted, that we think is not behavior befitting of a great power, and that we think in the long run cuts against their stated goals for a prosperous, free, harmonious society.

I think China will be a better society, a more stable, prosperous place when they pursue some of these freedoms, and that's why when we engage on these issues with our Chinese friends, we tell them this is not the United States or the West trying to impose our values upon them; we think these are things that you ought to do in your own self-interest.

I hope that answers your question.

COMMISSIONER WESSEL: Yes, and hopefully there's another round for further engagement.

HEARING CO-CHAIR BARTHOLOMEW: Commissioner Brookes.

HEARING CO-CHAIR BROOKES: Thank you very much.

I have a couple of questions. I'll try to slip two of them in, and they're to both of the panelists here. Thank you for being here as well.

I'd like your thoughts on China's decision to abstain from voting against U.N. Security Council Resolution 1973, which was the military action in Libya. It's my understanding that China rarely vetoes U.N. Security Council resolutions, but a lot of people are reading into their decision in this case to abstain, especially considering their policy regarding the noninterference in the internal affairs of other countries.

The other question I would like an answer to if we have time is if you could describe Chinese security-related activities in Latin America, especially as related to Venezuela?

Thank you.

MR. KRITENBRINK: Thank you, Mr. Commissioner,

Let me try to take very briefly your two questions. First, China's abstention on U.N. Security Council Resolution 1973. I think our view is China's position on this issue has been somewhat complicated. And if you look at their statements, I think our analysis of what's been going on is that their decision, we presume, must have been influenced by the Arab League's own position and a great deal of concern in the Middle East regarding the situation in Libya, and we presume that's what drove them to abstain, even

though their Foreign Ministry spokesman subsequently on some occasions has been critical of U.S. and NATO military operations.

Our position with the Chinese, of course, has been very clear. These actions were taken to avert a humanitarian catastrophe, and we are focused on protecting the people there. But I believe, what my own analysis is, is that it was the Arab League position, the position of Arab countries in the Middle East being supportive of that action, which is what influenced their decision. That's my view.

HEARING CO-CHAIR BROOKES: Does this undermine at all their premise of the noninterference in the internal affairs of other countries in this case?

MR. KRITENBRINK: It's difficult for me to comment. I would say that their spokesperson has said just the opposite, that no, in fact, it has not.

Security-related engagement in Latin America, I think I'm less clear on the security-related specifics. As a general premise, I think our view of whether it's Chinese or other involvement in Latin America or elsewhere, that we, in general terms, would welcome that as a positive development, but whether it's China or other countries, we want to make sure that their involvement is done in an open and transparent and productive way, whether it's through development assistance, investment or whatever, and in a way that promotes good governance, not the opposite, and that promotes sound environmental practices and those sorts of things, but perhaps Mr. Helvey has something specifically on security-related issues. But I wanted to mention those general statements.

MR. HELVEY: Thank you.

I'll just address specifically the second question with respect to Latin America and Venezuela, in particular. We see China starting to operate in Latin America and its activities in Latin America are increasing slowly over time. They start from a very low base, but they've been progressively growing in recent years.

I think most of their activities in Latin America are motivated primarily by commercial and economic interests where they're seeking to expand access to trade for resources and secure access to markets for exports of manufactured goods.

With respect to Venezuela, I think those principles apply. We have seen some arms sales, very limited arms sales, to Venezuela.

HEARING CO-CHAIR BROOKES: Can you be specific about those in open session?

MR. HELVEY: I think I'd have to follow up with you. I can give you a written answer if that's okay with you. I just want to make sure what would be appropriate for open session. It has been very limited, and we continue to watch that very carefully, and, as Mr. Kritenbrink has said, one of our key concerns is that China's activities in Latin America or elsewhere be done in an open and transparent way, in a way that supports good governance, rule

of law, human rights, and is not disruptive to regional security dynamics.

So we're watching what the Chinese are doing in Latin America and Venezuela, in particular, very carefully.

HEARING CO-CHAIR BROOKES: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Thanks.

Commissioner Wortzel.

COMMISSIONER WORTZEL: Thanks for being here--

MR. KRITENBRINK: Thank you so much. It's great to see you.

COMMISSIONER WORTZEL: --both of you.

We know that a military-to-military relationship with China will not be continuous if the United States approves new arms sales to Taiwan. Beijing will unquestionably interrupt the dialogue again. How does that affect both State and Defense decisions on Taiwan's defensive military equipment needs if a continuous military relationship is a Department of Defense goal?

MR. HELVEY: If I could address that first. I think directly to your point, our position and policy with respect to arms sales to Taiwan has remained very consistent and clear over time for the past 30 years, in fact.

We maintain our one-China policy. It's based on the three Joint U.S-China Communiques and the Taiwan Relations Act. Based on the Taiwan Relations Act, we'll provide defensive arms and defensive services to Taiwan to enable Taiwan to maintain a sufficient self-defense capability, and we base those determinations on our assessment of Taiwan's defense needs based on its security requirements and the military balance in the Taiwan Strait.

We do not consult with any other country. We don't consult with China on our decisions on arms sales to Taiwan, and I think the President has been very clear that he doesn't intend to change that policy or change that approach. We understand where China's position is, but we're also very firm in our commitments and our obligations under the Taiwan Relations Act.

I think the larger challenge for us is to be able to have the discussion with our Chinese friends to get them to identify and see that there is indeed inherent value in maintaining a continuous dialogue and maintaining open channels of communication between our two militaries, particularly during periods of friction or tension or where we have disagreement, so that we can avoid the potential for miscalculation or misunderstanding where you could have a difference between our two sides devolve down into a crisis or tension in the relationship that could lead to conflict. We're not there yet, but that's our objective, and that's what we're working towards.

MR. KRITENBRINK: I completely agree with Mr. Helvey's remarks. We view them as two completely unrelated issues--our one-China policy, our obligations under the Taiwan Relations Act, and our goal for good military-to-military relations with China.

I think Mr. Helvey said we would hope that we could achieve this continuous dialogue. I think it's important not just for our militaries; it's important for our two countries. It's when things are tense that we need to be talking the most. We're trying to convey those messages in the most direct way possible. We try to be as supportive as possible of mil-mil engagement, as civilians, and we're trying to look at perhaps some creative ways that we can try to build greater strategic trust between civilians, military leaders, sometimes together.

I think it is that lack of strategic trust that actually both sides recognize is probably the greatest obstacle to our military-to-military relations. It may be the greatest impediment to some of our cooperation on other issues, but I would just emphasize they're two completely unrelated points, in our view.

Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Anything more? Mr. Helvey, no?

MR. KRITENBRINK: Do you have anything else to add?

MR. HELVEY: No thank you.

MR. KRITENBRINK: Okay.

HEARING CO-CHAIR BARTHOLOMEW: Great. Commissioner Wortzel, you actually have a little over a minute left. Do you have another question?

COMMISSIONER WORTZEL: Well, I guess a comment. I mean it's pretty clear that Beijing doesn't consider these things separate--

MR. HELVEY: Yes.

COMMISSIONER WORTZEL: --and where I was heading obviously is you have to take that into consideration.

MR. KRITENBRINK: Well, if I can just comment, I take your point very much on that. I think the only thing that I would want to emphasize is that we would view them as two separate things, and we'll leave to the Chinese to decide how they want to respond to any U.S. action, but I think our policy is pretty clear, and the issues we're going to consider when making decisions on these issues are pretty clear, and they, from our view, are unrelated to the mil-mil relationship, and I would hope that Chinese thinking in that regard would change over time. We'll see.

Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Thank you.

Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Madam Chairman.

One, I want to thank you both for being here.

MR. KRITENBRINK: Thank you.

COMMISSIONER MULLOY: And for serving the great Republic in the positions that you're in.

Secondly, I want to note Erik Pederson is here. Erik, who is part of your staff at the State Department now dealing with Congressional Affairs,

worked for this Commission for a number of years, and we always benefited from his knowledge of the Congress, and I'm really delighted that he's advising you. The issue I want to raise is following up on the issue raised by Commissioner Wessel.

We had Congressman Dana Rohrabacher in here before. He started the hearing. He's a senior member of the House Foreign Affairs Committee. Mr. Helvey, this question will be directed toward you, but I hope that Mr. Kritenbrink will also comment on it.

Mr. Rohrabacher said that China has now become the largest exporter in the world and recently passed the United States to become the largest manufacturing power in the world. And he says manufacturing directly relates to military power.

Then he said the infamy of this, meaning these developments, exports and manufacturing, is that American firms have helped transfer critical capabilities to China, both by direct investment in the construction of factories in China and research centers, R&D, and by the use of the American market to support the expansion of Chinese industry--meaning they make it there, and then ship it here.

And then he follows up saying, now they've gotten $2 trillion in trade deficits. We've had $2 trillion worth of trade deficits with China, as he says, in the last ten years, but it's only one measure of what has been the largest bilateral transfer of raw economic power in the history of the world—according to Congressman Rohrabacher's statement.

Obviously, that seems to me has enormous military and national security implications for this country. I'm always wondering why DoD is not a bigger voice in saying this has to be changed, and that this is really very harmful for the country.

I direct that question to you, and then ask Mr. Kritenbrink, why isn't the administration more active in changing what is happening here?

MR. HELVEY: Well, sir, thank you very much for that question.

There are many pieces to that question. It may take a while to unpack it, but it's a very important issue, and I would say that from the Department of Defense perspective, we work closely with our colleagues across the interagency to monitor and track developments in the U.S.-China trade relationship that have national security implications.

There are venues and vehicles for that, and we do participate, primarily through our Defense Technology Security Administration, and that's an important part of the role that we play in helping to form and frame U.S. government policy.

In particular, we are striving to make sure that we're preserving our critical military technology advantages. Trade in and of itself is a good thing, and it contributes to improvement of our standard of living. It creates opportunities for us. It creates opportunities for the Chinese people

as well.

So what we're focused on is preserving our critical technological advantages, our military technological advantages and we support legitimate defense cooperation with our friends and allies, as well. So, to the extent that our trade with China is concerned, we do not want to allow our trade with China to impact or affect our ability to cooperate with our friends and allies.

We want to make sure that we're controlling or limiting transfers of technology and equipment that would be detrimental to our interests and those of our allies, as well, and that relates not only to conventional arms--and we don't have those types of sales to China--we also want to be able to prevent and control proliferation of weapons of mass destruction related materiel.

So these are all parts of what the Department of Defense does, and the part it plays in our U.S. government decision-making. Our overall trade relationship, our overall trade policy, though, is decided, outside of the Department of Defense.

MR. KRITENBRINK: Mr. Commissioner, thank you for your question, and let me try to make a few general comments.

HEARING CO-CHAIR BARTHOLOMEW: Mr. Kritenbrink, I'm going to have to ask you to answer quickly on this one.

MR. KRITENBRINK: If I can make just a couple of points. I think, in general, our trading relationship is a critical element of our bilateral relationship. Trade volumes have increased exponentially since normalization of relations and I think in large measure have been greatly beneficial to both of our countries.

We spend a lot of time talking with Chambers of Commerce, the American Chambers of Commerce, in different cities in China. We deal with the business community here. I think many of them would say you look at those amazing trade flows; that's been of great benefit to both of us. Now, those trade flows are imbalanced. There is no doubt about it. There are many problems we need to work through, and yet the trade flows are immense. China is still our third-largest export market. It's one of the most rapidly expanding export markets.

So you talk to American firms; I think many of them would say there are tremendous opportunities there. We need to stay engaged. We need to stay in the game, but we have a range of concerns over market access, over Chinese industrial policy protection, and the violation of American intellectual property rights.

And so I think our view, and my understanding of most of the business communities, we need to stay engaged, but we need to address those issues, very intensively, and make sure there is a level playing field for our two countries.

As Mr. Helvey mentioned, there are other mechanisms that deal with a small number of cases, a very narrow range of cases that have national security implications, and whether it's the CFIUS process or U.S. export control laws, I think those focus on those small number of cases where we believe there again is some sort of national security implication to a particular transaction.

But the general points on trade I would make, I think, I would recast them in more positive terms even though there are many challenges, many issues, and we are going to fight very hard on behalf of our businesses to make sure there is a level playing field.

HEARING CO-CHAIR BARTHOLOMEW: Great.

MR. KRITENBRINK: I hope that's responsive.

HEARING CO-CHAIR BARTHOLOMEW: Thank you.

COMMISSIONER MULLOY: Thank you.

MR. KRITENBRINK: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Commissioner Cleveland.

COMMISSIONER CLEVELAND: Thank you.

Mr. Kritenbrink, I would say that your skillful answers are a real credit to the word "diplomacy."

MR. KRITENBRINK: Well, thank you, ma'am.

[Laughter.]

COMMISSIONER CLEVELAND: You've distinguished yourself today with very, very tough questions.

MR. KRITENBRINK: Thank you, ma'am. That's very kind of you. Thank you.

COMMISSIONER CLEVELAND: I want to follow up on Commissioner Fiedler's question. I think sometimes there's a lot of confusion about policy choices because we really don't understand the players, and you indicated in response to Commissioner Fiedler that the MFA was one of many players, and ultimately decisions were made at higher levels.

A couple of our witnesses coming up talk about the fragmented decision-making process in China, and I'm wondering how you square that ultimately decisions were made higher up with the notion of a very fragmented decision-making process, and I also wonder if you could respond to how the role of the MFA today compares to, say, a decade ago?

And then the second question that I'd like Mr. Helvey to answer or give us a quick update on, is the PRC's security relationship with Burma, and what they may or may not be doing to influence military trade between North Korea and Burma?

MR. KRITENBRINK: Madam Commissioner, thank you very much, and you've upheld the tradition of another difficult question.

Let me see. Well, again, let me just try to be as honest as possible. I want to be careful in how I would characterize the Chinese decision-making

process, and I would want to be careful about characterizing how we interact with it.

I think that in many ways, exactly how Chinese policy is made in the Chinese system is not entirely understood by either myself or the U.S. government or many other experts. We spend a lot of time trying to understand that; many experts do. But I think, in general, it's difficult to understand exactly how that works.

I guess apart from the more abstract question of how those decisions are made, I would just say from a practical approach, when we approach the Chinese government, when we have issues to negotiate, when we have messages to pass, we do that largely through the prescribed channels that we have, and the vast majority of that time, that's going to be via our counterparts in the Ministry of Foreign Affairs.

That's the channel that we have; that's the channel we've always had, and I would say it's quite effective. Whatever you might say about the multiplicity of actors in this system or where the decisions may ultimately be made, I think that the MFA is incredibly important and has been a very effective channel for us.

I would just add, I think we need to be careful and professional and precise in how we engage the Chinese system. And regardless of what the answers to those questions are, again, we have those prescribed channels, but do also try to convey messages via multiple channels.

In addition to the Ministry of Foreign Affairs, Secretary Clinton's counterpart in the S&ED, and one of her main foreign policy counterparts, is Dai Bingguo, who is now outside of the Ministry of Foreign Affairs as the State Councilor.

When Secretary Clinton or other senior officials go to China, we engage with the more senior leadership, with President Hu Jintao, with Premier Wen Jiabao, with other vice premiers, and so I do think we have multiple channels, as well, in addition to just the MFA.

And I would add, as well, even though these other channels are more informal, we do find it useful to engage on a regular basis, not to treat it as an official diplomatic channel, but to convey our messages, our values, our views via the many important Chinese think tanks, through journalists, media organizations, and so we do try to have a multifaceted approach even though we do try to be clear about what our formal channel is.

As far as a historical perspective on the role of the Ministry of Foreign Affairs compared to a decade ago, one, I'm not sure I have the expertise to answer that question with great accuracy, but I would be reluctant to say that I've seen any, that I'm aware of, any radical change in the role of the Ministry over the last decade.

The one thing I could comment on, though, that my colleagues and I often comment on, we have seen what we view in a very palpable sense is an

increase, I think, in the professionalism and the skill of the Chinese diplomatic corps, which I would mention. You probably have some experience in interacting with them as well.

Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Thanks very much.

Mr. Helvey.

MR. HELVEY: Just briefly in response to your questions about China-Burma relations and North Korea, as you know, China has a long-term relationship with Burma. It features sales of arms and equipment, and other types of security assistance, a lot of investments in infrastructure. China and Burma do maintain a very close relationship.

With respect to the question of North Korea and alleged North Korean arms sales or other sensitive transfers to Burma, and China's role in that, we've called on all members of the U.N. Security Council, including China, to fully and transparently implement U.N. sanctions and to urge North Korea to refrain from further provocations.

We've discussed it with the Chinese at all levels, and at the highest levels, the importance of full and transparent implementation of UN Security Council resolutions, all of them, as they relate to North Korea.

COMMISSIONER CLEVELAND: Specifically on Burma and North Korea, or when you say you've called on them, the issue has been addressed as a singular issue in the bilateral context?

MR. HELVEY: I'm unaware if it's been addressed as a singular issue in the bilateral context, but certainly to the extent that we talk to the Chinese about ensuring that they're implementing the U.N. Security Council resolutions as they relate to North Korea, that would include those types of transfers out of North Korea and cooperating with us.

HEARING CO-CHAIR BARTHOLOMEW: Great. Thank you.

Gentlemen, you're way over the time that we had you here. So I actually have three questions that I'd like to ask, but I'll ask, and if you could answer for the record, then you can get out of here, and then just one comment. Mr. Kritenbrink, as you were talking about the general issues in the U.S.-China relationship, you talked about the importance of the business community, and I would just say that I hope that you also focus on the importance of workers, both here in the United States and in China, and that there is some work with some of the labor unions on those issues.

My three questions are: building on what Commissioner Shea asked about Iran, I'd like to ask more generally what happens to the utility of sanctions as a tool when the companies that are involved, like the Chinese oil companies, are state-owned or state-controlled? This is not just Iran that I'm talking about, but if we're looking at the role of different players in Chinese foreign policy, how does the fact that these companies are state-owned or state-controlled complicate our ability to impose sanctions?

That's one question.

My other questions are for Mr. Helvey. One, I think you can see that we're grappling, as you are, with what is the role of the PLA in foreign policy, which raises the bigger questions of civil-military relations, and I would like to know if there's any information that you can provide about the role of the PLA in Tibet and Xinjiang in terms of military surveillance? Any activities that they have going on there would be helpful.

And finally, a question, while my colleagues know how concerned I am about human rights, I try not to raise them in this context, but I can't skip--

COMMISSIONER BLUMENTHAL: But I will now.

HEARING CO-CHAIR BARTHOLOMEW: I am going to.

[Laughter.]

HEARING CO-CHAIR BARTHOLOMEW: Mr. Helvey, does DoD ever raise human rights issues in its exchanges? We've known over time that when the U.S. government has been most effective in raising human rights concerns with the Chinese government, it's when everybody who is dealing with the Chinese raises them. So I'm just curious as to whether DoD ever raises them in the exchanges? And you all can answer those questions in writing.

I was, like Commissioner Mulloy, going to note the presence of Erik Pederson, though, Mr. Kritenbrink, I was going to say that we forgive the State Department for having stolen him from us.

[Laughter.]

MR. KRITENBRINK: We're very grateful you let him go. He was very helpful in preparing me for today.

HEARING CO-CHAIR BARTHOLOMEW: Thank you very much for all of the generosity of your time and your thoughts. We really appreciate it and look forward to working with you further.

MR. KRITENBRINK: Thank you so much.

HEARING CO-CHAIR BARTHOLOMEW: Great.

MR. KRITENBRINK: It's been an honor to be here today. I look forward to continuing to work with you.

HEARING CO-CHAIR BARTHOLOMEW: Thanks.

And we're over time, but I think we're going to take a quick five-minute break before we start the next panel.

[Whereupon, a short break was taken.]

PANEL III: EMERGING ISSUES IN CHINESE FOREIGN POLICY

HEARING CO-CHAIR BROOKES: Good morning. I think we're going to get started with the next panel.

Thank you all for being here. This is Panel III: Emerging Issues in Chinese Foreign Policy.

I'll dispense with reading your impressive biographies and CVs aloud for the sake of time, but I will say for the audience that you do have impressive backgrounds and are well qualified to speak before the Commission today.

Joining us today is Andrew Small. He's a Transatlantic Fellow with the German Marshall Fund out of Brussels, Belgium.

Dr. Peter Pham. He's the Director of Michael S. Ansari Africa Center at the Atlantic Council in Washington, D.C.

And Dr. Alan Wachman, who is the Associate Professor of International Politics at Tufts University in Massachusetts. So thank you all for being here.

I'll let either--why don't we start with Dr. Pham, and we'll just move in that direction across the panel. Please try to keep your comments to about seven minutes, and then it will give us the maximum of time for questions and answers.

Thank you.

STATEMENT OF DR. J. PETER PHAM, DIRECTOR, MICHAEL S. ANSARI CENTER, ATLANTIC COUNCIL, WASHINGTON, D.C.

DR. PHAM: Thank you, Commissioner Brookes.

I'd like to begin by thanking the co-Chairs of this hearing, the other Commissioners, and the staff of the U.S.-China Economic and Security Review Commission for the invitation to testify before today's panel.

I should note that my remarks and the written testimony which I've submitted represent my own personal judgments as a scholar and my views as a citizen and are not necessarily indicative of either the positions of the Atlantic Council, its officers, directors, or sponsors, or those of any of the other institutions I'm associated with.

I've been asked to address the question of how China is responding to recent developments in North Africa and the Middle East, and in the interest of time, let me just summarize my analysis in several key points.

First, while competition for limited resources presents nation states with the most fundamental questions of their existence, in the case of the People's Republic of China, the resource issue goes directly to the question of the sustainability of its impressive economic performance and consequently its much vaunted peaceful rise to great power status.

Quite simply, as this Commission has amply demonstrated in several of its reports, the government must continue to provide high growth rates or face what it delicately refers to as "social instability." That means both securing the energy and raw materials necessary to enable its factories to

keep turning out goods at a high speed, as well as finding buyers for their products.

In this regard, especially critical is access to oil, especially since at its current production rates, China will exhaust its own petroleum reserves in another decade.

Secondly, in this perspective, the Middle East and North Africa, regions that previously have been generally viewed by Beijing as being outside its traditional areas of interest, have acquired increasing importance as part of its grand strategy.

The PRC has cultivated what former President Jiang Zemin described as a "strategic oil partnership" with Saudi Arabia. A whole series of bilateral energy agreements have solidified Riyadh's role as Beijing's top supplier of oil and create interdependencies between the two countries that only increase the likelihood of future cooperation.

Just last month, Saudi Aramco and Sinopec initialed a deal to construct a $10 billion refinery in Yanbu, on the Red Sea coast of the kingdom. The refinery was originally planned to be built by ConocoPhillips, but the Houston-based company pulled out last year as it shifted its focus away from refining to focus on exploration.

The venture will be Sinopec's first refinery outside China and came just one day after the same firm signed a deal with Kuwait Petroleum to build an oil refinery and petrochemical plant in southern China.

Thirdly, Iran, the second-largest oil producer in the Middle East, has also been the object of Chinese courtship in recent years.

I might add, no opportunity is apparently too small to overlook. Despite its relatively modest petroleum reserves, Damascus has been courted by Beijing as well. In 2008, China and Syria signed an agreement to build a $1.5 billion refinery in the Abu Khashab region in the eastern part of the country, not far from the site of the nuclear facility that Syria attempted to build a few years ago. That facility, the oil refinery, begins operations later this year.

And making an exception to its normal policy of dealing only with states, China has even paid suit to the regional government in Iraqi Kurdistan with an eye toward gaining access to those rich oilfields.

Fourthly, while in absolute terms, it is still dwarfed by energy-related transactions, there has been uptick in Sino-Middle East trade. The volume of Chinese exports of light industrial, consumer and technological goods to the Middle East has multiplied several times over the course of the last decade.

Fifthly, if the quest for energy and business opportunities ranks high in the PRC's priorities for its dealings with the countries of the Middle East and North Africa, it does not necessarily imply that geopolitical considerations are forgotten. It has been just a little over a decade since

one particularly influential voice on Middle Eastern affairs within the Chinese foreign policy establishment came out with the argument that, and I quote:

"All signs indicate that Middle East economies, societies and international relations, as well as the Middle East policies of the big powers, have entered a period of readjustment. The government of China must take the opportunity and work out a Middle East strategy for the 21st century."

Seventh, recent developments in North Africa and the Middle East--the revolutions in Tunisia and Egypt, the revolt-cum-civil war in Libya, the massive protests that have spread across the Maghreb to the Mashriq and down the Arabian Peninsula--have posed something of a challenge to China since Beijing's economic interests constitute the most dominant factor in determining its foreign policy for the countries of the region, its focus being stability in order to ensure uninterrupted access to natural resources.

Since political and commercial ties between Beijing and Tunis were negligible, authorities in the PRC were able to limit their response to the overthrow of Tunisia's President Zine El Abidine Ben Ali to mild declarations to the effect that "Tunisia is China's friend. China is concerned about what is happening and hopes stability is restored as early as possible."

Egypt, on the other hand, a long-time partner of China's with which the PRC transacts more than $5 billion in trade annually, was a much more delicate matter. Analysts have reported that Chinese editors were instructed to restrict their coverage of the protests to reports originating from the official news agency, and Internet searches for "Egypt" were blocked on major Chinese portals.

My own interactions with senior Chinese officials in the days immediately before and after the resignation of President Mubarak attest that they were taken by surprise by the developments and much preoccupied with restoration of order.

Thus far, the revolt against Libya's Colonel Qadhafi has constituted the most complex challenge for Chinese leaders, in part because Beijing's relations with Tripoli have been rather complicated over the years. Diplomatic relations between the two countries have not been especially warm.

Qadhafi, in fact, has not visited China since 1982, and the last-high level Chinese delegation to Libya was Jiang Zemin's state visit in 2002.

On the other hand, Chinese firms have heavily invested in Libya although the total value of these assets pale in comparison with the energy-related holdings of Western companies. Nonetheless, there's significant Chinese presence, especially in infrastructure and services. Telecoms equipment manufacturer ZTE, for example, invested nearly $500 million in the country over the last decade.

China State Construction Engineering had signed $2.6 billion in Libyan

contracts, while, in 2008, China Railway Construction won two contracts, together worth $2.6 billion, to build two rail lines.

A Chinese government agency recently acknowledged that as of two weeks ago, 13 state-owned enterprises reported a loss of approximately $627 million because of the upheaval in Libya.

Once the violence intensified and its nationals and their compounds began to be attacked, especially in rebel-controlled parts of eastern Libya, the main priority for Chinese authorities was the safe evacuation of their citizens.

In the first such operation they've ever undertaken, the Chinese military and civilian authorities acquitted themselves quite well, safely removing nearly 36,000 people out of harm's way in less than two weeks, and wrapping up the entire evacuation by March 3, more than two weeks before the United Nations Security Council passed Resolution 1973 authorizing a no-fly zone over Libya.

While most of the civilians were transported on merchant vessels or airplanes chartered by Chinese diplomats and companies, some 1,700 were evacuated on constant flights by four People's Liberation Army Air Force aircraft, and the People's Liberation Army Navy also deployed a frigate to the Libyan coast to coordinate the evacuation by sea. These are the first such deployments in the Mediterranean theater ever.

The diplomatic maneuverings around the conflict have forced Chinese leaders to walk a fine line. The PRC voted with the rest of the Security Council to approve Resolution 1970 which imposed an arms embargo, a travel ban and an asset freeze, but was reluctant for more robust action until the Arab League joined its voice at which point China--

HEARING CO-CHAIR BROOKES: Dr. Pham, if you could sum up please; your entire statement will be submitted for the record.

DR. PHAM: Okay. Certainly.

HEARING CO-CHAIR BROOKES: Thank you.

DR. PHAM: The final thing I would draw the attention of the Commission to, and probably the area that is least covered, is China is especially well-positioned to profit from what is likely to be a veritable "fire sale" of Libyan assets across sub-Saharan Africa, something I think is of great strategic importance that perhaps we can get into in the question and answer.

And so with that, I will leave it and look forward to your questions and responses as well those of my distinguished colleagues.

Thank you.

[The written statement follows:]

PREPARED STATEMENT OF DR. J. PETER PHAM, DIRECTOR, MICHAEL S. ANSARI CENTER, ATLANTIC COUNCIL, WASHINGTON, D.C.

What are China's Interests in the Middle East and North Africa?[9]

It has been argued that "competition for limited resources presents nation-states with the most fundamental questions of their existence," specifically whether or not the state has "enough resources to guarantee its own survival, and the well being of its population."[10] In the case of the People's Republic of China (PRC), the resource issue has given rise to considerable speculation about the sustainability of its hitherto impressive economic performance and, consequently, its much vaunted "peaceful rise" (*heping jueqi*) to great power status. Since economic growth is believed to blunt growing social discontents, it is thought that "the Beijing government must continue to provide high growth rates or face, what it delicately refers to as, 'social instability.' Securing the resources necessary to enable factories to keep turning out goods at a high speed has impelled China onto world markets for energy and raw materials, as well as to seek buyers for its products."[11] Put another way, it is thought that "a sharp economic downturn would have profoundly unsettling effects inside China and might even threaten the continued rule of the Communist Party."[12]

Specifically, the Chinese economy's rapid expansion to become what is today the second-largest in the world after that of the United States has led to an exponential increase in demand for energy to fuel the burgeoning industrial and commercial sectors as well as rising living standards. China's proven petroleum reserves are thought to be less than 20 billion barrels, which at current production rates will be sufficient for just over another decade.[13] In fact, the PRC has been a net importer of oil since 1993 and has become the world's second largest consumer, after the United States.[14] The country's burgeoning demand now accounts for 40 percent of global growth in demand—and the figure will only climb as the middle class expands and with it vehicle ownership. Of course, oil is not the only natural resource China seeks abroad. The country is now the world's largest consumer of copper, tin, zinc, platinum, steel, and iron ore; the second largest consumer of aluminum and lead; the third largest consumer of nickel; and the fourth largest purchaser of gold.[15]

As a result, under the "third generation" leadership of President Jiang Zemin and Premier Zhu Rongji, the PRC launched a national strategy of "going out" (*zouchuqu zhanlue*) to secure access to stable supplies of raw materials and natural resources needed to sustain the country's rapid economic development. Chinese firms were actively encouraged to explore investment opportunities abroad and open up new markets by establishing either joint ventures or wholly Chinese-owned subsidiaries in various countries. This policy has been reaffirmed under the current "fourth generation" leadership, with Premier Wen Jiabao telling the country's diplomats in the midst of the global economic downturn that Beijing should use its vast foreign exchange reserves, the largest in the world, to support and accelerate overseas expansion by Chinese companies: "We should hasten the implementation of our 'going out' strategy and combine the utilization of foreign exchange reserves with the 'going out' of our enterprises."[16]

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[9] This statement draws upon and updates research originally published in J. Peter Pham, "China's 'Surge' in the Middle East and Its Implications for U.S. Interests," *American Foreign Policy Interests* 31, no. 3 (May/June 2009): 177-193.

[10] Dave Ernsberger, "The Future of East Asian Energy Security: An Introduction," *East Asia* 23, no. 3 (September 2006): 47.

[11] Jean Teufel Dreyer, "China's Power and Will: The PRC's Military Strength and Grand Strategy," *Orbis* 51, no. 4 (Fall 2007): 654-655.

[12] Aaron L. Friedberg, "'Going Out': China's Pursuit of Natural Resources and Implications for the PRC's Grand Strategy," *NBR Analysis* 17, no. 3 (September 2006): 24.

[13] See Peter Cornelius and Jonathan Story, "China and Global Energy Markets," *Orbis* 51, no. 1 (Winter 2007): 8.

[14] See Charles E. Ziegler, "The Energy Factor in China's Foreign Policy," *Journal of Chinese Political Science* 11, no. 2 (Spring 2006): 1.

[15] See Nicholas R. Lardy, "China: The Great New Economic Challenge?" in *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, ed. C. Fred Bergsten (Washington, DC: Institute for International Economics, 2005), 124.

[16] Wen Jiabao, quoted in Jamil Anderlini, "China to Deploy Foreign Reserves," *Financial Times*, July 21, 2009,

In this perspective, the Middle East and North Africa, regions that had previously been generally viewed by Beijing as being outside its traditional areas of interest, have acquired an increasing importance in the PRC's grand strategy.

Recognizing Saudi Arabia's preeminent place among the Middle East oil producers, the PRC has cultivated what former president Jiang described as a "strategic oil partnership" with the desert kingdom.[17] In November 1999, accompanied by a delegation of Chinese businessmen, Jiang paid what was the first-ever visit to Saudi Arabia by a head of state of the PRC. During the trip, agreements were signed whereby the Saudis opened their oil and markets (except for "upstream" exploration and production) to Chinese investment and, in return, the Saudi national oil company, Saudi Aramco, was allowed to participate in China's "downstream" refining sector. By 2002, Saudi Arabia had become China's leading foreign supplier of petroleum, while the Chinese gained from the Saudis advance technology to improve the exploitation of their existing domestic oilfields, technologies which they would normally be excluded from by U.S. regulation relating to the export of dual-use and other strategically sensitive items. The PRC also needs Saudi expertise to increase its capacity to process heavy crude (petroleum with sulfur content greater than 1 percent) from the Middle East. Unless it does so, China has to rely heavily on selective brands of oil, leading to occasional supply shortages and lack of diversification.

The Sino-Saudi relationship grew so tight that, in 2006, the then new Saudi king, Abdallah, made what Jiang's successor, President Hu Jintao, called the "Three Firsts" visit to the Beijing (the first-ever visit by a Saudi monarch to China, the first country visited by Abdallah after his succession to the throne, and the first stop on the ruler's multi-country tour). Three months later when Hu reciprocated the visit, the two chiefs of state signed five additional accords which expanded Sino-Saudi economic cooperation, including in the oil, gas, and mineral sectors, where Saudi money and expertise to upgrade Chinese refineries was especially welcome. As one study noted, the "bilateral energy agreements will likely solidify Riyadh's role as China's top supplier of oil, and create interdependencies between the two countries that will increase future cooperation, and Beijing's influence in Riyadh."[18]

Hu made a second state visit to Saudi Arabia in February 2009 which, according to a Chinese foreign ministry spokesman, was to "promote the in-depth development of China-Saudi Arabia strategic friendly relations."[19] The highlight of the visit was the signing of a major public works agreement for the first time between the two countries, specifically a $1.8 billion deal for the China Railway Construction Corporation to build a high-speed monorail linking Islam's two holiest cities, Mecca and Medina, by 2013.[20] Four other accords were also signed during the three-day visit, including agreements on cooperation in oil, gas and mining; healthcare; and on quality inspection and standards of goods and services. There was also a memorandum of understanding to set up a chapter of the King Abdul Aziz Public Library in Beijing.

Just last month Saudi Aramco and Sinopec initialed another deal for the construction of a $10 billion refinery in Yanbu, on the Red Sea coast of the kingdom. The refinery was originally planned to be built by ConocoPhillips, but the Houston-based company pulled out last year as it shifted its focus away from refining to focus on exploration. The venture will be Sinopec's first refinery outside China and came just one day after the firm signed a deal with Kuwait Petroleum Corporation to build a oil refinery and petrochemical plant in southern China. Sinopec's

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http://www.ft.com/cms/s/0/b576ec86-761e-11de-9e59-00144feabdc0.html.

[17] Robert A. Manning, "The Asian Energy Predicament," *Survival* 42, no. 3 (Autumn 2000): 81.

[18] Steve A. Yetiv and Chunlong Lu, "China, Global Energy, and the Middle East," *Middle East Journal*, vol. 61, no. 2 (Spring 2007): 205.

[19] Jiang Yu, quoted in "President Hu Arrives in Riyadh for State Visit," *Beijing Daily* (February 12, 2009), http://www.beijingdaily.com.cn/chinanews/200902/t20090212_504301.htm.

[20] See Malcolm Moore, "China Will Build Special Railway for Muslim Pilgrims in Saudi Arabia," *Telegraph*, February 11, 2009, http://www.telegraph.co.uk/news/worldnews/middleeast/saudiarabia/4587544/China-will-build-special-railway-for-Muslim-pilgrims-in-Saudi-Arabia.html.

managing director described the deal "enhancing a strategic relationship that complements each other's strengths" and boasted that it would "boost Sinopec's global competitive edge and expand the firm's supply channels for international resources."[21]

Iran, the second largest oil producer in the Middle East, has also been the object of Chinese courtship in recent years. In October 2004, the two countries signed a $100 billion agreement allowing the China Petroleum and Chemical Corporation (Sinopec) to produce and export up to 10 million tons of Iranian liquefied natural gas (LNG) annually for twenty-five years. The accord also provided for the construction of a refinery for natural gas condensates and a Chinese stake in the bringing on line of Iran's underdeveloped Yadavaran oilfield. Earlier that same year, another Chinese oil firm, the China National Petroleum Company (CNPC), bought the 49 percent stake in the Masjed-i-Suleyman oilfield, Iran's oldest, held by Canada's Sheer Energy for an undisclosed sum. In 2006, a third major Chinese oil firm, the China National Offshore Oil Corporation (CNOOC), signed a deal, potentially involving up to $16 billion in investments, to develop Iran's North Pars gas field in the Persian Gulf. The following year, CNPC announced an agreement to develop part of the South Pars natural gas field, pledging to invest $1.8 billion in exploration and another $1.8 billion the construction of an LNG plant. Beijing and Tehran are currently also developing plans for a 386 kilometer-long pipeline that will take Iranian oil to the Caspian Sea where it would link up to a pipeline being planned from Kazakhstan to China.

No opportunity is apparently too small to overlook. Despite its relatively modest petroleum reserves, Tehran's ally Damascus has been courted by Beijing as well. In 2008, China and Syria signed an agreement to build a $1.5 billion refinery in the Abu Khashab region in the eastern part of the country, not far from the site of the nuclear facility that Syria attempted to build a few years ago with North Korean assistance. CNPC will have an 85 percent stake in the joint venture which, when it begins operations later this year, will have a capacity of about 110,000 barrels a day.[22] Making an exception to its normal policy of dealing only with states, China has even paid suit to the regional government of Iraqi Kurdistan with one eye towards gaining access to the Kurds' rich oilfields. Within months of the fall of Saddam Hussein, Jalal Talabani, chairman of the Patriotic Union of Kurdistan and later president of Iraq, was invited to Beijing for an officially "unofficial" visit to discuss China's interest in helping with "economic development" in the Kurdish area—which just happens to sit on top of 40 percent of Iraq's proven petroleum reserves.[23]

While, in absolute terms, it is still dwarfed by energy-related transactions, there has also been an uptick in Sino-Middle East trade. The volume of Chinese exports of light industrial, consumer, and technological goods to the Middle East has multiplied several times over since the 1990s and was estimated to be worth more than $33 billion in 2006, not counting commerce with Morocco, Algeria, and Tunisia, which are not considered in the same pool as the rest of the Middle East by the International Monetary Fund. In Iran, for example, outside of the hydrocarbon sector, a Chinese fiber optic firm is helping to build the country's broadband network, while the Chery Automobile Company is manufacturing 50,000 micro passenger cars as part of a venture in the northern town of Babol. China North Industries Corporation (NORINCO), a Chinese defense contractor, is currently building an $800 million new line for the Tehran subway system.[24] Until the recent upheaval, Egypt had been expecting that, by next year, China would supplant the United States as its top trading partner with total trade reaching $5 billion last year from a little more than $1 billion in 2005.[25]

China's booming economy also absorbs a number of Middle East manufactured exports, including chemical and

[21] "Aramco, Sinopec in MOU for $10 Billion Yanbu Refinery," *Syrian Oil & Gaz News*, March 17, 2011, http://www.syria-oil.com/en/?p=1289.
[22] See "China, Syria Sign Deal on Joint Venture Oil Refinery," *Tehran Times International Edition* (April 9, 2008), 3.
[23] See Yitzhak Shichor, "China's Kurdish Policy," *China Brief* 6, no. 1 (January 3, 2006): 3-4.
[24] See Borzou Daraghi, "China Goes Beyond Oil in Forging Ties in the Persian Gulf," *New York Times* (January 13, 2005): C8.
[25] See Andrew Batson and Shai Oster, "Egypt Sees China Replacing U.S. as Top Trade Partner by 2012," *Wall Street Journal* (September 7, 2006): A8.

petrochemical products, like the $2 billion in fertilizers, synthetic fabrics, and plastics which the Saudi Basic Industries Corporation (SABIC) sells it each year. Since 2004, the PRC and the six states of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) have been in the process of negotiating a free trade agreement which would potentially be only the second one involving China after the one being established with the Association of Southeast Asian Nations (ASEAN). In the meantime, the PRC has invested heavily in marketing infrastructure, including the 1.2 kilometer-long, 150,000-square meter "Dragon Mart" in Dubai, the largest trading hub for Chinese products anywhere outside mainland China. Chinese products currently constitute 37 percent of the total imports of Dubai, almost the twice the market share of South Korea, the second largest exporter to the emirate.[26] Nor were the exchanges one-way. For example, state-owned Dubai Ports World has acquired container berths in six Chinese ports, while Dubai-based Damac Properties has invested nearly $3 billion in a 5 million square-foot mix-used development project in the Tanggu district near the northeastern Chinese city of Tianjin.[27]

If the quest for energy and business opportunities ranks high in the PRC's priorities for its dealings with the countries of the Middle East and North Africa, it does not necessarily imply that geopolitical considerations are forgotten. It has been just little over a decade since one particularly influential voice on Middle Eastern affairs within the Chinese foreign policy establishment, Zhang Xiaodong, at the time the head of the international relations division of the Institute of West Asian and African Studies at the Chinese Academy of Social Sciences and secretary-general of the China Association for Middle Eastern Studies, came out with the argument that: "All signs indicate that Middle East economies, societies, and international relations as well as the Middle East policies of the big powers have entered a period of readjustment. The intellectuals and government of China must take the opportunity and work out a Middle East strategy for the twenty-first century."[28]

One wonders whether, after having so long adhered to the ancient Chinese political maxim of *zuoshan guan hudou* ("sit on top of the mountain and watch the tigers fight"), Beijing might not now be looking for an opportunity to assume a more active role in the diplomatic processes of the Middle East and North Africa in order to advance China's long-term grand strategy of promoting its version of "democracy in international relations" (*guoji guanzi minzhuhua*)—that is, a more multipolar political and economic global order—especially in the light of the challenges which the United States has faced in achieving some of the "transformational" objectives championed during the George W. Bush administration as well as the recent developments in those regions which the Obama administration has had to confront.

China's Responses to the Recent Developments in North Africa and the Middle East

Recent developments in North Africa and the Middle East—the revolutions in Tunisia and Egypt, the revolt-cum-civil war in Libya, and the massive protests that have spread across the Maghreb to the Mashriq and down the Arabian Peninsula—have posed something of a challenge to China, since Beijing's economic interests constitute the most dominant factor in determining its foreign policy towards the countries of the region, its focus being stability in order to ensure uninterrupted access to natural resources, even aside from considerations of the undesirability in general of governments being toppled by mass movements.

Since political and commercial ties between Beijing and Tunis were negligible, authorities in the PRC were able to limit their response to the overthrow of Tunisia's President Zine El Abidine Ben Ali to mild declarations to the effect that "Tunisia is China's friend. China is concerned with what is happening in Tunisia and hopes stability in the

[26] See Mao Yufeng, "China's Interests and Strategy in the Middle East and the Arab World," in *China and the Developing World: Beijing's Strategy for the Twenty-first Century*, ed. Joshua Eisenman, Eric Heginbotham, and Derek Mitchell (Armonk, NY: M.E. Sharpe, 2007), 117-118.
[27] See Samir Ranjan Pradhan, "Dubai Inc. in China: New Vista for Gulf-Asia Relations," *China Brief* 8, no. 9 (April 28, 2008): 8-10.
[28] Zhang Xiaodong, "China's Interests in the Middle East: Present and Future," *Middle East Policy* 6, no. 3 (February 1999): 156.

country is restored as early as possible"[29]—along with blocking internet searches for "jasmine" because of the eponymous revolution.[30] China subsequently moved quickly to establish ties with the new unity government, dispatching Vice Foreign Minister Zhai Jun to deliver the message that the PRC "respects the choice of the Tunisian people and is willing to cement and develop the bilateral traditional friendship and the mutually-beneficial cooperation as always."[31]

Egypt, a longtime partner of China's with which the PRC transacts more than $5 billion in trade annually, was a more delicate matter. Analysts have reported that that Chinese editors were instructed to restrict their coverage of the protests in Tahrir Square to reports originating from the official Xinhua News Agency and that internet searches for "Egypt" were blocked on major Chinese portals.[32] My own interactions with senior Chinese officials in the days immediately before and after the resignation of President Hosni Mubarak revealed that they were taken by surprise by the developments and much preoccupied with the restoration of order and the maintenance of stability as well an emphasis on avoiding outside interference in Egypt's internal affairs. Vice Foreign Minister Zhai also visited Cairo during his swing through North Africa last month, meeting with Arab League Secretary-General Amr Moussa as well as Deputy Prime Minister Yahya Jamal and Foreign Minister Nabil Elaraby of Egypt. Once again, the theme was stability. The Chinese diplomat told the Arab League chief that "China maintains good relations with all Arab countries and hopes the turmoil-hit countries can return to peace and stability as soon as possible, and will use peaceful ways to solve the political crisis so that more deaths or injuries can be avoided" and called on the international community to "play a constructive role in stabilizing the regional situation." In his meetings with Egyptian leaders, he recalled the historic friendship between the PRC and Egypt and appealed for "stability and development" while voicing Beijing's desire "to develop its strategic cooperation relationship with Egypt."[33]

Thus far the revolt against Libya's Colonel Mu'ammar Qadhafi has constituted the most complex challenge to Chinese leaders, in part because Beijing's relations with Tripoli have been rather complicated over the years. Qadhafi was in power for nearly a decade before he established diplomatic relations with the PRC, making Libya the last state in the Maghreb to do so. Diplomatic relations between the two countries have not been especially warm since then: Qadhafi has not visited China since 1982 and the last high-level Chinese delegation to Libya was Jiang Zemin's state visit in 2002. In 2006, when literally every other African country sent its head of state or government or at least its foreign minister to Beijing for the summit of the Forum on China-Africa Cooperation (FOCAC), Libya was represented by a mere deputy minister.

On the other hand, Chinese firms have invested heavily in Libya, although the total value of these assets pale in comparison with the energy-related holdings of Western companies. Nonetheless, there was a significant Chinese presence, especially in infrastructure and services. The telecommunications equipment manufacturer ZTE, for example, has invested $457 million in the country in the last decade.[34] For another, the China State Construction Engineering Corporation (CSCEC) had signed $2.67 billion in Libyan contracts since 2007,[35] while, in 2008, the state-

[29] "China Hopes Stability in Tunisia Restored," *Xinhua*, January 15, 2011, http://news.xinhuanet.com/english2010/china/2011-01/15/c_13692097.htm.

[30] "Jasmine Stirrings in China: No Awakening in China, But Crush It Anyway," *The Economist*, March 3, 2011, http://www.economist.com/node/18291529?story_id=18291529.

[31] "China Respects Choice of Tunisian People," *Xinhua*, March 8, 2011, http://news.xinhuanet.com/english2010/china/2011-03/08/c_13766459.htm. Tellingly, the report by the official press agency simply stated that ""Tunisia has recently undergone great political changes" without spelling out what those might have been.

[32] See Willy Lam, "Beijing Wary of 'Color Revolutions' Sweeping Middle East/North Africa," *China Brief* 11, no. 3 (February 10, 2011), 2-5.

[33] "Chinese Deputy FM Meets Arab League Chief, Egyptian Officials," *People's Daily*, March 11, 2011, http://english.peopledaily.com.cn/90001/90776/90883/7316293.html.

[34] See Ding Qingfen, Shen Jingting, and Zhou Siyu, "China Halts Libyan Investment," *China Daily*, March 22, 2011, http://www.chinadaily.com.cn/bizchina/2011-03/22/content_12207268.htm.

[35] See "China's Leading Construction Company Halts Projects in Libya amid Unrest," China Radio International, February 28, 2011, http://english.cri.cn/6826/2011/03/01/2724s623238.htm.

owned China Railway Construction Corporation (CRCC) won two contracts, together worth $2.6 billion, to build two rail lines in Libya, 352-kilometer coastal railroad from Khum to Sirte and an 800-kilometer railroad linking the Mediterranean port of Misrata in the north to Sabha, capital of the southern Fezzan region. A Chinese government agency acknowledged that, as of two weeks ago, thirteen state-owned enterprises alone have reported losses as result of the conflict in Libya, amounting to 4.1 billion yuan, approximately $627.5 million.[36]

Once the violence intensified and its nationals and their compounds began to be attacked, especially in rebel-controlled eastern parts of Libya, the main priority for Chinese authorities was the safe evacuation of their citizens. In the first such operation they have ever undertaken, the Chinese military and civilian authorities acquitted themselves quite well, safely moving nearly 36,000 people out of harm's way in less than two weeks and wrapping up the entire evacuation by March 3, more than two weeks before the United Nations Security Council passed Resolution 1973 authorizing a no fly zone over Libya. While most of the civilians were transported by merchant vessels or airplanes chartered by Chinese diplomats and companies, some 1,700 were evacuated on constant flights by four IL-76 transport aircraft sent by the People's Liberation Army Air Force (PLAAF). The People's Liberation Army Navy (PLAN) also deployed the new *Jiangkai II*-class frigate *Xuzhou* to the Libyan coast to coordinate the evacuations by sea. The PLAAF and PLAN deployments were especially significant insofar as they represent not only the first Chinese operations in Africa aside from participation in UN peacekeeping missions[37] and in anti-piracy patrols off the coast of Somalia,[38] but the first military action by China in Mediterranean—a major milestone in the evolution of the Chinese military's expeditionary capabilities.

The diplomatic maneuverings around the continuing conflict have forced Chinese leaders to walk a fine line. While the PRC voted with the rest of the Security Council in late February to approve Resolution 1970, which imposed an arms embargo, a travel ban on senior officials, and an asset freeze on the Libyan government, Beijing was reluctant to go along with more robust action until the Arab League joined its voice to others calling for a no fly zone, after which China joined Russia, Brazil, Germany, and India in abstaining on the March 17 vote to approve Resolution 1973. Since then, official Chinese statements have emphasized China's "regret over the military strike against Libya" and that it "always disapproves the use of force in international relations,"[39] while noting that "Libya's sovereignty, independence, unity and territorial integrity should be respected."[40] Headlines like "World Steps Up Criticism of Western Air Strikes in Libya"[41] have been common in the Chinese press.

China's diplomatic position may be principled, but the country also stands to score a commercial "win-win" in this situation. Senior officials of the Qadhafi regime have spoken openly of offering oil blocks to China and other countries deemed friendly to it during the current crisis.[42] At the same time, just last week, China bought the first oil shipment—some one million barrels aboard the Liberian-flagged tanker MV *Equator*, sailing from Tobruk—sold by the anti-Qadhafi rebels' provisional authority.[43]

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[36] "Chinese Companies Suffering in Libya," CCTV, March 25, 2011, http://english.cntv.cn/program/china24/20110325/108961.shtml.

[37] See J. Peter Pham, "Pandas in the Heart of Darkness: Chinese Peacekeepers in Africa," *World Defense Review*, October 25, 2007, http://worlddefensereview.com/pham102507.shtml.

[38] See idem, "The Chinese Navy's Somali Cruise," *World Defense Review*, March 12, 2009, http://worlddefensereview.com/pham031209.shtml.

[39] Ministry of Foreign Affairs of the People's Republic of China, Spokesman Jiang Yu's Remarks on the Multinational Military Strike against Libya," March 21, 2011, http://www.fmprc.gov.cn/eng/xwfw/s2510/2535/t808094.htm.

[40] Ministry of Foreign Affairs of the People's Republic of China, Spokesman Jiang Yu's Regular Press Conference, March 24, 2011, http://www.fmprc.gov.cn/eng/xwfw/s2510/2511/t810015.htm.

[41] "World Steps Up Criticism of Western Air Strikes in Libya," *Xinhua*, March 22, 2011, http://news.xinhuanet.com/english2010/indepth/2011-03/22/c_13791783.htm.

[42] See "Libya Says May Give Oil Deals to China, India," *Reuters*, March 19, 2011, http://in.reuters.com/article/2011/03/19/idINIndia-55715220110319.

[43] Amena Bakr and Jonathan Saul, "Libya Rebel Oil Cargo China-Bound," *Reuters*, April 7, 2011, http://af.reuters.com/article/commoditiesNews/idAFLDE7361J020110407.

China is also especially well-positioned to profit from what is likely to be a veritable "fire sale" of Libyan assets across Africa bought by the substantial revenues from the country's energy sector.[44] Although they are not without geopolitical implications, the decisions made by Libya's various sovereign wealth funds seem to have largely been justified economically, resulting in a portfolio included everything from the lease on 100,000 hectares of agricultural land in Mali to majority ownership of the Novotel in Kigali, Rwanda, to a 69 percent stake in Uganda Telecom to Oil Libya Holding Company's more than two thousand gas stations in some twenty different African countries. Libyan financing has also been critical to the building of infrastructure in Sub-Saharan Africa, including the strategically important reverse-flow-capable extension of the Mombasa-Eldoret oil pipeline in Kenya to the Ugandan capital of Kampala. The tender, announced earlier this year, for the construction of a 230-kilometer pipeline from Lake Albert to Kampala is predicated upon the completion by the Libyans of the extension from Kenya, while soon-to-be-independent Southern Sudan's ambitions of bypassing the North with its oil exports is itself largely based on the completion of the Ugandan pipeline. With its substantial foreign exchange reserve, China is now in a position to buy many of these strategic assets at heavily discounted prices and, in the case of the East African pipeline, acquire a virtual lock on one of the largest petroleum production areas likely to come online in the next few years.

More broadly, across the Middle East in general China stands to gain ground politically and economically as a result of the recent unrest. In recent meetings with both Saudi officials and then Gulf Cooperation Council (GCC) Secretary-General Abdulrahman bin Hamad al-Attiyah, Vice Foreign Minister Zhai emphasized "that China adheres to the principle of non-interference in others' internal affairs and respects the will and choice of the people in the region … [and the] hope that relevant countries will restore stability and normality as soon as possible"[45] and pledged that "China is ready to make joint efforts with GCC member states to … expand pragmatic cooperation in all areas."[46] It goes without saying that such messages go down very, especially among the conservative oil-producing monarchies that have been rattled by the wave of popular protests sweeping across their region. It is certainly worth noting that the Chinese envoy's meetings took place on the same day that U.S. Secretary of Defense Robert Gates was delivering a message to Bahrain's king and crown prince that their "baby steps" toward reform were not enough[47]—and just two days before troops from Saudi Arabia and the United Arab Emirates entered Bahrain under GCC auspices to support the island kingdom's government.

Implications for the United States

The changing nature of the increasingly assertive Chinese engagement in the Middle East and North Africa does not necessarily represent a direct threat to the national interests of the United States, but it does alter the terms of America's own strategic calculus. Certainly there is no turning the clock back to a period when U.S. policymakers could pursue their objectives within these regions without reference to other powers except, perhaps, some consultation with America's traditional allies.

Ultimately, the nature of China's rise as a power will be determined largely by the Chinese themselves, but that does not mean that the United States should not try to establish a direct dialogue with China over regional issues beyond the rather limited U.S.-China Energy Policy Dialogue (EPD) launched in 2004 between the U.S. Department of Energy and the PRC's National Development and Reform Commission to facilitate policy-level bilateral

[44] See J. Peter Pham, "Libya as an African Power," *World Defense Review*, March 16, 2010, http://worlddefensereview.com/pham031610.shtml.
[45] Ministry of Foreign Affairs of the People's Republic of China, Press Release, "Vice Foreign Minister Zhai Jun Visits Saudi Arabia," March 12, 2011, http://www.mfa.gov.cn/eng/zxxx/t806497.htm.
[46] Ministry of Foreign Affairs of the People's Republic of China, Press Release, "Vice Foreign Minister Zhai Jun Meets with GCC Secretary General Al-Attiyah," March 12, 2011, http://www.mfa.gov.cn/eng/zxxx/t806501.htm.
[47] See Elisabeth Bumiller, "Gates Tells Bahrain's King That 'Baby Steps' to Reform Aren't Enough," *New York Times*, March 12, 2011, http://www.nytimes.com/2011/03/13/world/middleeast/13military.html.

exchanges of views on energy security, economic issues, and energy technology options, and the U.S.-China sub-dialogue on Africa inaugurated in 2005 under the auspices of the U.S.-China Senior Dialogue. Even if such approaches do not necessarily result in the immediate resolution of various differences, friction can be minimized if both sides have a clear understanding of each other's interests and objectives in the Middle East and North Africa. Encouragement and resources might also be well directed to unofficial parallel exchanges on the part of scholars and other analysts.

In the meantime, as upheaval not only continues in North Africa—with the outcome of the revolutions in both Tunisia and Egypt still to be determined, to say nothing of the fate of the revolt in Libya—but spreads across the Middle East, it should be no surprise that the promise of noninterference implicit in the model of relations offered by Chinese leaders wherein other states might benefit from their relations with China even as China benefits from its relations with them without any making demands on anyone else with respect to national sovereignty, internal political governance, or economic models will prove attractive to many regimes in those regions. As a consequence, the United States will have to work that much harder to advance its own interests in the Maghreb, the Mashriq, and the Arabian Peninsula.

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HEARING CO-CHAIR BROOKES: Thank you very much.
Dr. Wachman.

STATEMENT OF DR. ALAN M. WACHMAN, ASSOCIATE PROFESSOR OF INTERNATIONAL POLICIES TUFTS UNIVERSITY, MEDFORD, MASSACHUSETTS

DR. WACHMAN: Good morning.

I begin with the assertion that Chinese foreign policy is assertive, but from my written remarks, you've probably come to understand that I have some consternation about the widespread acceptance of the idea that the foreign policy of the People's Republic of China in the last few years has become "*more* assertive." As you can tell, I find this a misguided view and one that has rather serious implications for the conduct of relations between the United States and the People's Republic of China.

Again, the People's Republic of China's foreign policy is assertive, but at least since the end of the Cold War, one can find repeated references in press and scholarly materials characterizing the PRC as becoming "increasingly assertive" or "more assertive." Yet, there seems no consensus about what we mean when we employ the term "more assertive."

Do we mean assertive as a synonym for aggression? Are they becoming more militarily aggressive? Or is it that they're more insistent--they're explaining their views in a more assertive way? Or is it that the PRC

is broadening the scope of its foreign policy objectives in a way that we find assertive?

Which elements of the People's Republic of China's foreign policy do we view as assertive? The rhetoric, their behavior, their actions, both? Are we saying that their capabilities have become more assertive? Or their intentions have become more assertive? Are we looking at territorial disputes? Are we looking at their behavior in international organizations, in bilateral interactions? What elements are there that we see as more assertive?

And if we call it "*more* assertive" or "increasingly assertive," what is our baseline? More than when? More than the period when Mao Zedong was in charge of China's foreign policy when China was nearly perpetually at war, either with its neighbors or itself?

More than when Deng Xiaoping decided to completely redirect China's foreign policy to open it to the outside world and, by the way, normalize diplomatic relations with the United States and invade its neighbor, Vietnam? Are we talking about more assertive than then?

More assertive than 1996, 15 years ago, when we had the missile crisis in the Taiwan Strait? More assertive than 2001 when we had the EP-3 incident? More assertive than 2005 perhaps when anti-Japanese rhetoric spilled over into rather violent protests in Chinese streets, when China passed its anti-secession law, promising fire and brimstone to its brethren in Taiwan? What do we mean by "more assertive"?

Or is it more assertive than someone else would be under similar circumstances? Are we comparing China's assertions with what we perceive to be a standard level of foreign policy assertion?

I find this very worrisome. I find it worrisome that we're so easily swayed by these sorts of semantic shorthand, and what troubles me is that they are used because they affirm preexisting views of China rather than as a conclusion based on something factual. And I think we have better questions that we can spend our time talking about.

For example, *why* is it that the PRC foreign policy is assertive? And in what domains specifically do we view the PRC as assertive? What is it that they hope to achieve by being assertive?

I would say that the root of Beijing's assertions, of its assertive foreign policy, is what I have termed a "battle for moral supremacy and influence over the international order."

I think the Chinese begin with the view that the international system as it has evolved is fundamentally unfair, that it arises from values that the PRC itself rejects, and that it [the PRC] seeks from the development of the international system several important qualities.

I believe that it seeks an affirmation of the system of Westphalia. Now that might sound paradoxical, but the system of Westphalia is the

system that assures state sovereignty regardless the various religious or other values that are operative within the state.

The Chinese are looking for an international system that is more democratic, democratic in the sense that each state has an equal vote, not a system in which a leading group of states imposes its will on others. This is the Chinese perception.

They're looking for just outcomes from the international system, from international regimes that generate rules of the road and distribute rights and privileges and obligations. They're looking for an acceptance that there is a pluralism of values, not a single unitary value that ought to dominate within the international system, and according to them, they're looking for the use of peaceful solutions to international conflicts, not forceful ones.

Now, none of this is new. One can go back to 1955 when Zhou Enlai appeared at the Afro-Asian conference in Bandung, Indonesia, and articulated the "Five Principles of Peaceful Coexistence," and all of the elements of China's contemporary foreign policy objectives, the values that they seek, were present then.

It was, those values were incorporated into the independent foreign policy that China articulated in the 1980s, rearticulated in China's international--sorry--Independent Foreign Policy of Peace--forgive me--in the 1990s, and these values reappear every time the Chinese issue a central document about their foreign policy.

Indeed, I would say that the Five Principles of Peaceful Coexistence are the genetic code of the PRC's foreign policy and that we ought to take it a little bit more seriously. It's not simply empty rhetoric. It's threaded throughout many of their statements including the very most recent China's National Defense of 2010. Evidence of it is manifest there, too.

So my concluding thoughts for the opening presentation are these: I would wish that the Commission would view with extreme caution the adoption of popular phrases that seek to characterize China without suitable critical analysis first.

I fear that these phrases, whether it be the "rise of China," or that China now plays with "increasing nationalism," or that China's foreign policy is "increasingly assertive," I fear that these are affirmations of the observer's point of view more than they are characterizations of China.

And let me just remind you that during the 1980s, all of these same statements were being made about Japan. And I think when we make such broad characterizations, we ought to do so with some humility because we can't anticipate what the future will hold, and, lastly, while it is the Commission's responsibility and that of the United States government to be alert to the emergence of new conditions that prompt new threats from the People's Republic of China, I would hope that as we consider what is new, that we also remain highly attentive to what is enduring. The things that

have not changed may be just as important to us as those that have.

[The written statement follows on page 67:]

"Testimony before the U.S.-China Economic and Security Review Commission"

Hearing on
China's Current and Emerging Foreign Policy Priorities

April 13, 2011

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I. Overview

Labeling the foreign policy of the People's Republic of China (PRC) as "more assertive" is an unhelpful and risky distraction. There is no consensus about what elements of the PRC's posture in foreign relations should be seen as assertive or on what index one measures more or less assertiveness.

Labeling in an uncritical way tends to reflect—and reinforce—unexamined assumptions, perverting rigorous analysis. While "connecting the dots" to establish the existence of patterns is certainly vital to the assessment of threat, the image that emerges is only valuable if it is valid. The careless ascription of greater assertiveness to Beijing's foreign policy in the past few years exaggerates the apparent novelty of certain postures, miscasting as "new" attitudes and interests that have been enduring elements of the PRC's foreign policy since it was established in 1949. What has shifted, over time, are the means at Beijing's disposal to pursue objectives, and the influence its economic development has bought. Beijing has been characterized as employing these means in a "more assertive" manner since at least the end of the cold war, two decades ago.

In some respects, the PRC's foreign policy has been consistently assertive and unyielding. In other ways, it has been unexpectedly accommodating. Over all, though, the greatest challenge to the U.S. and its allies emanating from the PRC may not be a conflict with Beijing over "core interests," but core values.[1] This is not new. Beijing has long been engaged in a battle with the U.S. and its allies for moral supremacy and influence over global governance and the international order.

II. PRC foreign policy: more assertive?

There is a tendency to permit popular expressions and transient conceptual fashions to exert a distorting influence on the manner in which China is perceived and characterized. The record of this is extensive, but recent illustrations are the inclination to speak and write of China as "rising," or of China as "increasingly

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[1] For a comprehensive overview of Beijing's concept of "core interests" see, Michael D. Swaine, "China's Assertive Behavior, Part One: On "Core Interests," *China Leadership Monitor* 34, February 22, 2011, http://www.hoover.org/publications/china-leadership-monitor.

nationalistic," and to describe the PRC's foreign policy as "more assertive." These terms may be intended as semantic shorthand that encapsulate complex developments in language that is easily apprehended and quickly conveyed, but because there is no consensus about what the concepts actually mean, they may mask more than they reveal. More troubling, careful consideration of the reasoning and impressions that contribute to a sense that the PRC is "rising" or "increasingly nationalistic" or "more assertive" may impel one to recognize that the simplistic conclusions these phrases encourage are inconsistent with evidence.

Relying on imprecise characterizations tends to reflect unexamined premises one may have about China. In other words, sloppy speech may reflect sloppy thinking. Characterizations of the PRC's foreign policy as "more assertive" may evolve rapidly to rhetorical habits that become a substitute for analysis, breeding a sense of import that the concept may not warrant. More worrisome is that certain terms become infectious because they comport with pre-existing perceptions of China. Employed uncritically, these catch-phrases may confirm sentiments that one has about China, regardless whether there is an adequate foundation in fact for the conclusions that the terms imply.

The Commission is to be applauded for asking, "Has China's foreign policy in recent years become more assertive?" The question is open, suggesting a wish to determine a proper view, not a determination to affirm a pre-established view.

What does "assertive" mean, in the context of an analysis of PRC foreign policy? Does it imply:

- ***Aggressive*:** Is it meant as a synonym for "aggressive"? Does it mean that the PRC is forceful or hostile or belligerent in its actions? Does it imply a greater reliance on military force?
- ***Insistent*:** Does "assertive" describe Beijing's tendency to be insistent about its interests? Is Beijing's policy described as assertive because of a perception that the PRC is prepared to state its views on foreign policy in an unabashed fashion?
- ***Widening scope*:** Is "assertive" meant as a measure of the scope of objectives that the PRC has undertaken as foreign policy aims? Is Beijing's assertiveness detected principally in its posture toward issues about which the PRC has been vocal or active in the past? Or, is Beijing seen as "assertive" because it articulates policy objectives that extend beyond a familiar roster of issues, affecting policy arenas where the PRC is perceived as a newcomer?

In sum, does "assertive" describe deeds, words, or scope of intentions? Or, is it "all of the above"?

What about the qualifier? What does it mean that the PRC's foreign policy is understood in some quarters as not, simply, assertive, but "increasingly" or "more" assertive? Does it imply:

- ***More than before***: Is this meant to compare the PRC's current level of assertiveness to an earlier level? If so, one is justified in wondering what is the baseline from which current levels of assertiveness are being measured?
- ***More than is ordinary***: Is "more assertive" meant to compare the PRC's level of assertiveness with the degree of assertiveness manifested by other states on comparable matters, suggesting unwarranted or disproportionate interest by the PRC?

Put simply, if the PRC's foreign policy is evaluated as "more assertive" one wishes to know: more than when, or, more than what?

One might also consider what elements of the PRC's foreign policy are encompassed by this concept. Is it all PRC foreign policy in all domains? Or, certain policies in certain domains that is gauged to be "more assertive." If "more assertive" refers wholly, or in part, to rhetoric, is it only the rhetoric of state and party officials and institutions that is taken into consideration, or does the impression of assertiveness arise as much or more from the hum and sputter of those whose opinions appear in press, even if they are not writing as authorized agents of the PRC government?

After all, the PRC has become a state that allows a degree of bounded pluralism, in which it is now permissible to express and publish views on certain topics—within admittedly unspecified political boundaries. One wonders whether some foreign observers of China confuse the jingoism and chauvinism in individual opinion with the foreign policy priorities of the state, a hang-over from the period when all public expression was understood as consistent with official policy.

These are not idle questions emanating from a peevish preoccupation with linguistic pedantry. Nor are these questions meant to dismiss consideration of PRC foreign policies and actions that have troubled foreign observers. Rather, they are posed as a prompt to more precise thinking. If one concludes that the PRC is "more assertive," it seems reasonable to ask what this means and on what basis one reaches the conclusion. In short, "how does one know?"

III. Remember what George Santayana wrote

Before determining whether the foreign policy of the PRC should be considered "more assertive" in the past few years, it is worth recalling something about the past.[2] Surely, those who now describe the PRC's foreign policy as "more assertive" are not comparing it to the policies of Beijing during the period from 1949-1976, when ideological zeal and Mao Zedong exercised disproportionate influences over the posture of the Chinese state. In that period, the PRC was often at war: on the Korean peninsula, in the Taiwan Strait, on the Sino-Indian border, on the Sino-Soviet

[2] George Santayana wrote, "Those who cannot remember the past are condemned to repeat it." George Santayana, *Life of Reason, Reason in Common Sense*. New York: Scribner's, 1905, 284, http://www.iupui.edu/~santedit/gsantayanaquotes.html.

border, and with itself—in a cascade of domestic political mobilization campaigns that indulged inclinations to violence. Presumably, when the PRC's foreign policy is now described as "more assertive," this is not a comparison to the period 1978-1979, when Deng Xiaoping sought a fundamental reorientation of PRC policy toward the world beyond its borders, normalized diplomatic relations with the U.S., and authorized an invasion of Vietnam.

Indeed, one wonders how many of those observers who consider the PRC's foreign policy over the past few years to be "more assertive" are aware that the PRC's foreign policy has been described in this way for decades? At least since the end of the cold war, PRC foreign and military policy has routinely been characterized as assertive.

In 1991, when the North Pacific Co-operative Security Dialogue met in Vancouver, the *Economist* reported

> . . . the real issue for the Pacific region is how to prevent the shifting balance of power from producing new conflicts. The hostility between the Koreas is one big problem . . . . A reduced American military presence, a collapsing Soviet Union, a strong Japan and a **more assertive** China present a whole host of others.[3]

In 1992, the *Daily Yomiuri* stated:

> Despite its enthusiasm for integration with the Association of Southeast Asian Nations, Vietnam is likely to face many obstacles. Apart from reluctance within ASEAN, the group has to reckon with a **more assertive** China, the region's mammoth northern neighbor.[4]

Later in 1992, a staff writer at the *Christian Science Monitor* wrote:

> Chinese intellectuals, even those sympathetic to US concerns, see a bipolar rivalry deepening between an economically crippled but militarily powerful US and a changing, **increasingly assertive** China.[5]

In January, 1993, the *New York Times* published an article that states

> Buoyed by a strong economy, China is making far-reaching improvements in its armed forces, leaving many Asian countries feeling increasingly threatened by the behemoth in the neighborhood. . . . **China's assertiveness**

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[3] "Worthwhile Canadian initiative," *The Economist*, April 13, 1991, 35. LexisNexis.
[4] Kavi Chongkittavorn, "Vietnam Woos ASEAN As Ally Against China," *The Daily Yomiuri*, July 12, 1992, 6. LexisNexis.
[5] Sheila Tefft, "US Foreign Assertiveness Worries Chinese Citizens," *Christian Science Monitor*, October 16, 1992, 6. LexisNexis.

> in the South China Sea 'has aroused distrust and suspicion' among the five other nations with claims in the area."[6]

In 1995, the *Economist* reported that the PRC "helped fend off firm action by the UN Security Council" aimed at curbing North Korea's nuclear ambitions. "China has little interest in seeing a nuclear-armed North Korea, but even less, it seems, in letting the UN lean too hard on its prickly friend." Reflecting on the implications for security in Asia, the report states that Russia no longer has leverage and U.S. "military interest and influence are slowly receding." It concludes:

> Of the other powers that might play a greater role in Asia's security, India is too preoccupied and Japan is hobbled by weak government and constrained by many Asians' bitter memories of its wartime behaviour. As a result, an **increasingly assertive** China has been left with the most elbow room.[7]

In May, 1995, the *Sydney Morning Herald* reported:

> Australia will throw its weight behind a regional campaign to bring an **increasingly assertive** China to the negotiating table over potentially explosive territorial claims in the South China Sea.[8]

In August, 1995, at a time when China was viewed principally as an economic challenge, an article in the *New York Times* states:

> There is growing alarm in Washington and other capitals at China's military spending and policies. . . . Most disturbing, China is pouring money into those activities that allow it to project power beyond its traditional borders. In particular, it is building a blue-water navy and developing an air-to-air refueling capability. China is also becoming **more aggressive** in the South China Sea and even in the Indian Ocean—far from its traditional sphere of influence.[9]

Is the foreign policy of the PRC in the past few years really "more assertive" than was Beijing's policy fifteen years ago, when it conducted missile exercises in the Taiwan Strait during March, 1996? Is the foreign policy of the PRC in the past few years "more assertive" than was Beijing's policy ten years ago, when a Chinese fighter aircraft flew so close to a U.S. EP-3 that the two collided, causing the death of the Chinese pilot, the disabling and emergency landing of the U.S. plane on Hainan, and an exceedingly tense period during which the PRC detained the U.S. crew? Is the PRC foreign policy in recent years "more assertive" than in 2005, when anti-

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[6] Nicholas D. Kristof, "China Builds Its Military Muscle, Making Some Neighbors Nervous; Filling a Perceived Power Gap in Southeast Asia," *New York Times*, January 8, 1993, A1.
[7] "China Looks Abroad" *The Economist*, April 29, 1995, 17. LexisNexis.
[8] David Lague, "Australia to press China on territory," *Sydney Morning Herald*, May 18, 1995, 1. LexisNexis.
[9] Nicholas D. Kristof, "The Real Chinese Threat," *New York Times*, August 27, 1995, SM50."

Japanese rhetoric was stoked to such a high degree that there was a spate of nasty and occasionally violent demonstrations in Chinese cities against Japan, which, for a time, seemed to bring the two states to an irredeemably low point in relations?[10]

The point is self-evident. Expression of concern about a "more assertive" PRC is not new. Of course, one could argue that even though the PRC was seen as "more assertive" two decades ago, it has continued along a trajectory, becoming ever-more assertive with each passing year. That does not seem to be what is implied by foreign observers of China and may, in any case, be a difficult claim to sustain for the entirety of PRC foreign policy.[11] While Beijing may be "more assertive" in some domains—posing threats to discretely defined U.S. interests associated with specific issues—in other arenas Beijing has cooperated and adapted to existing norms.[12]

IV. What is to be done?[13]

One hazard of declaring the PRC's foreign policy is "more assertive" and then wondering, as this Commission has, "how should the U.S. government respond to *any challenges* posed by China's assertiveness [emphasis added]" is the possibility that doing so conveys an impression that the U.S. and the PRC are locked into an adversarial, zero-sum competition in all interactions. If the PRC becomes "more assertive," so an irrational line of reasoning might have it, then it is incumbent on the U.S. to do something in response.

The U.S. government is not—nor, one prays, will it ever become—so feeble and foolhardy that it can be distracted from advancing interests established in particular matters by an ill-defined sense that the PRC is generally "more assertive." Washington's response to a challenge by the PRC to a U.S. policy objective, if one is warranted, has to be calibrated to the specific nature of the PRC's posture as it affects specific U.S. interests, not to a vague impression that Beijing has become more arrogant, triumphal, over-confident, or even belligerent. One should consider prudent responses to adjustments in PRC policy that affect U.S. policy objectives on a case-by-case basis, but not in a categorical fashion, as the question suggests.

Just as it would be imprudent to ignore threats posed by the PRC to specific U.S. interests, it is equally ill-advised to reify a "Chicken Little" view of the PRC as an existential menace to the U.S.[14] Identifying a challenge to U.S. interests in the

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[10] Philp P. Pan, "Japan-China Talks Fail to East Tensions; Protests Continue as Foreign Ministers Confer in Beijing," *Washington Post*, April 18, 2005, A09.

[11] Michael D. Swaine, "Perceptions of an Assertive China," *China Leadership Monitor* 32, May 11, 2010, 2-4, http://www.hoover.org/publications/china-leadership-monitor/3601.

[12] Alastair Iain Johnston. *Social States: China in International Institutions, 1980-2000*. Princeton: Princeton University Press, 2008, 197ff.

[13] Any correspondence between this subheading and a pamphlet authored in 1901 by Vladimir Ilyich Ulyanov, who appropriated the title for his work from a novel written in 1863 by Nikolai Chernyshevsky, is intended entirely as irony.

[14] The moral of this fable varies depending on how the tale is rendered. The point, here, is to refrain from assuming that "the sky is falling" if one is struck on the head by an acorn that has dropped from a branch.

intensification by Beijing of its rhetorical posture or effort to advance any foreign policy objective may reflect the undisciplined anxieties and insecurities of the observer as much as—or more than—conclusive evidence of threat. Misperceptions of threat have the tendency to provoke hostile reactions—both attitudinal and behavioral—that contribute to the deterioration of relations and, in the extreme, to an erosion of security that the risk-perceiver had hoped to avoid.

A preoccupation with the "wrong" threat is risky because it may cause one to ignore genuine sources of danger. Even more insidious is the capacity of a determined adversary to take note of rigid patterns of defense, and to exploit these to the defender's disadvantage. Put simply, if one is perpetually and inflexibly poised to parry an anticipated blow from the right, one may be prepared to defend oneself if such a blow emerges. One may even deter one's adversary from attempting to hit. However, one may miss—or invite one's adversary to land—a blow from the left. A durable defense is founded on a refined capacity for flexibility, alertness to shifts in conditions—no matter how slight—and nimble reactions, not from a doctrinaire view of what is right and wrong, or who is nasty and nice.

There is ample evidence in word and deed that the PRC has explicitly linked its continued development to the established international system. Under these circumstances, it is unlikely that the PRC is an "existential adversary" of the U.S. of the sort that it may once have seemed, or that the Soviet Union was perceived to be during the cold war.[15] Washington must still contemplate how a military clash in one matter of dispute with Beijing—a Taiwan "contingency" is the prospect most frequently considered—might escalate to unintended levels of comprehensive conflict. That, though, is a matter of deterrence, crisis avoidance, and crisis management. PRC plans to secure its desired outcome vis-à-vis Taiwan by force, if push comes to shove, should not be interpreted as a concerted aim of the PRC to supplant or obliterate the United States of America, any more than U.S. intentions to defend Taiwan should be understood as an American interest in destroying the PRC.

V. Be careful what you wish for

Is it in the interest of the U.S. to have an assertive China, or not? In 2005, Deputy Secretary of State, Robert Zoellick was widely quoted when he said that the U.S. should "encourage China to become a responsible stakeholder in the international system. As a responsible stakeholder, China would be more than just a member—it would work with us to sustain the international system that has enabled its success."[16] If the U.S. expects the PRC to become more engaged in sustaining the economic, political, and security regimes that undergird the international system, Beijing will need to assert itself. It will have to override a habit of viewing itself a

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[15] Edward S. Steinfeld. *Playing Our Game: Why China's Rise Doesn't Threaten the West.*" Oxford: Oxford University Press, 2010, 232–33.

[16] Robert B. Zoellick, "Whither China: From Membership to Responsibility?" Remarks to National Committee on U.S.-China Relations, New York City, September 21, 2005, http://www.state.gov/s/d/rem/53682.htm.

passive free-rider on the international system, and enhance its role as a provider of global goods.

Enhancing its role would correspond to the final portion of the oft-cited 28-character maxim attributed to Deng Xiaoping that is known for the passage "conceal your capabilities, bide your time." In the final line, Deng entreats Chinese to "make some effort" (*yousuo zuowei*)—a point that President Hu Jintao emphasized in July, 2009, when, addressing a conference of Chinese ambassadors, he reportedly urged that China should "make efforts so that China will have more influential power in politics." (*nuli shi woguo zai zhengzhishang geng you yingxiangli*).[17]

Making a greater contribution to global governance and assuming more responsibility will very likely entail friction within existing international regimes, as the PRC articulates its own preferred means for managing the processes by which international norms are established and regulates the provision of international "goods." Zoellick acknowledged "Cooperation as stakeholders will not mean the absence of differences—we will have disputes that we need to manage."[18]

Zoellick may have understated the difficulties. A Chatham House report states

> co-opting China into international organizations has not proved effective in inducting it into global norms. In fact it has offered a platform for China to project its own norms and standards and to band together with developing countries for a stronger front. While China's growing wealth has not made it a more responsible global stakeholder, it has given it the confidence to stand its ground and go its own way.[19]

A glib reaction would be to say that if the PRC is to be "responsible," it must accept the international order as it finds it, putting its national shoulder to the wheel of advancing common interests as they have been defined, not challenging procedures or outcomes to suit Beijing's own parochial interests. Those who hold that view would benefit from greater accommodation to the realities of international politics. Moreover, the Chatham House report makes the point that the PRC "is arguably more non-participative than disruptive in multilateral frameworks."[20]

The PRC has been seen as disruptive in certain bilateral interactions, including the harassment by Chinese vessels of the USNS *Impeccable*, the defiant response of PRC

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[17] Swaine, "Perceptions of an Assertive China," 5, see, also, n. 28; Qian Tong: "The 11th Meeting of Chinese Diplomatic Envoys Convenes in Beijing; Hu Jintao Makes an Important Speech; Wu Bangguo, Jia Qinglin, Li Changchun, Xi Jinping, Li Keqiang, He Guoqiang, and Zhou Yongkang Attend; Wen Jiabao Makes a Speech" reproduced as "Xinhua: Hu Jintao Addresses Chinese Diplomats' Meeting in Beijing 17-20 Jul," World News Connection.
[18] Ibid.
[19] Kerry Brown and Loh Su Hsing, "Trying to Read the New 'Assertive' China Right," Chatham House, Asia Programme Paper: ASP PP 2011/02, January 2011, 13.
[20] Brown and Loh, "Trying to Read the New 'Assertive' China Right," 10.

Foreign Minister Yang Jiechi to a statement by U.S. Secretary of State Clinton concerning the South China Seas dispute made at a meeting of ASEAN in Hanoi, the contretemps following the detention by Tokyo of a Chinese fishing boat captain whose vessel rammed a Japanese coast guard ship and the suspension of rare earths shipments to Japan in apparent retaliation, stern statements urging the U.S. not to sail into the Yellow Sea a U.S. aircraft carrier engaged in joint military exercises with the Republic of Korea, and a statement attributed to Dai Bingguo designating the entire South China Seas as among the PRC's "core interests."[21] These events are framed as evidence that the PRC has abandoned its declared policy of "peaceful development" and has, in the wake of the financial crisis that has shaken the U.S., intensified its efforts to push back at the U.S. and its allies in ways that contribute to a sense that Beijing has adopted a "more aggressive" foreign policy.

Former Deputy Assistant Secretary of State for East Asia and Pacific Affairs, Thomas J. Christensen, sees matters differently. These irritants, which he characterizes as "retrograde behavior," are not emblems of new assertiveness, but the persistence of truculent conservatism. However, during the period 2006-2008 when the PRC assumed greater responsibility in applying pressure to North Korea, when it exercised leverage in Sudan and took a leading role in the UN peacekeeping mission there, and when it dispatched ships to the Gulf of Aden to collaborate in an international effort to combat piracy in the waters off Somalia, Beijing asserted itself in furtherance of interests that it and Washington recognized as common interests. Christensen distinguishes abrasive diplomacy from an assertion of responsibility for global governance. He concludes that facing complex transnational problems—such as proliferation, piracy, terrorism, environmental degradation, international financial regulation, to name only a few—the United States actually "needs a more assertive China."[22] Of course, it matters whether the PRC's assertiveness is constructive and collaborative, or destabilizing and destructive.

VI. PRC foreign policy priorities: emerging and enduring

As the Commission considers Beijing's emerging foreign policy priorities, one hopes it will bear in mind the PRC's enduring priorities, as well. These have been clear for years and arise from Beijing's dissatisfaction with moral values that appear to dominate determinations of how rights, responsibilities, and privileges are apportioned to states. The PRC advances a communitarian vision of the optimal international society and preens as a moral exemplar, championing the cause of the "global South." This posture pits the moral vision of the PRC against that of economically developed, legacy powers—the United States chief among them—that appear to favor liberal, cosmopolitan underpinnings of international regimes and institutions and the order to which those contribute. Hongying Wang and James Rosenau list four elements of the PRC's approach to an ideal world order:

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[21] Swaine, "China's Assertive Behavior—Part One: On "Core Interests," 8–9.

[22] Thomas J. Christensen, "The Advantages of an Assertive China: Responding to Beijing's Abrasive Diplomacy," *Foreign Affairs*, March/April 2011.

- **democratization** of global governance to ensure that decisions are representative of all states, not a handful of powerful, Western states;
- **justice and common prosperity**, to close the gap between rich and poor nations as a way to diminish conflict and enhance stability and peace;
- **diversity and pluralism**, rather than cultural imperialism, so that states are not penalized for evolving political systems or paths to development that reflect idiosyncratic history, culture, and other conditions;
- **peaceful resolution** of international conflicts.[23]

This, too, is hardly new. At least since the Bandung Conference of 1955, the PRC has asserted its wish for adjustments of the international norms it views as reflecting the parochial interests of developed states. The "Five Principles of Peaceful Coexistence" that Zhou Enlai articulated then appear to be the genetic code of the PRC's foreign policy, threaded through major pronouncements on foreign policy, including Zheng Bijian's commentary on China's "Peaceful Rise" and the PRC's "Independent Foreign Policy of Peace"—the standing guide to Beijing's foreign policy priorities.[24] The keys, from Beijing's perspective, are the sanctity of state sovereignty (e.g. "don't you dare tell us what we must do within our own territory!"), mutuality in bilateral interaction (e.g. "don't impose on us what is good only for you, treat us as equals"), and respect (e.g. "demonstrate to us that we are as glorious as we have been trying to persuade ourselves we really are"). For all the measurable expansion of economic and military might—the PRC is still a state with an enormous chip on its shoulder. Its officials still operate from under the dark clouds of wounded pride and abiding insecurity. This may drive the behavior that others see as assertive.

VII. Conclusion

There are good reasons to worry about the actions and intentions of the PRC. Aggression is alarming. Expressing concerns about labels used to describe the PRC is not meant to dismiss the need for the U.S. to remain alert to threats emanating from the PRC. As it contends with the PRC, the U.S. could fall into the conceptual trap of viewing whatever Beijing seeks as "bad" for the U.S., and whatever it opposes as "good." However, if Washington genuinely seeks greater involvement by Beijing in managing mutual problems, it will have to expect greater assertion by Beijing of its own preferences. Then, when fundamental values conflict, the U.S. will have to decide whether to rely more on the persuasion of force, or the force of persuasion.

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[23] Hongying Wang and James Rosenau, "China and Global Governance," *Asian Perspective* 33:3 (2009), 18-21.

[24] See the PRC's articulation of foreign policies, including "China's Independent Foreign Policy of Peace," http://www.mfa.gov.cn/eng/wjdt/wjzc/. Zheng Bijian, "China's Peaceful Rise to Great Power Status," *Foreign Affairs* 18 (2005).

HEARING CO-CHAIR BROOKES: Thank you very much.

Mr. Small.

STATEMENT OF MR. ANDREW SMALL, TRANSATLANTIC FELLOW, GERMAN MARSHALL FUND, BRUSSELS, BELGIUM

MR. SMALL: Thank you. I'm grateful to the Commission for having me speak here again.

We can, and I suspect we will, debate the language here quite sharply, but I think "more assertive" is how China's foreign policy behavior has been perceived and felt by a lot of the diplomats, officials, and politicians who have been involved in their dealings with China.

To my mind, there's a phenomenon that's been in evidence over the past two years that is more than just a change in increment. I think it is accurate to say that it is not assertiveness per se that is the real concern. I think it's evidently true to say that the United States and other countries have spent many years encouraging China to take more active leadership role on the international stage.

The disquiet that I think has been felt has been from the relatively narrow conception of the interests that Beijing has been asserting and, to some extent, for a lot of the people involved, precisely because they did not affirm preexisting views about where we expected China was heading in its foreign policy behavior, and I'll go on to that in a bit more detail.

The upside, I think, as well, is this perception of a more assertive China has actually tended to feed into more effective responses on the U.S. side in the last year than in the first year of the Obama administration, and this had a determinant effect on Chinese foreign policy behavior since the sort of pushback and certain other elements of the U.S. foreign policy response.

I think in a number of other hearings, a lot of the sort of instances of China's assertive behavior have been run through and are relatively familiar.

The elements that I think people have found more assertive, in Asia, I think it's been China's greater willingness to escalate bilateral disputes and to harden its insistence on territorial claims. The Japan case is perhaps the exemplary one in the case of the fishing boat captain's arrest and their response to that, and India has seen a creeping escalation of pressure on border disputes.

The debate about whether the status of the South China Sea should be upgraded to "core interests" has caused disquiet for its neighbors in Southeast Asia.

And South Korea watched China give virtual carte blanche to North Korean aggression after the sinking of the Cheonan and after the artillery attack on Yeonpyeong Island, which was a kind of regression, I would say,

from how China had handled North Korea before that.

On the global stage, there has also been less evidence of China's willingness to compromise and more willingness to put itself in a minority of one. Of course, China continues to seek political and diplomatic cover from Russia on the Security Council, from other developing world powers in multilateral negotiations, but there has been more and more of China stepping out from their shadow, whether it's on watering down sanctions on Iran, which China has taken the lead role rather than Russia, and whether it's been blocking criticism of the North Korean attacks, which even the Russians were willing to do.

In the Copenhagen climate talks, of course, I think there was a kind of sense of exasperation from a lot of the leaders involved about China's behavior, and this, the tone elements in this respect have made a difference--the sending of junior ministers to negotiate with and wag fingers at people in Copenhagen; the statement of Foreign Minister Yang Jiechi about China is a big country and other countries are small countries. But some of these instances have kind of spilled over and hit the headlines.

There's been an accumulation of smaller incidents that a lot of officials and politicians in the last couple of years have found themselves more and more frustrated, wearied, even irate, about their dealings with Beijing and, I think, disposed to think quite differently about the relationship as a result.

The drivers of this change I think are relatively widely agreed. There is some dimension of a mix of external confidence and continued internal insecurity. The most important element and the tipping point manifestly has been the global financial crisis and the perception of the shift in the scale of relative power with the United States.

I think the downside of the administration's foreign policy in the first year was that it somewhat played into this perception. The greater popular confidence that's been induced by these developments has also put pressure on the Chinese leadership. Evidently, a number of Chinese leaders sympathized with the demands that China should be more assertive on territorial, economic and resource interests, should be less willing to compromise on sanctions, emission targets, but they are clearly more nervous about getting on the wrong side of public opinion than past leadership generations.

I think the weakening capacity of China's central leadership to make effective strategic decisions and to navigate between a lot of the strong and competing interest groups internally is evident across a range of domestic policy issues, too.

I think for the most part, even though China has extended its economic reach, it still on a number of these issues tends to behave as kind of a major power with a minor power mind-set. It's not--while the United

States is operating as if it has a genuine set of global and systemic responsibilities to manage, China is not viewing issues such as Iran's nuclear program as mutual concerns so much as Western problems, and it's largely seeing its strengthened power position as giving it more scope to defend a narrow set of economic and political interests than necessitating a really kind of shared sense of responsibility for dealing with a lot of these global challenges.

Of course, the results of this pushback on China's part have not been--of a more assertive stance--have not been happy: the U.S. pushback; the response from most of its neighbors by way of upgrading cooperation with the United States and perhaps even more importantly with each other. There has been countless opportunities missed. Japan's new government, a more China-friendly government, and China has effectively passed up on the opportunity to improve relationships there.

I think virtually across the board in the region, there's been an expansion of cross-cutting and triangular cooperation. How public and how private has varied, of course, but this has been true further afield. The EU has revised its China policy; consultations with like-minded countries, I think, have been expanding generally. And it has--as this has become more obvious to Beijing, I think there has been a reining in on China's part over the last period of time.

Some of the abrasive rhetoric has been pared back. It has moved ahead with supporting sanctions on Iran. It has played some belated role in restraining Pyongyang at the end of the year, and there has been some attempt to patch up relations in Southeast Asia and Europe, and I think developments in the Middle East have pushed Beijing kind of further off balance, both domestically and in terms of some of the things it's been willing to and felt compelled to support, particularly in Libya. I think the hubristic edge of China's assertiveness has certainly disappeared.

I think, and I'll round off with this, as many of the weaknesses, as strengths, have been brought out, I think, in the last period of time on China's part, it still manifestly retains a significant sense of domestic political vulnerability, and it's unwilling to risk too precipitous a downturn in its relations.

It's become clearer how substantial the capabilities gap is for China. It's still a long way from being a globally capable power that can project not just force beyond its shores, but also in terms of its political comfort in operating in regions such as the Middle East, and it's also become clear to China just how disadvantaged it is by comparison with the United States by its lack of friends and allies.

The combined economic power between the United States and its allies, let alone some of the new emerging partners such as India, continues to dwarf that of China.

I think the United States has done a great deal to respond effectively in the last period of time and by taking advantage of some of these facts: whether the support provided to friends, allies such as South Korea and Japan; deepened relationships with other pivotal states in the region such as India and Indonesia; and the role the United States has played in expanding some of these minilateral cooperations; the issue-based coalitions that the United States has been able to marshal in cases such as Iran; and I think some of the preliminary steps to establish an economic architecture that minimizes some of these countries' dependency on China.

The final point. There's little indication so far that this has led to China revisiting its broader strategy, but what I think it has demonstrated is that even if the leadership in Beijing doesn't have the willingness to really move towards supporting a foreign policy strategy that's appropriate for what China as an engaged power might look like, the United States has been able to do a good job of promoting a framework in which China continues to face obstacles when it tries to advance a narrow nationalistic view of its interests, benefits more from taking on a constructive international leadership role.

And that China's assertiveness, as I think it, to some extent, can be accurately called, have made that, the foundations of that framework, easier to put together, and a lot of the foundations for how the U.S. can have a structure in which it can shape China's behavior effectively have been, if anything, made easier by the assertiveness that China has demonstrated in the last couple of years.

Thank you.

[The written statement follows:]

PREPARED STATEMENT OF ANDREW SMALL, GERMAN MARSHALL FUND OF THE UNITED STATES, BRUSSELS, BELGIUM

China's international assertiveness since the global economic crisis has been in evidence across a broad sweep of issues, from maritime disputes in East Asia to climate-change negotiations in Europe. While its shrill tone has softened, many of the underlying factors driving the shift in Chinese foreign policy remain unchanged.

The upside is that after some initial missteps, the U.S. policy response has been increasingly effective, both regionally and globally, and China has had to recalibrate its approach accordingly. Moreover, in concert with its friends and allies, the United States has the means to ensure that an unconstructive approach remains costly for Beijing to pursue.

The open question, however, is whether the Chinese leadership is willing, or even fully able, to go through a deeper process of revisiting its strategy as a result. If not, competition and confrontation are likely to become ever more central features in U.S.-China relations, and in Asia more broadly, in the years to come.

Dealing with a more assertive China

"China's assertiveness" has become the tagline for international anxiety about Chinese foreign policy behavior, but it is not assertiveness per se that is the real concern. After all, the United States and other countries have spent many years encouraging China to take a more active leadership role on the international stage. The disquiet has rather resulted from Beijing's narrow, nationalistic conception of interests.

In the past China had largely followed Deng Xiaoping's basic precepts to avoid confrontation and compromise where necessary, whether on border demarcation, global security issues, or broader diplomatic strategy. China's need to prevent the establishment of countervailing coalitions and to pre-empt any external threats to its growth trumped the discomfort that these compromises entailed. But in the last couple of years, that calculation appears to have shifted.

In Asia, it is China's greater willingness to escalate bilateral disputes and to harden its insistence on territorial claims that has been felt most acutely. After Japan arrested a Chinese leaders cut-off of rare earth exports, and demanded an apology even after his release. India has seen a creeping escalation of pressure on border disputes: China started provocatively issued paper visas for residents of Jammu and Kashmir and Arunachal Pradesh, protesting Prime Minister Manmohan Singh's visit to the north-eastern state, and denied a visa to the Northern Army Command chief. In South East Asia, the sustained debate in China over whether the status of the South China Sea should be upgraded to a Chinese "core interest" on a par with Taiwan and Tibet created profound concerns for its neighbors there. And South Korea watched China give virtual carte blanche to North Korean aggression in the after the sinking of the Cheonan, a South Korean corvette, in March 2010, and the artillery attack on Yeonpyeong island in November. China also issued an unprecedented set of warnings over U.S.-Korean military exercises in the Yellow Sea.

On the global stage, China has also proved less willing to compromise and more ready to be in a minority of one than it was before. While continuing to seek political and diplomatic cover from Russia and other developing world powers in multilateral negotiations, Beijing has stepped out of their shadow on a growing number of occasions. In the UN Security Council, China took the lead role in watering down sanctions on Iran and in blocking criticism of the North Korean attacks. In the Copenhagen climate talks, China exasperated world leaders with its refusal to countenance emissions targets, and was widely accused of wrecking the prospects of a deal. And Beijing has unilaterally pressed ahead with its sales of nuclear reactors to Pakistan without seeking an exemption from the Nuclear Suppliers Group, despite virtually universal agreement that it will be in violation of NSG guidelines.

None of these incidents are purely cases of obstreperous Chinese behavior and blameless third parties: the Japanese government played a role in bungling the fisherman's arrest, a number of countries bear culpability for the Copenhagen failure, and so on. But the pattern has been too extensive to be explained away on a case-by-case basis. Moreover, the reaction to China's assertiveness has been magnified by its often undiplomatic form. Standout incidents include the threats to impose sanctions on U.S. companies after the announcement of the arms sales package to Taiwan; the sending of junior officials to negotiate with – and wag fingers at – heads of state and government in the Copenhagen climate talks; and foreign minister Yang Jiechi's rebuke to South-East Asian states at the ASEAN Regional Forum in Hanoi that "China is a big country and other countries are small countries and that is just a fact". But these represent only the tip of the iceberg. For much of 2009 and 2010, an accumulation of smaller incidents left officials and politicians the world over varyingly wearied, frustrated and irate over their dealings with Beijing and disposed to think quite differently about their future relations.

The drivers of China's assertiveness

Many of these developments can be seen as an acceleration of existing trends rather than as an entirely new phenomenon. But it is evident that the financial crisis was a tipping point. China's sense of economic resilience and faith in its state-directed model was certainly strengthened by surviving a virtual meltdown in its principal markets. But more important has been China's perception of the scale of the shift in relative power with the United States. Where previously China had the sense that it was making healthy progress in catching up, the crisis appeared to catalyze this into a belief in full-blown U.S. decline. A series of official U.S. statements and visits in the first year of the Obama administration reinforced this strand of thinking in China. Intended as goodwill gestures to open the door to closer cooperation, they were instead seized on as signs of U.S. weakness.

Greater popular confidence induced by these developments has also put pressure on the Chinese leadership. An array of voices, from nationalist bloggers and PLA generals to major Chinese companies, has been fuller-throated in demanding that China should assert its territorial, economic and resource interests more boldly and refuse to compromise on issues ranging from sanctions on Iran to emissions targets. Many Chinese leaders doubtless sympathize with these demands – indeed, some of them have fanned the flames rather than sought to restrain them – but they appear more nervous about getting on the wrong side of public opinion than past leadership

generations, and have consistently sought to minimize the risk of internal criticism.
The weakening capacity of China's central leadership to make effective strategic decisions and navigate between strong competing interest groups is evident across a range of domestic policy matters too. At times, Chinese leaders and officials appear to have been caught off guard by the speed with which China's position on the global stage has strengthened and have struggled accurately to assess both its degree and its import. While it was clear that China's power position had been augmented in the aftermath of the global downturn, it was less clear what advantages that power would translate into, with the seeming result that a range of constituencies in China have pushed out on almost all? fronts to see what they can "get".
Moreover, for all the extension in its economic reach, China still tends to behave as a major power with a minor power mindset. While the United States operates as if it has a set of global and systemic responsibilities to manage, China's framework is more limited. Regional and global security issues such as Iran's nuclear program are ultimately viewed by China less as mutual concerns than as Western problems, and requests for cooperation as opportunities for trade-offs. For now, China sees its strengthened power position as giving it greater scope to defend a narrow range of economic and political interests rather than necessitating any genuinely shared responsibility for dealing with global challenges.

The limits to China's assertiveness

The results of this assertive stance on China's part have, however, largely been unhappy. The United States quickly pushed back, moving ahead with the Taiwan arms sales package and President Obama's meeting with the Dalai Lama. Washington threatened a Treasury citation for currency manipulation and raised the prospect of a shift in U.S. force posture if Beijing continued to grant North Korea a free hand. The response from most of China's neighbors has been to upgrade cooperation with the United States, and with each other. Beijing's relations with Seoul and Tokyo have sharply deteriorated. In Japan's case, Beijing also lost the opportunity to take advantage of the election of a new, more China-friendly government that was embroiled in a troubled set of negotiations with Washington over the Futenma marine base. The ASEAN Regional Forum meeting wreaked lasting reputational damage and undermined years of patient Chinese diplomacy in the region. Relations with India have steadily declined. And in each case, the United States has been able to step in and improve not only its own security and political relationships but encourage heightened degrees of cross-cutting and triangular cooperation: Japan-South Korea, South Korea-Australia, Japan-India and so on. Whether quietly or publicly, states have adjusted their China policies and broader defense strategies, and consultation between concerned countries has grown. This has been true well beyond Asia. 2010 saw the first wholesale revision of the EU's China policy for years, with a view to toughening it up; transatlantic consultations have been expanded; and Beijing's heavy-handed threats following the award of the Nobel Peace Prize to Liu Xiaobo forged an impressive display of European unity in response.
As the strength of the international reaction has become obvious to Beijing, it has reined itself in. The abrasive rhetoric has largely been pared back. China climbed down from the wilder threats it made in the aftermath of the Taiwan arms sales package. Following strong additional representations from Saudi Arabia and Israel, China ultimately acquiesced to a further set of sanctions on Iran, and has halted new investments there in the aftermath of the UN Security Council resolution. It quietly agreed to a climate deal in Cancun, albeit one of extremely minimal ambition. It appeared to play some belated role in restraining Pyongyang after tensions on the peninsula brought the two Koreas uncomfortably close to conflict at the end of 2010. It has sought to patch up relations in South East Asia and Europe, with buying trips and awkward attempts to explain that "small countries" also matter to China. More recently, the revolutions in the Middle East have pushed Beijing even further off balance, as it reluctantly allowed military operations in Libya to proceed under UN authority, and launched its own internal crackdown on activists. While China's assertiveness persists, its hubristic edge appears to have disappeared.

China's new dollar diplomacy?

If foreign and security policy has won China few friends over the last period, through the lens of post-financial crisis economic diplomacy, the picture is more mixed. In absolute terms, China's external investment remains modest in scale, at $56.5 billion in 2010, and it accounts for only 6% of the world's total Overseas Direct Investment (ODI) stock. In the context of the global economic crisis, however, the counter-cyclical nature of China's investments and the fact that it is the country making the biggest difference at the margin has given outsized political play to its

actions. Where ODI from other countries has been declining or flat, China's is increasing rapidly. It is predicted to grow to $100 billion in 2013, with $500 billion in total stock. Moreover, where in the past the most dramatic Chinese investments have been in large developing markets such as Brazil, which last month announced $30 billion worth of deals with Chinese companies, China has exhibited a newfound willingness to gain footholds in more advanced economies.

During the first half of 2010, China's ODI to the United States and the European Union increased by 360% and 107.2% respectively, year-on-year. In Europe, the changed political climate induced by the euro-crisis and the downturn has seemingly presented opportunities for China to overcome previous resistance to its advances. Among the most headline-grabbing announcements have been COVEC's controversial $456 million contract to build a section of the highway between Berlin and Warsaw; an MOU to lend $1 billion to Moldova; a three-year currency swap deal of $2.3 billion with Belarus; a $5 billion "Greek-Chinese shipping fund"; over $4 billion of infrastructure projects in Italy; and public statements of willingness to buy Portuguese and Greek bonds at the peaks of their respective crises. There have also been large-scale trade deals of a more traditional sort announced, such as the $22.8 billion package announced during Hu Jintao's November 2010 state visit to France.

However, the political significance of these steps should not be oversold. While there may have been some modest accumulation of chits – China was seen to be playing a constructive role through what has been a sensitive period for the EU project – it has taken place in a context where European business believes it is suffering from tougher operating conditions in China and threats from technology theft. The last few months have seen the start of internal debate in the European Commission over the establishment of a European equivalent of the Committee of Foreign Investment in the United States (CFIUS), almost entirely in response to China's additional investment activity. The COVEC road deal has prompted calls for China to be barred from public procurement deals in Europe, given the scale of Chinese subsidies and the restrictions on European access to the Chinese public procurement market. And while Chinese statements of support for the euro and European bonds have had some market-moving effect, China is still a very small investor in relative terms and the reserves invested remain a fraction of those sunk into U.S. Treasury bills.

In Africa, Central Asia, South Asia other than India, and bordering South-East Asian states such as Laos and Burma, China's capacity to reshape the economic landscape is dramatic. But the model that works successfully in many of these countries – integrated capacity across the political and economic realms – is precisely what evinces discomfort in wealthy democracies, even those in difficult economic straits. In Europe and the developed Asian economies, "dollar diplomacy" is of less political consequence for now than the more traditional facets of China's gravitational pull: its market, and the real and potential power of the Chinese economy to drive growth. For specific countries and in particular sectors, this is now biting in a way that it never has before. The difference between South Korea and Japan being in growth or recession last year can be attributed to China's economic resilience through the downturn, and December 2010 was the first month in which Germany's exports to China surpassed those to the United States. Chinese assertiveness has created pressures for countries such as Japan to be economically hedged against the political risks that ensue from greater dependence. But for now, even as they quail at the prospect of Chinese investments, a number of countries faced the fact that their economic and security needs are moving in different directions.

Assertive – but constrained

Nonetheless, many of the developments in the last two years have done more to demonstrate China's weaknesses than its strengths.

It is clear that the Chinese leadership's sense of political vulnerability remains acute, a fact further reinforced by the current crackdown. The corollary of this is that they are still unwilling to risk too precipitous a downturn in relations with the United States and other major powers, especially not all at once. For all China's accusations of containment and of interference in its domestic affairs, in practice much of the world shows a high degree of restraint over sensitive Chinese political issues and supports a very permissive environment for Chinese economic growth. China's risk-averse leaders do not appear to believe it to be worth jeopardizing this through a serious worsening of political tensions.

The capabilities gap for China also remains substantial. While its economic activities have expanded considerably, China is really a long way from being a globally capable power. This is most evident in the military realm: when it

comes to real security crises, its capacity to project force far from its shores is still arguably less than any of the other permanent members of the UN Security Council. But there is also a manifest lack of political comfort for Beijing when operating in regions such as the Middle East, where, although China is highly exposed economically, its capacity to shape events is still very limited..

Most importantly, China is disadvantaged by its lack of friends. The total economic and military power wielded between the U.S. and its allies, let alone emerging partners such as India, will dwarf China for decades, perhaps indefinitely. While Beijing can, for instance, encourage Sudan or Pakistan to make the diplomatic running on its behalf in certain forums, there is nothing comparable to the combined weight of the advanced industrial democracies. Moreover, far from China making headway in eroding the U.S. alliance system, its behavior in the last couple of years has largely served to push it closer together, and to stimulate closer coordination between powers with little tradition of it (such as Japan and India) or facing major historical obstacles to doing so (such as Japan and Korea). Even as its capabilities to operate as a global power grow, this constraint is likely to prove the most enduring one as long as the United States is able to marshal the conditions for it effectively.

Channeling China's assertiveness

The United States has already done a great deal to respond to Beijing's behavior: facing China down when it appears to be threatening basic principles such as the freedom of international waters; providing active and determined support to allies such as South Korea and Japan in the course of disputes; deepening relations with other pivotal states in the region, such as India, Indonesia, and Vietnam; expanding the range of minilateral consultations, where United States can help to forge closer ties between states in the region; building issue-based coalitions to ensure that coordinated tactics are in place to address challenges where China has been playing a difficult role, such as Iran; and taking steps to establish an economic architecture that minimizes the level of countries' potential dependency on China. In practice, some of these areas are considerably more advanced than others: aside from the Trans Pacific Partnership initiative and the KORUS FTA, the trade agenda is still notably lagging; U.S.-led multilateral cooperation vis-à-vis China is increasingly well developed in Asia but much less so elsewhere; and there are still issues, such as the Chashma nuclear deal with Pakistan, where there has been no attempt even to impose the most modest of costs on China's behavior. But while there is much further to go, the last year has amply demonstrated that determined efforts to shape China's strategic environment China can still pay off even in relatively short order.

Despite all this, as things stand there is little indication that China is rethinking its broader strategy. While the balance of opinion in Beijing now seems to hold that they over-reached in the past 18 months, there is still a lack of complete consensus even on this point. And at present, the leadership in Beijing has neither the willingness nor the capacity to corral the various interest groups into supporting a foreign policy strategy that is appropriate for a globally engaged power. But the United States does not have to find a way of convincing China that cooperation is desirable – only that it is the path of least resistance. The United States may struggle to change the minds of Chinese leaders, but what it can do is promote a framework in which China systematically gains from taking on a constructive international leadership role and faces continued obstacles when it seeks to advance a narrow, nationalistic view of Chinese interests. The foundations of that framework are now in place, and it is Chinese assertiveness that more than anything has made that possible.

PANEL III: Discussion, Questions and Answers

HEARING CO-CHAIR BROOKES: Thank you.

MR. SMALL: Sorry for running over.

HEARING CO-CHAIR BROOKES: That's all right. Commissioner D'Amato.

COMMISSIONER D'AMATO: Thank you very much, Mr. Chairman, and I thank the three witnesses for very interesting testimony. Trying to sort out what's happening in the Middle East region particularly, I find very challenging.

I want to go back to something that we left off with Commissioner Wessel in the last panel, and that is to do with the question of stability, and meaning of stability, what are we talking about here.

You make a comment, Dr. Pham, in your testimony that more broadly, across the Middle East, in general, China stands to gain ground politically and economically as a result of the recent unrest.

I find that to be a surprising statement in that it seems to me that the United States represents the values of representative democracy based on free expression of opinion and the kind of things that were going on in the Middle East certainly based on the Web and the demonstrations. There is more free expression of opinion than stability.

In the case of the Chinese system, it may be more in the direction of supportive and more comfort with authoritarian governments.

So my question is, for the three of you, how would you evaluate the overall result of U.S. and China reactions to the events in the Middle East? Just parenthetically I note that the Chinese have turned down the volume of their Internet. You can't find anything relating to Egypt, for example, in the Internet, as far as I know, in China. So their reaction--they're resetting. We're resetting.

We're both reevaluating our policies toward the region, and how you would so far evaluate how well the United States versus China is doing in the region, and why, given the multi-series of events? And I'd like to hear all of your opinions on that.

Dr. Pham?

DR. PHAM: Thank you, Commissioner, for your question.

The reason I said China was well-positioned to do well in this is that it's playing both sides against the center, whereas the United States, I believe, has taken a position, as you point out, siding with, largely with the people seeking greater freedom and greater expression.

China has played both sides. Let me give you several examples. In Libya, for example, by abstaining, China got the promise of should Qadhafi in the unlikely event survive, they were going to get, they were promised additional oil blocks, but on the other hand, they turned around and were the first people to buy oil from the rebels. The first shipment that left last

week from Tobruk on the *Equator* was headed to China. So they played both sides.

Libya, as I said, is a major fire sale coming, across sub-Saharan Africa, of Libyan sovereign wealth fund investments. They're going to go on the market. China has the foreign capital to move on that, and from conversations I've had--they've moved on some very key assets.

In the countries where the change has not come or where regimes are more authoritarian and have managed to survive, China played that very well. The very day the Secretary Gates was in Bahrain telling the monarchy that its baby steps were not enough, the Chinese Vice Foreign Minister of Foreign Affairs was in Riyadh meeting with the Gulf Cooperation Council advocating stability and essentially greenlighting the intervention across the causeway.

So that in the long run, I think, is a short-sighted strategy. In the short-term, they'll get some gain out of that. In the long-term, I think the march of history is another question.

Thank you, sir.

DR. WACHMAN: I take interest in the coincidence of the dissolution of order in the Middle East and the increased attention of the Chinese security forces to people they perceive to be rabble-rousers in China. I know there's another commission whose job it is to focus more intently on that element than this Commission.

Nevertheless, I would say that the two elements of this transition, which I think they're watching, are the decision by the PRC to abstain rather than to oppose or even to veto. I mean they could have simply voted no. They didn't have to abstain at the U.N. on Resolution 1973. What does that decision suggest about the PRC's interests in the region?

And secondly, the self-absorption of the PRC government in seeing the possibility that what has apparently been unleashed in North Africa is a disease that they could catch too.

Those to me are areas worthy of increased scrutiny.

COMMISSIONER D'AMATO: Mr. Small.

HEARING CO-CHAIR BROOKES: Do you have a quick comment? Time has expired.

MR. SMALL: Very briefly, I think the internal reactions have been evidently negative and scared on China's part in terms of this, and I think you can correlate a number of the internal developments to their fears about what's been going on there, just as you could during the "color revolutions" in 2004 and 2005 period.

And I think they're unhappy about the reestablishment of the political dynamics that this represents, and to some extent on the Security Council the sort of revival of the principles of liberal intervention and some of these things, they're unhappy about.

But I think the jury is out as far as they're concerned in some of the internal debates about what the constellation of forces in the Middle East is going to look like.

Afterwards, at one point they were obviously rather pleased that in some of the cases, like Egypt, this may be U.S. allies going down, and that featured in some of the internal discussions, but I think that they simply haven't made their mind up about how all this is really going to translate for them, and I think the first comments were very insightful.

HEARING CO-CHAIR BROOKES: Thank you.

Commissioner Fiedler.

COMMISSIONER FIEDLER: I agree with you, Dr. Wachman, that single words are poor descriptors of reality. They're certainly more active than--I mean forget the word "assertive." They're pursuing and I would say more active in pursuit of their energy interests, which are real and insecure.

But I'm more interested in the decision-making process having changed, the players having changed. We pursued that a little bit this morning with the State Department.

What significance do you see in resurgence of the PLA, if you will--I mean I understand that the PLA played a very important role in China in years past--it seemed to have gone down for awhile; now, it's back, perhaps--and the diminution of the role of the Ministry of Foreign Affairs in actual foreign policymaking?

DR. WACHMAN: Excuse me, sir. Do we go in order?

COMMISSIONER FIEDLER: Any one of you.

DR. WACHMAN: Let me just say that there may be assets in the U.S. government who can support those points of analysis with some fact, and even though it is a widespread perception that the PLA is resurgent and the Ministry of Foreign Affairs is in a diminished state of influence, I don't think any of us really is in a position to say that we know that to be the case.

I think what happens is we have perceptions. We “read tea leaves,” so to speak. Individuals, for example, the Minister of Foreign Affairs, we can pick up rumors that he seems to be less--

COMMISSIONER FIEDLER: I mean we know what we don't know about how they make their decisions. The question is how does it manifest itself publicly around the world in action, that you can deduce, if you will, perhaps what's going on, that some players are more important than others?

DR. WACHMAN: Fair enough. I would say this: we're witnessing in China a greater pluralization of voices that seem to have, *seem* to have, effect on outcomes, and I think this is a product of an evolution of their leadership process, and frankly I'm quite concerned about what happens after the Hu Jintao/Wen Jiabao duo retires and passes the batons to the next pair because I don't think we have any notion, and frankly I'm not sure they have any notion, how well this is going to work.

My fear, and I admit this is a fear; I have no factual support for this--my fear is that we're reaching a stage where the neat little package of balance among the various actors in not just the foreign policy but the political apparatus where they were able to balance each other out, the sort of oligarchy of power holders, that that is breaking down, and that what we are going to see in press is a greater range of voices because that seems to be the trajectory we're on, and what concerns me is that the balance of power among those oligarchs is going to become more fiercely contested even inside that black box than it has been.

And I worry greatly about that dimension, and the PLA is certainly in there. The--

COMMISSIONER FIEDLER: Security service.

DR. WACHMAN: The security services are in there, and I find the uncertainty about how they're going to manage this transition from a period when all of the major leaders were, in a sense, anointed by Deng Xiaoping to the following pair, I find this a period that really deserves a good deal of attention because we just don't know what's going to happen.

COMMISSIONER FIEDLER: Anybody else?

DR. PHAM: If I may just add very quickly, in the recent crisis in the Middle East, focusing on Libya, actually the role of the diplomats from the MFA was much more prevalent. The military did send the four transport planes to evacuate some people, and they did send the frigate, the Xuzhou, to the Gulf of Benghazi, but the vast majority of evacuations were coordinated exceptionally well--one has to compliment them--by the Chinese diplomatic representations on Malta and in Greece.

They moved 35,000 people in ten days. We had a leaky ferry that was a rather embarrassing incident there. So--

COMMISSIONER FIEDLER: Thank you.

That's it.

HEARING CO-CHAIR BROOKES: Commissioner Shea.

COMMISSIONER SHEA: Pursuing this theme of greater range of voices, I have two questions, and I think probably best directed at Dr. Pham.

First, are there elements within the PRC foreign policymaking establishment that believe a nuclear-armed Iran is, in fact, in China's interests? And if so, who might these elements be, and why would they think that?

Secondly, just back to Libya, I know you mentioned that most of the 30,000 plus Chinese nationals were evacuated through the good auspices of the diplomatic corps, Chinese diplomatic corps, but there were, it was significant that a frigate went into the Mediterranean. My understanding it's the first Chinese military frigate in the Mediterranean Sea and the use of military aircraft.

Do you have any sense of whether this has been played up to the

domestic population in China, to the netizen community that we hear so much about, that the Chinese military has been deployed in an effective way?

DR. PHAM: Two questions, Commissioner. Thank you.

The first question on a nuclear-armed Iran, I'm not aware--perhaps my colleagues are--of any doctrinal statements or articles. They're very reserved about that even in places where you normally look for trial balloons to be focused. I would say that in certain private conversations I've had with people, they're not as alarmed as we are about it, and the general explanation that's been given to me is "There won't be a first strike on us."

To the second question, very clearly, the military, the PLA's propaganda or public relations machine was out in full force, emphasizing the 1,700 citizens who were flown through Khartoum home on the four transports.

A great deal was made about the Xuzhou's deployment to the Gulf of Benghazi so they certainly garnered--one could hesitate to, because I don't have the quantitative data, but I would, from just casual surfing through the Web, and sites like SINA and others, certainly the military got far more tags for its operations than the quiet work of the diplomats in moving the larger number of people. So it certainly catered to a certain tendency and was good PR.

COMMISSIONER SHEA: Dr. Wachman or Mr. Small? On either question.

MR. SMALL: Just one additional comment on the Iran bit. I agree that the content and the position for a number of people on the Chinese side, obviously diplomats and others, has been that at one level, it doesn't, the implications for China of a nuclear Iran are not necessarily so great, and that's a position that one hears taken.

The representations made by, for instance, the Israelis and the Saudis has evidently been focused on changing that element of the threat perception to China's interests in the region, but active, the active desirability of an Iranian nuclear program I've never heard that position advanced.

DR. WACHMAN: Well, we have a leading authority on Sino-Iranian relations sitting behind us in the form of Professor Garver so I don't want to take up too much time with this question, but let me just make a quick observation that the PRC accuses the United States of some hypocrisy with respect to Iran.

I think what Dr. Pham was suggesting makes good sense, that they're not concerned about the first strike being on China of an Iranian weapon, and so they wonder why it is that the United States is so riveted on Iran's nuclear capability when it seems less concerned about nuclear capabilities in

the hands of other states and, indeed, has engaged in supporting India's nuclear programs and so forth. So I think they smell hypocrisy here.

That said, and I will defer to Dr. Garver when he arrives, but, they are straddling a line with respect to Iran because they do understand that for Iran to take the path it is on has a very high likelihood of causing dissolution of order in a region that is important to them and possibly even reach a provocative point with Israel causing results that they would find very difficult to respond to, and I think they have tried to balance both a predisposition to allowing Iran to continue and a recognition that to do so does have costs to them.

COMMISSIONER SHEA: Thank you.

HEARING CO-CHAIR BROOKES: Commissioner Bartholomew.

HEARING CO-CHAIR BARTHOLOMEW: Thanks very much and thanks to all three of our witnesses.

This is very interesting. Dr. Wachman, I left the world of social sciences 30 years ago, and I take from your insistence on facts that the debate about whether social sciences are science is still alive and kicking out there in the academy.

I think the point you made about "is China more assertive" is a very interesting one, and as I've been thinking about how I define "assertiveness." The things that we have heard as we have traveled in the region, the question might be in some areas is not “is it being more assertive?”, but “is it planting the seeds of more assertiveness?”, and that there is some anxiety about when it might choose to exercise that?

I think that money is power, and power is influence, and certainly when you look at the facts, when you see where China is investing and spreading money around, across sub-Saharan Africa, across Latin America, throughout Southeast Asia, there is factual basis that they are more engaged and sending out that sort of web of potential influences there. So I'll just define my own things as we start.

You mentioned the Treaty of Westphalia. How we can envision that China can deal with this balance and this tension between state sovereignty and ensuring that its interests, particularly its resource interests, are maintained and protected? The instability that's moving across the Middle East is a perfect example. Is there a tipping point?

Where is there a tipping point at which China has to essentially move not in terms of not interfering in the internal affairs of other countries?

We've already seen it in some places. Zambia, to me, is a perfect example. It mucked around in an election in Zambia. That is interfering in the internal affairs. So I think this is going to be a real challenge for the Chinese government, but I just wish you could shed some more light on that tension.

There is sort of the tension as it works externally but also the tension as it's dealing with things internally. If it tolerates or accepts the result of dissent in another country, and it's cracking down on its own people at the same time because of fear of a jasmine revolution, there's a real contradiction there about what's going on.

So can you talk a little bit more about that both in terms of its foreign policy and in terms of how it might be affecting its domestic policy? All of you. It's a big question, I know.

MR. SMALL: Just briefly, on a couple of dimensions of that, I think you're right to say that the moves have already taken place in certain respects. I mean you can see it in Burma, you can see it in terms of its willingness to talk to very different groups than it was necessarily doing before. It's become more actively involved, say, in dealing with other political parties in Pakistan, South Sudan, non-state actors in DRC.

I think you can come up with a list of instances whereby the shift in practice has been much more active than the shift in principle, and even if there is a willingness to defend and maintain a stance against Western-led interventions and various of things, you can still see a shift in actual behavior as it demonstrates itself on the ground in a number of these places.

Chinese security personnel going up in a number of these countries. Any of the metrics that you would use other than the principle stance, I think you can say there's already been a consequential shift on China's part, and that will go further.

DR. WACHMAN: On the issue of words, briefly, you used the word "engaged." We were brought here to talk about assertiveness. The difference is important. Look, we all witness a presidential campaign, and we vote for different candidates. We all go home and pray in different houses of worship. We invest differently when the facts of the stock market are the same.

I would guess that Dr. Small and I would agree about the facts, but we disagree about how best to characterize them. Why? Because of our predetermined or preexisting inclinations. And I think it's very important to recognize that different people have different inclinations. They look at facts differently. So, too, on that issue.

With respect to the broadening of China's interests, let's also not forget that the Chinese, in a sense, were tugged into broader responsibilities by the United States and others who have been urging that China do more, take a greater degree of responsibility for the global commons, be a more responsible stakeholder, to cite Deputy Secretary Zoellick.

And so it isn't that we are *responsible* for doing this. Their interests have expanded as their needs have expanded, to be sure, but I don't think

they went to Sudanese President Omar al-Bashir sort of willy-nilly. They did it in a sense over their better instincts about what they would have preferred to do. They would have preferred probably to just leave it alone, but they were getting a great deal of pressure from the United States and elsewhere to do something about Sudan. So we have to pay attention not just to what they do and what they need and what they want, but how it emerges from a dynamic in which they are responding to signals also.

DR. PHAM: Just very briefly, to respond to your comments, I think there has been, I think, detectible, if you look at the effect in recent years, a broadening of where China, where the traditional position--and still the default position, I would argue--is the preference to view the state and the regime in power as the sole representative of the nation, there has been an increase in engagement.

I mentioned their willingness to engage sub-state actors like the Iraqi Kurdistan in pursuit of resources, the willingness last week to buy oil from the Transitional National Council in Libya, so they have broadened it, and I think there is a greater sophistication and nuance that comes with experience, that increased engagement, that, as Dr. Wachman said, the international community has urged upon them in recent years.

HEARING CO-CHAIR BROOKES: Thank you.

Commissioner Blumenthal.

COMMISSIONER BLUMENTHAL: Thank you very much. Thank you all for being here.

I enjoyed the testimony and was stimulated by it. I think I want to make a couple comments and get some responses more than anything else.

One, this notion that China is somehow benefiting from U.S. and NATO intervention in Libya seems to me odd, as it did Commissioner D'Amato, in the sense that the net impact has been within China itself, the amount of money they have to spend on internal security services now, as a result of the "Arab spring."

The fact that they have to spend a lot of money, a lot more time and resources trying to put down revolt domestically because essentially the West, in this case, almost entirely the West, I guess, with Arab states decided to intervene on the behalf of Libyans, it seems to me that's not very beneficial to a regime trying to put down protests in their own country.

I'd also say that there they stood with a group of powerful Western countries saying we're going to intervene in Libya based on the principle of humanitarian intervention, which is, of course, throwing out entirely any notion of the Westphalian order that you mentioned, Dr. Wachman. The Westphalian order was always a lot more exaggerated, I think, than people give it credit for.

So anyway I'd like you to react to that. I don't see any net benefit or very little net benefit to the Chinese, to China from this intervention, and

again it shows again that the world order is changing and still being defined by the West largely.

The second related point that I'd like to get a response from all of you is this notion of--Dr. Wachman, you said that the Chinese are trying to put forth a moral vision of world order, and it's based on democratization and justice and diversity and peaceful resolution to international conflicts.

It seems to me that's a stretch in the sense that the Chinese can't even put forth the moral vision in their own country that people find legitimate. And also, does that democratization of global governments pertain to, say, Vietnam? Do they think that Vietnam should have as much of a say in the governing of the South China Sea as they do?

Clearly, I think it was Dr. Pham who said no, or Dr. Small who said no, that the Chinese said some countries are small and some countries are big, and that's just the way it is.

It seems to me that this isn't exactly a moral vision. These are instruments they're trying to legitimate an immoral vision. That's for all of you.

DR. WACHMAN: This probably demands more than two minutes, but let me just say that the United States does not have a monopoly on hypocrisy. Other states are entitled to be hypocritical also, and the Chinese are hypocritical because they are states. States are hypocritical.

With respect to a moral vision, we may not share their moral vision. We may not view it as moral, and we may see it as instrumental, but guess what? They see our morals as instrumental also. Why? Because we're states. That's what states do. They mask their interests in morality. It's not China or the United States that invented this game; this goes back centuries. This is just the nature of international relations.

Now with respect to the issue of branding their response as a response to humanitarian intervention, well, of course, they're going to brand it that way. What are they going to say, that we're going to intervene as a means of interfering in the internal affairs of another state? They've got to figure out a way of balancing competing interests. This is what it's all about, I think, in international relations.

We have competing interests. If we had the luxury of a single set of values that we could always promote without interference from competition, we'd all be a great deal happier and more peaceful. The Chinese don't have that luxury any more than we do.

COMMISSIONER BLUMENTHAL: I guess the point is more states and more peoples around the world accept the legitimacy of the West's moral vision than the Chinese, and that puts them in a very difficult spot.

But I'd like to hear reactions to my comments from the others, too.

DR. PHAM: Thank you for your observations.

I think there's no doubt you're quite correct, that the intervention in

Libya, the events in the Maghreb and the rest of the Middle East, certainly complicate things for China--additional security costs, tensions. But I'll stand by my remark. There are geopolitical benefits that they are going to derive from this.

Let me cite one example. Libya is under contract whereby currently a Libyan sovereign wealth fund is building a reverse flow-capable pipeline from Eldoret, Kenya, to Kampala, Uganda. Current use would be to import oil, but eventually it would be exporting oil. In fact, the week before the outbreak of violence in Libya, Ugandans announced the second tender to build a spur from there to Lake Albert where they're to be in production later this year, and that's the eventual route out if you're going from South Sudan to bypass the north.

Right now China is already making moves on taking over the Libyan asset from Eldoret to Kampala. That will give them a stranglehold on not just Uganda's future oil production but South Sudan's future relations, and you can go down the list. Qadhafi in the last decade invested somewhere between ten and $20 billion in infrastructure across Africa. We're not going to go shopping tomorrow, and you look at who has the foreign reserves and the relations.

So I think it's a long game, not immediate, but I think there's a long game. There's going to be a shift in the balance in sub-Saharan Africa because of the events in North Africa.

HEARING CO-CHAIR BARTHOLOMEW: Very interesting. Commissioner Wessel.

COMMISSIONER WESSEL: Thank all you.

Dr. Wachman, I'd like to delve a little deeper into your comments and then also get the responses of your colleagues.

In listening to your discussion of assertiveness, what I heard, and which I raised in the last panel, was a question of whether, in fact, we're listening carefully enough to what the Chinese have said and what they've written?

That we are hoping for a different outcome or a different approach by the Chinese to that which they practice and that which they pursue. We want them to be cognizant and recognize the human rights of their people and provide a free and democratic society. We want them to engage in market-based activities. But we are hoping for something that may not occur.

I referred to the writings of Jim Fallows, who wrote a book called *More Like Us*, in the 1980s, where we sought to impose our views of the world on Japan as if everyone shares the United States' view of what the world should look like.

The question is, as you look at U.S. policy and U.S. assessment of China, as well as the tools we utilize to interact, S&ED and others, is U.S.

policy naive?

There are some who believe that we are engaged in a form of economic appeasement, if you will, by failing to address issues like currency and Chinese subsidies, of which there are going to be probably $1.5 trillion associated with this 12th Five Year Plan, so is our problem a fundamental question, as you've raised, of whether we actually understand what China really wants to pursue, and its interests and pursuits are different than the United States? This is for the other panelists, as well.

DR. WACHMAN: I'm not going to answer the question whether the U.S. foreign policy is naive with Commissioner Blumenthal sitting over there.

[Laughter.]

DR. WACHMAN: That would be dangerous. However, I hear--

COMMISSIONER WESSEL: I'll ask him to leave the room.

DR. WACHMAN: No, no. I hear in your question a number of things. First, I don't think there's any problem in expecting U.S. policy to reflect core U.S. values.

COMMISSIONER WESSEL: Well, I don't either. Okay.

DR. WACHMAN: But what I think is problematic is that because we're persuaded ourselves, we've stopped trying to persuade. We just assert, and, you know, that's not very effective. I think that, you know, even if we have some hope of shifting China more to become more like us, it's not going to come from asserting that our values are better than theirs, that our system is more desirable than theirs.

I think we have to accept that this is a battle of moral values. And that our role is not simply to assert our position, but to persuade, and I don't think we've been very good at that yet, and I think we've had a lot of reliance on expectations about what leads to the "ends," that if you become a market economy, you'd have a middle class. The middle class gets rich and so forth and so on.

Several years ago, this Commission heard testimony from Jim Mann who wrote *The Chinese Fantasy*, which basically said: "where's the beef?" How come we're not seeing the results?

And so I guess I would, first, very much endorse the idea that we need to understand more about their world view and where they're coming from, and they keep telling us. We tell them they're not transparent. They are very transparent on some matters, but we dismiss what they tell us as empty rhetoric. It's time to pay attention.

And secondly, if we genuinely believe that we have something to sell in terms of values, we have to stop simply asserting that they are better, and we have to be persuasive, and by the way, it wouldn't hurt if we were a better model of the values that we ourselves espouse.

COMMISSIONER WESSEL: Other panelists?

MR. SMALL: There are elements of that I would disagree with.

Whether it's on the domestic picture or on the foreign policy picture, I'm not sure that the people in question, that the policymakers in question, are the persuadable types on some of these issues. I think there's a question of what's projected more broadly in the country. I think people take seriously the Seven Nodes of--I mean the statements are taken for precisely what they stand for, which is a particular view of political order that we disagree with.

But these are not, I'm not sure that whether on a number of these foreign policy issues or on a number of these domestic issues, that the interlocutors in question are necessarily massively open to persuasion, and I think there's quite an open-eyed view of what the interests of the specific actors are and what they're likely to continue to do, and I think the question is what sort of frameworks are put in place that shift the incentives for those actors, but I'm not necessarily sure they're amenable to persuasion on some of these things.

HEARING CO-CHAIR BARTHOLOMEW: I want to make one clarification, and then I'll turn this over to Commissioner Mulloy for his question.

But with all of this discussion about human rights and values, I think it's really important for us to go back to the idea that this human rights struggle in China has not been about imposing our values. It is not about turning China into a Jeffersonian democracy. It is about making sure that the Chinese people have the right to the protections and the rights enshrined in their own constitution, and China has agreed to the Universal Declaration of Human Rights.

So to me there's a fiction going on. I'm sure we could debate this, but this is not about imposing our values, and the Chinese people, every time they try to exercise their own interests and those values are being arrested and thrown in jail or put into exile.

Okay. Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Madam Chairman. One, I want to thank all of you for your testimony.

And Dr. Wachman, I think you just said China's interests have expanded as its needs have expanded. At least I think you said that. My impression is that their interests have expanded as their wealth and capabilities have expanded as well.

So I want to go to Mr. Small, in your testimony you pick up that theme, and you talk about China's assertiveness, and then on page three, you talk about China's perception of the scale of the shift in relative power with the United States. When the United States is running $2 trillion worth of trade deficits with China in ten years, as Congressman Rohrabacher pointed out earlier, obviously, that is a big shift in power between the two countries.

And as you're moving your manufacturing from here to there, and their wealth is increasing, and the R&D is increasing, and their whole

economic capabilities are increasing, while I think ours are in decline, to be honest with you, I think that has a big difference.

We normally go to China once a year, and I remember going two years ago right after the financial crisis. I could sense that the Chinese felt that we were in decline and that they were on the ascendancy. And you talk about that in your testimony.

Now, there is one other point in your testimony that I just want to throw out because I want you to comment on it. The Chinese have been buying our Treasurys as a means of managing their currency. Now you talk in your testimony that China's direct investment in the United States in the first half of 2010 increased 360 percent. You say that in your testimony.

I think that's where we're going now. I think the Chinese are going to start buying real assets in this country, and we've given them the wealth to do that by running these massive trade deficits year after year.

Warren Buffett talked about this in an article he wrote in Fortune magazine in October 2003. He said when you run a trade deficit, the other guy is going to get the wealth, and they're going to have claims on your economy, and they're going to come and exercise them.

Do you see China now moving to buy more influence in our country by buying assets in this country? And then either of you other two want to comment on that, I'd appreciate that.

MR. SMALL: Yes. I think it's the economic dimension that has caused the greatest shift in their perception vis-a-vis the relative power. I think they to some extent miscalculated what this translated into, and it's kind of been recalibrated somewhat, I would say, since the first slightly more hubristic period.

But the economic power dimensions are real and are translating and increasingly into these investment flows and other things.

The one thing I did draw attention to in the testimony that I submitted today is that it remains very difficult for them on ODI in the United States, in Europe, in Australia, in a number of these countries, in a way that buying Treasury bills and trade is not.

There has been significant reaction and sort of preparatory reactions in Europe in terms of scrutinizing what this is going to mean in terms of national security implications, and I think that is going to be a tendency that follows at the same time, and there are changes in the kind of politico-economic system in terms of how these companies behave and things that are unlikely to change in the next few years and are going to cause strong reactions, and we've seen so many of these deals in so many of these countries being blocked for different reasons.

The money will be there, and the attempts to buy these things up will be there, but when you contrast the reaction in Brazil, Nigeria, you go across sort of some of the major investments across the world, and you look

at the sums of money that have actually moved into the United States or Europe, it's still restricted partly for, and I think significantly still also for, these reasons and China's nervousness about what this is going to turn into if they do move ahead more, more actively on this front.

DR. WACHMAN: Commissioner Mulloy, you're quite right that if we go to China, we'll hear plenty of people telling us that U.S. is in decline, particularly after the financial crisis in 2007 and so forth.

In the 1960s, the late 1960s, you would have heard the same thing from the Chinese leaders. That was one of the reasons why they decided the Soviets were the greater threat and they could invite Henry Kissinger and Richard Nixon to Beijing.

In the 1990s, you would have heard the same thing. Even after the uni-polar moment, and Mike Pillsbury has put together a very good book collecting all of the evidence of that in Chinese military publications, there was a great sense that the U.S. was in decline.

I think this is just a trope that the Chinese have about the United States. It's really about them. It's really meant as a way of assuring them that they have an opportunity now to emerge, and so we being the bogeyman have to be in decline in order for them to have confidence that they can emerge.

So, yes, we will hear it, but I'm not sure that it's new any more than the issue of--well, point is clear. Sorry.

HEARING CO-CHAIR BARTHOLOMEW: Dr. Wachman, of all the people I would have expected you to cite, Michael Pillsbury is not one of them.

[Laughter.]

HEARING CO-CHAIR BARTHOLOMEW: Commissioner Cleveland.

DR. WACHMAN: I'm an equal opportunity citer.

COMMISSIONER CLEVELAND: Actually, your comments lead right into my question for Mr. Small, and perhaps you would care to comment. Given what Dr. Pham said about China's interest in the long game in Africa and the fire sale of Libyan assets, I'm interested in your observations, Mr. Small, about the fact that China is a long way from being a really capable global power, and is disadvantaged--I'm reading your submitted testimony--is disadvantaged by its lack of friends, and even if China's sense of domestic political security grows, its capabilities to operate as a global power advance, this constraint of lack of friends is likely to prove to be the most enduring one as long as the United States is competitive.

I'm curious do they really want friends or, to be a little more cynical and perhaps add some levity, do you not think money can buy you love?

[Laughter.]

MR. SMALL: I think the last point is the interesting one.

[Laughter.]

MR. SMALL: Because I'm not sure it has. I think that's been the issue, and I mean this, clearly, this kind of spins out differently in different parts of the world, and it's a more acute issue for China in its immediate neighborhood, the friends issue, other than, you know, certain small states on its southeastern border.

But I think there's a range of different global issues where the absence of allies, whether China wants them, and, of course, it has specifically, aside from North Korea, not pursued this as a strategy, where China is becoming, is disadvantaged through this fact, and when it comes, when it comes to the crunch in a number of areas, the expectations that the money is going to translate into direct political repercussions that go beyond accepting certain principles vis-a-vis recognition and sensitivity around certain domestic issues and things like that, China does not, I think the fact that it doesn't have some of these kind of deep-rooted relationships of the sort that the United States and the Europeans, et cetera, have, I think still sets them back in terms of their global capacities.

And I think they've had more of an expectation that the money will translate into something than perhaps it has, particularly in their neighborhood, but there is a debt from the political and security side that I still think is not there.

COMMISSIONER CLEVELAND: I guess I'm asking what you think that something is because if you travel in Africa, in particular, and maybe, Dr. Pham, you want to address this, you hear leaders speak to the fact that the Chinese will come in with engineers and build roads and dams and power plants and do so for a modest fee.

I guess I'm wondering what the nature of that friendship is outside Southeast Asia? I was really more focused on Latin America and Africa. I guess what I'm trying to get at, is it a political aspiration for some deeper tie? What are they trying to convert these relationships into?

MR. SMALL: I think on the diplomatic side, it's still relatively narrow in terms of what they're trying to convert it into. I mean I still think this is the case across the board, the set of political and diplomatic objectives, and there has not been an attempt to kind of cash this in in a number of these countries.

Okay, say in Africa, the fact that China has a good relationship with Rwanda, and has put money into Rwanda means that it can ask the Rwandans to rein in some of its friends in eastern Congo when they start to say unhelpful things vis-a-vis China in that country.

There are tangible things that this can amount to, and even in places where it would not have been obvious five years ago why China is building a Rwandan foreign ministry or putting money into some of these places.

So I think in certain instances there are outcomes that they can gain which would not have been the case before some of these investments went

in. But they haven't looked to convert them into very much beyond, again, a set of kind of principles vis-a-vis Taiwan, Tibet, et cetera, et cetera, the usual set of things so far, and the question is if it becomes a competitive question in terms of interests, what can China convert this into?

If it's actually China versus U.S. interests on some of these questions, and is this going to translate into determinate outcomes, and I think so far that has not been the case, but you'd have to go into the specific instances to cash that out, and there's not quite enough time to do that.

HEARING CO-CHAIR BARTHOLOMEW: Okay. I'm going to have to cut this off. I think you can continue the dialogue. We've kept our witnesses 15 minutes longer than they were expected to be here, and we actually are going to break until 12:15, but we're going to start at 12:15 because one of our distinguished witnesses on that panel must leave by 1:30. So we're going to break for lunch.

Thank you all for a very interesting conversation, and we look forward to continuing it with you.

[Whereupon, at 11:45 a.m., the hearing was recessed, to reconvene at 12:18 p.m., this same day.]

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

PANEL IV: CHINA'S RELATIONSHIP WITH IRAN, NORTH KOREA AND RUSSIA

HEARING CO-CHAIR BARTHOLOMEW: Moving on to our Panel IV, focusing on China's relations with select countries of concern, I am pleased to welcome Dr. Garver, Dr. Cha and Dr. Weitz.

Dr. Garver is a Professor of International Relations at the Sam Nunn School of International Affairs at the Georgia Institute of Technology. He specializes in China and East Asian foreign affairs and has published numerous books and articles dealing with China's international relations.

He has served on a number of editorial boards and participates frequently in fora on Chinese and Asian international relations, from presentations to local community groups to policy-oriented discussions in various capitals.

Dr. Cha is the Director of Asian Studies at Georgetown University and the Korea Chair at the Center for Strategic and International Studies. He previously was the Director of Asian Affairs at the White House and served as U.S. Deputy Head of Delegation to the Six-Party Talks.

And finally we have Dr. Richard Weitz, Director of the Center for Military-Political Analysis at the Hudson Institute. Dr. Weitz also is a non-resident Senior Fellow at the Project on National Security Reform where he oversees case study research, and he's a non-resident Senior Fellow at the Center for a New American Security.

We've been told, Dr. Cha, that you need to leave by 1:30. So we'll be sure to get you out on time today, and why don't we go ahead and begin with you.

STATEMENT OF DR. VICTOR CHA, DIRECTOR OF ASIAN STUDIES GEORGETOWN UNIVERSITY, WASHINGTON, D.C.

DR. CHA: Thank you very much, co-Chairs.

It's a real pleasure to be here, and this is actually my first time testifying before this group so I am very honored to appear before you. I've submitted a full testimony to your offices, which I request would be submitted for the record, and I will give just a brief summary of these remarks to you now.

There was once a time when I used to work, as you mentioned, on the National Security Council on these issues, and a big part of the strategy, U.S. strategy, was to reach out to China and work with them on the problem of North Korea, denuclearizing North Korea.

This was in the 2005-2006 timeframe. And I think it worked to some extent then, but today I would say pretty firmly that those days are over.

For reasons that I'll describe, I think the Chinese have chosen to support their Communist neighbor unconditionally. This is not out of affinity or historical ties, but they have basically reached a core calculation that preserving a minimum amount of stability in North Korea is what is in China's interests, even if it means acquiescing to North Korean provocations.

Some of you may have seen in the papers, last February, that it was Kim Jong-il's birthday, his 70th birthday, and the Chinese sent a special delegation to Pyongyang, not led by their Foreign Ministry, but led by their Ministry of Public Security, and this delegation heaped a lot of praise on Kim Jong-il but, in particular, provided him with a large porcelain peach as a birthday gift, which in Chinese culture is a symbol of long life.

This makes pretty clear that China is unabashedly pronounced in its desires to see Kim Jong-il remain in power for as long as possible. China's policy towards North Korea is unlike that with any other country in Beijing's orbit, and here Dr. Garver is much more of a China specialist than I. He could speak to this. But policy towards North Korea is not made nor led by their Foreign Ministry, which handles most of China's foreign policy.

It is the relationship that is made, managed and protected by the Chinese Communist Party and by the People's Liberation Army. There are two things that I think we always have to remember when we think about Chinese policy towards North Korea.

The first is that historically the northern portion of the Korean Peninsula has always been seen as geostrategically critical to China's security. The key battles of the Sino-Japanese war in the 1800s were fought in northern Korea. During World War II, Japan's invasion of China was staged from the northern portion of the Korean Peninsula, and during the Korean War, the key battles that kept the U.S. away from the Yalu River were fought in northern Korea.

North Korea is a strategic piece of territory for China, not in the sense that it is intrinsically valuable, but in the sense that Beijing can never allow it to fall into the hands of another.

The second thing I think we always have to remember about China's policy towards North Korea is that it is not foreign policy. It is almost domestic policy for China. China needs the resources in North Korea to try to develop their poor northeastern provinces--Jilin Province, Liaoning Province. These are the provinces that were kind of left behind as the coastal provinces grew, and the last thing that China wants is to see instability on their northeastern border to the detriment of these two northeastern provinces.

So what this all means is that collapsing North Korea does not help them in terms of these provinces, but sucking the resources out of North Korea for these provinces is something they're quite interested in.

On the third basic fact, I think about China-DPRK relations is despite

this very unique relationship, it is not a relationship where the two have particular affinity for one another. In public, they certainly speak platitudes of one another, but in private this is a relationship in which the DPRK has a great deal of distrust of China.

While they must accept Chinese assistance, they detest being treated like a poor province of China. And on the side of the Chinese, they see North Korea as a huge albatross around their neck from the Cold War, one that they would like to shed, but they cannot afford to shed at the moment. They acquiesce to North Korean bad behavior even though they dislike that North Korea basically drags China's name through the mud in the international arena and tarnishes its international reputation.

I can tell you certainly in the context of Six-Party Talks, the Chinese are always complaining about the North Koreans even though it was clear they couldn't do anything about it.

Fourth basic fact is that despite China's frustration with its poor and pathetic neighbor, it will never abandon it. There were three periods in history where it considered this: at the end of the Korean War; when they normalized relations with South Korea; and after the first nuclear test in October of 2006. But the record speaks for itself. These were episodic, momentary blips on the radar screen, after which they returned to a policy of consistently supporting the North.

In the end, how I describe this is as truly a mutual hostage relationship in the sense that North Korea needs China to survive. It hates this fact of life and resists all attempts by Chinese to change North Korean ways, and China needs the North Koreans not to collapse.

It hates this fact, and as the only patron supporting North Korea today, it is ironically quite sensitive about pushing too hard on the regime because they're afraid if they push just a little bit too hard, they could collapse the whole system, which is the last thing that they want.

I think it's this dynamic that explains why the Chinese were so passive when the North Koreans did all the provocations in 2010. They just allowed them to do all these provocations. The biggest cost was, of course, the relationship with South Korea where across the board today in South Korea there is a very negative view of China, both by self-identified progressives and by conservatives.

This has all redound to the benefit of the U.S-ROK alliance, of course, which is now experiencing really its best days in quite some time.

So thank you very much for your time.

[The written statement follows:]

PREPARED STATEMENT OF DR. VICTOR CHA, DIRECTOR OF ASIAN STUDIES GEORGETOWN UNIVERSITY, WASHINGTON, D.C.

Co-Chairs Bartholomew and Brookes and distinguished members of the Commission, thank you for the opportunity to testify before you today on the topic of China's economic and security impact. This is my first time testifying before this body, and I am honored to appear before you. I request that my full testimony be submitted for the record.

Co-Chairs Bartholomew and Brookes, there was once a time when I worked on the NSC that U.S. policy actively sought out Chinese cooperation in denuclearizing North Korea. Though some may disagree, I believe that some cooperation with Beijing, particularly in the aftermath of the October 2006 nuclear test, led to some positive outcomes and achievement of some of our objectives in getting at the North's nuclear programs. It is my firm view that these days are over. For reasons, I shall describe, Beijing has chosen to support its communist neighbor unconditionally. This is not out of affinity or historical ties, but because it sees a minimum level of stability in the North as in China's interests – even if this means acquiescing at Pyongyang's provocations.

For DPRK leader Kim Jong-il's seventieth birthday in February 2011, the Chinese sent a special delegation to Pyongyang. It was led not by the foreign ministry but by the head of the Ministry of Public Security. The delegation showered Kim with gifts including a Shou Tao -- a large porcelain peach as a birthday gift. The Shou Tao symbolized the Chinese people's wish for a long and healthy life for Kim Jong-il.

Members of the Commission, we can learn from this episode five basic facts about the relationship between the DPRK and its only really patron in the international system today.

The first basic fact is that while other nations speculate how much longer the stroke-stricken North Korean leader can hang on, China is unabashedly pronounced in its desires to see Kim Jong-il remain in power for as long as possible.

Second, China's policy toward North Korea is unlike that with any other country in Beijing's orbit. The Chinese refer to it as a special relationship, often described by the adage "as close as lips and teeth." Policy toward North Korea is not made in, nor led by, the foreign ministry, which shepherds China's diplomacy with an eye to its international reputation and compliance with global norms. Instead, this relationship is made, managed, and protected by the liaison office of the Chinese Communist Party and by the People's Liberation Army. It must always be remembered that the latter group, the PLA, has historically seen the northern portion of the Korean peninsula as geostrategically critical to its security. The key battles of the Sino-Japanese war were fought in northern Korea. During World War II, Japan's invasion of China was staged from the northern portion of Korea. And during the Korean War, the key battles that kept the U.S. away from the Yalu river were fought in northern Korea. North Korea is a strategic piece of territory for China, not in the sense that it is intrinsically valuable, but in the sense that Beijing can never allow it to fall in the hands of the South or the U.S.

The third basic fact about China-DPRK relations is that despite the professed unique relationship, there is no love lost between the two. In public, the two speak only platitudes of one another. I sat through many a dinner in Beijing at Six Party talks where the DPRK and Chinese delegates would share obsequious toasts about the rich history and ever-lasting friendship between the two. Whenever the press took photos, the DPRK would always be shuffled into position next to the Chinese ahead of the other Six Party members. It was all smiles and hugs. This public image, however, stands in stark contrast with the private relationship. On the one hand, DPRK distrust of the Chinese is palpable. Pyongyang detests Beijing's high-handed treatment of the North akin to that of a poor Chinese province. It must accept Chinese mining contracts because it needs the money, but it does so with deep disdain for Beijing's predatory policies aimed to suck all of the resources out of North Korea for China's consumption. On the

other, Beijing views the North as a huge albatross around its neck from the Cold War. Its bad behavior, which China is forced to acquiesce to, drags China's name through the mud and tarnishes its international reputation. The Chinese would often express their frustration to us about dealing with its stubborn neighbor. And behind closed doors at Six Party talks, one could occasionally hear the two sides shouting at one another, at which point the patrons at the Diaoyutai State Guest House would usher intrigued parties away from the embarrassing scene.

The fourth basic fact is perhaps the most significant and disappointing to many: Despite China's frustration with its poor and pathetic neighbor, it will never abandon it. There were three brief periods, arguably, when Beijing contemplated changes in their support of the DPRK. After the Korean War, China was indignant at how Kim Il-sung's folly had cost China over 900,000 lives, a war with the United States, and the loss of Taiwan. Peng Dehuai, who was commander-in-chief of Chinese forces during the Korean War, in particular wanted to have Kim's head for his mistakes. He argued forcefully for this position and might have succeeded had he not also criticized Mao's Great Leap Forward, which put him in disfavor among the Chinese leadership. The second moment was at the end of the Cold War when Beijing normalized relations with South Korea in 1992, it had to balance relations with Pyongyang against a new and economically vibrant partner in the South, creating tensions. And the third moment was after the first nuclear test in 2006. Beijing was so upset with the North's actions that it undertook some punitive measures including support of UN Security Council sanctions and other bilateral measures. But these were very brief episodes in an otherwise consistent policy of support for North Korea. This underwriting of the regime has only become more apparent after Kim Jong-il's stroke in 2008 and the accelerating of the process to hand over power eventually to his youngest son, Kim Jong-eun. In the end, this support derives less from some anachronistic communist allegiance, and more from the fact that the two are mutual hostages: North Korea needs China to survive. It hates this fact of life and resists all Chinese advice to change its ways. China needs North Korea not to collapse. It hates this fact. And as the only patron supporting the decrepit regime today, it is, ironically, powerless more than it is omnipotent because the regime's livelihood is entirely in Chinese hands. It must therefore countenance DPRK bad behavior because any punishment could destabilize the regime.

Pyongyang knows this, and deftly leverages its own vulnerability and risk-taking behavior to get sustenance, diplomatic support, and protection from its ambivalent big brother against the South Korean and American "aggressors."

Cheonan and Yeongpyeong

It is because of this mutual hostage relationship that China did nothing in response to North Korean provocations in 2010, including the Cheonan sinking, the artillery shelling of a South Korean island, and the brash announcement of its uranium enrichment program. Because China's goal is preserving at least a minimal level of stability in the North, it did not take punitive actions that might escalate the situation. Instead it made the same empty calls for dialogue and for a return to Six Party talks. Beijing took much criticism for this and the biggest cost was a compete about-face in South Korean public attitudes toward China, which only a couple of years ago was quite positive. Today, across the political spectrum self-identified political progressives and conservatives poll consistently that they have negative or somewhat negative views of China. In the wake of the shelling of Yeonpyeong Island, 91 percent of South Koreans were dissatisfied with China's reaction to the attack, and nearly 60 percent favored a strong protest, even if doing so damaged economic relations with the Chinese.[48] I do not believe Beijing was happy at all with its position. Indeed, I think Chinese were as disgusted with the North as others, but because it feels it cannot allow the situation to escalate and destabilize the delicate leadership transition, it finds itself stuck once again, cleaning up North Korea's mess.

Chinese-style reform?

[48] Unpublished survey by the ASAN Institute for Policy Studies, (27 November 2010).

China's consistent position has been the need to promote economic reform in North Korea as the primary way to address the security problem. China references its own
reform experience as a model for the DPRK, and always trumpets the list of high-tech factories that Kim Jong-il visited in his last trip as evidence that the North is on the road to reform, and that we need to engage, not sanction this effort. There are three reasons that this argument is wrong, in my view. First, the DPRK and China experiences are not comparable. Many of my friends who are China scholars in the U.S. are bullish on economic reform in the DPRK because they believe that if China could do it, surely the DPRK could as well. The main difference here, however, is that China had Deng Xiaoping – a visionary and potent leader who pushed reform.

Today, there is no Deng Xiaoping in North Korea. The second difference has to do with the leadership's values. In China, it is often said "to get rich is glorious." This phrase embodies a value that allowed the Chinese to pursue a capitalist economy in a communist polity. But in North Korea, for the leadership, retaining political power is more important than money. Finally, I do not see visits by Kim Jong-il to factories in Shanghai as evidence of a preference for reform. The attached table lists all of the factories that Kim visited dating back over a decade. Each time, Beijing claimed it was a new day in Pyongyang. And each time they were wrong.

Neojuche Revivalism

Finally, all indications are that the new leadership under Kim Jong-eun are against any major reform. Despotic regimes like North Korea cannot survive without ideology to justify their iron grip. And the ideology that accompanies Kim Jung-eun's rise appears to look backwards rather than forwards. I call it "neojuche revivalism." This constitutes a return to a conservative and hardline "juche" (self-reliance) ideology of the 1950s and 1960s – harkening back to a day when the North was doing well relative to the now richer and democratic South. Neojuche revivalism is laced with "songun" (military-first) ideology which features the North's emergence as a nuclear weapons state (Kim Jong-il's one accomplishment during his rule). This revivalist ideology leaves no room for opening because it blames the past decade of poor performance on "ideological pollution" stemming from experiments with reform.

The revolution in North Korea died long ago but the young son will be forced to cling to the core but outdated ideological principles that worked during the cold war. It is no coincidence that Kim Jong-il has frequented visits in the past two years to factory towns that used to be the center of North Korea's mass worker mobilization (Chollima) movements of the 1950s. It is no coincidence that NKEconWatch's website, which has the best Google earth imagery of the North, has reported the rebuilding of chemical and vinylon factories which were the heart of cold war-era Pyongyang's now decrepit economy.

Neojuche revivalism is untenable in the long term. Mass mobilization of workers without reform can only work with massive inputs of food, fuel, and equipment which the Chinese will be increasingly relied upon to provide. Beijing seems content to backstop its communist brethren for the time being. But heightening world food and fuel prices because of the revolutions in the Middle East may make them a bit stingier with Kim.

TABLE 1 Visits by Kim Jong-il to China, 2000 to 2011

Date of visit		Factories Toured	Location
2000	5/1/00	Zhongguancun (中關村) IT complex	Beijing
		Lenovo computer	
2001 (1/15-20)	1/17/01	Shanghai Hua Hong NEC Electronics Company Ltd (上海华虹NEC)	Shanghai
	1/18/01	Shanghai GM Motors factory (上海通用汽车) (w/ Premier Zhu Rongji)	
		Paosan (寶山) steel mill	
	1/17/01	Shanghai Bell Telephone Equipment Co. Ltd (上海贝尔股份有限公司)	
	1/19/01	Zhangjiang (長江) High tech complex	
		Shanghai Pudung (浦東) Software complex	
		Human genome research center	
		Shanghai Sunqiao Modern Agriculture Development Zone (上海孫橋現代農業開發區)	
2006 (1/10-18)	1/11/06	Chang Fei Optical Fiber & Cable (長飛光光有限公司)	Wuhan, Hubei Province
		Fiber Home (烽火通信科技股份有限公司) (communication technology)	
	1/13/06	VTRON Technologies Ltd (display, information visualization)	Guangzhou, Guangdong Province
	1/14/06	Industrial and Commercial Bank of China Software development center	Zhuhai, Guangdong Province
		Gree Electric Appliances Inc. (珠海格力电器股份有限公司) (air conditioning)	
		Eastcompeace Smart Card Co. Ltd (东信和平智能卡股份有限公司)	
	1/15/06	Huawei Technologies Co. Ltd (華爲集團) (telecommunication equipment)	Shenzhen, Guangdong Province
		Han's Laser Technology (大族激光公社)	
2010 (5)	5/3/10	Dalian Port, Shipyard	Dalian, Liaoning Province
	5/4	Dalian Development Area	

	/10	Intel factory	
2010 (8)	8/26/10	Jilin Chemical Fiber Group Co. Ltd. (吉林化纖集團)	Jilin, Jilin Province
	8/28/10	Agricultural exhibition	Changchun, Jilin Province
		Jilin Agricultural University (吉林农业大学)	
		Changchun Li Chi Motors (FAW Group) (長春第一汽卓製造廠))	
	8/29/10	Harbin Engineering University (哈爾濱工程大學)	Harbin, Heilongjiang Province
		Steam turbine factory	

Property of CSIS Korea Chair, Victor Cha

HEARING CO-CHAIR BARTHOLOMEW: Thanks.
Dr. Garver.

STATEMENT OF DR. JOHN W. GARVER, PROFESSOR GEORGIA INSTITUTE OF TECHNOLOGY, ATLANTA, GEORGIA

DR. GARVER: Thank you very much, Madam Chairman.

First of all, let me say that I'm honored to be here and thank the Commissioners for inviting me.

I've been asked to describe China's diplomatic, economic and security relations with Iran and the implications for the United States in seven minutes, and I thought that I would, acting on the principle that a picture is worth a thousand words, speak to several of the graphs that I included in my paper.

Figure 2 deals with the major foreign investment in the Iranian energy sector 1999 to 2009. This data comes from several comprehensive databases regarding foreign investment in their energy sector, and the big picture here is that until the late 2000s, European companies led the way in investment in Iran's energy sector. The bar graph on the second page of that figure, numbered Figure 3, summarizes the data, and it indicates again the Western Europe and the Canadian firms were the major investors in Iran energy through 2002. But starting in 2006 and 2007, and especially in 2009, Chinese oil majors entered the picture in a big way, and became by far Iran's major energy partner.

In 2009, there were eight major deals signed between Chinese oil majors and Iranian firms expanding China's role. From China's perspective, this is a much longed for opportunity to establish China's position upstream and downstream in a major energy-producing country, thereby building a major plank in China's energy security arrangement.

In effect, Chinese oil majors filled the vacuum as West European and East Asian firms withdrew under U.S. pressure and as international sanctions increased.

Several European firms withdraw from projects, but as important as withdrawing, they indicated they were not interested in the new offers that Iran put on the table. So, again, China walked through the door to pick up those opportunities, filling the vacuum in China's energy, in Iran's energy sector.

Figure 1 deals with high level interactions between the PRC and the Islamic Republic of Iran, 2003 to 2009. This data comes from the Annual Diplomatic Almanac issued by China's Foreign Ministry. The big picture here is that the two countries have a robust diplomatic relation. In 2003, there were five Vice Minister and above exchanges; 2004, 11; 2005, 14; 2006, 11; 2007, 17; 2008, 13; 2009, six.

This is a robust, active diplomatic interaction. The context of this, of course, is that Iran faces increasing isolation because of the sanctions that it faces from the international community. Iran *does* have other major friends in the world: Venezuela, North Korea, Syria, Hezbollah, but none of their other friends have the international stature and standing of China.

Interactions with China give Iran a major forum for the enunciation of Iran's views in the world. Iran's entry as an observer nation to the Shanghai Cooperation Organization in 2005 led to nearly annual summit meetings between President Ahmadinejad and Chinese President President Hu Jintao.

The bilateral exchange relationship also was very broad, involving exchanges by the Justice Ministry, multiple visits by the Iranian Information and Technology Minister, several exchanges/visits by the International Liaison Department of the Chinese Communist Party, which would involve relations between the ruling parties of the two countries, delegations from the Propaganda Department of the Chinese Communist Party, again, a rich, multi-level relationship. I think it's fair to say that Iran's relation with China is probably one of the most important relations that Iran has with the world.

Table 3 deals with what I call the balancing between a pro-U.S. position and a pro-Iranian position by Chinese representatives in the Security Council during the Security Council debates over the various sanctions that the Security Council handed down.

Here the central point is that China has, on the one hand, wanted to cooperate with the United States and voted “yes” for all four of the Security Council resolutions sanctioning Iran. So China has cooperated with the United States, but, at the same time, it has found opportunity to render Iran significant diplomatic support, giving support for Iran's right to the peaceful use of nuclear energy. For example, accepting Iran's professions of purely non-military use of nuclear energy, watering down the sanctions, the

different sanction proposals, delaying each tranche of sanctions by several months, and so on and so forth. Again, China has served as Iran's supporter to some degree within the Security Council.

One dimension of the Sino-Iranian military relation is outlined by Figure 4. These figures come from the Stockholm International Peace Research Institute, SIPRI, and they're probably the most even-handed and nonauthoritative database. They indicate that China, between 2002 and 2009, was the second-most important supplier of arms to the Islamic Republic of Iran, coming only after Russia. SIPRI, the SIPRI yearbooks also give some indication of the type of weapons transferred from China to Iran. A large portion of these sales were anti-ship missiles, configured for mounting on the fast-attack missile gunboats sold by China to Iran in the 1980s, also short-range anti-aircraft missiles, including anti-aircraft missiles designed by Italy apparently and shoulder-fired anti-aircraft missiles.

It's also interesting that several of the exchanges in the mid-2000s involved a military aspect. In 2004, the Deputy Director of the Commission on State Technology for--State Commission for Technology, Industry and National Defense, basically the commission with coordinates China's military-industrial sector, paid a visit to Iran. And the next year, in 2005, the commander of the Nanjing Military Region also visited Iran.

Finally, let me just conclude by saying that there's also indication that China, having gone forward so quickly and so broadly in terms of entry into Iran's energy sector in 2009, now seems to be pulling back, probably with an eye to the international reaction. A number of the deals signed in 2009 have not been implemented or have run into technical problems. There are multiple reports in the media that this was done in response to some type of directive from the center. In other words, two steps forward, one step back, go forward but then step back out of caution. Also, in terms of shifts in China's oil imports, Figure 5 is the most recent Customs data that I could find. It's significant that China's imports from Iran fell by 7.9 percent in 2010 while, imports from Saudi Arabia increased. It's also significant that imports from Iraq increased by 57 percent in 2010.

So the big picture again I think is that having moved forward so vigorously and boldly in 2009, China is pulling back a step to measure the international reaction before going forward.

HEARING CO-CHAIR BARTHOLOMEW: Wonderful. Dr. Garver, we're going to have to ask you to conclude.

DR. GARVER: Yes. Thank you very much.

[The written statement follows:]

PREPARED STATEMENT OF DR. JOHN W. GARVER, PROFESSOR GEORGIA INSTITUTE OF TECHNOLOGY, ATLANTA, GEORGIA

Several Clusters of Chinese Policies

The complex of Chinese activities in Iran since early 2003 when the Iran nuclear issue intensified, can be disaggregated into six major policies. These are:

1. Cooperate with the United States on the Iran nuclear issue to the extent necessary to convince the U.S. that China is not a peer competitor or a strategic rival, but is a responsible stake-holder and strategic partner.

2. Support the Islamic Republic of Iran (IRI) diplomatically and politically against U.S.-led international pressure over the Iran nuclear issue. Help the IRI win time to push forward with its nuclear programs.

3. Expand economic cooperation with the IRI especially cooperation in the energy sector, and guard this cooperation against infringement by sanctions arising over the Iran nuclear issue.

4. Allow the flow of a wide array of sensitive dual use technologies to Iran to continue, rejecting U.S. and other countries "national," extra-Security Council restrictions.

5. Cooperate with Iran to strengthen its military capabilities.
6. Use China's good offices to mediate U.S.-IRI conflict seeking a compromise over the Iran nuclear issue.

China is attempting to balance important but partially conflicting interests with the United States and the IRI.[49] The activities constituting these six policies are, in fact, part of a complex negotiation between Beijing, Washington, and Tehran, and disaggregation into six distinct polities is artificial --- but analytically useful.

Several of China's Iran policies contradict one another. One cluster of policies embodies cooperation with the United States. Another cluster of policies entails opposition to the United States over the Iran nuclear question. Voting for Security Council sanctions in support of clear demands on Iran to cease enrichment and reprocessing does not mesh with expanding investment in Iran's energy sector as the oil firms of other nations exit that sector. Proclaiming support for upholding the NPT does not mesh with blocking hard-biting economic sanctions against an Iran that the IAEA has determined is in violation of its NPT obligations. Cooperating with the U.S. to pass repeated Security Council resolutions does not fit with sustained efforts to water down and delay passage of those resolutions. Helping Iran hone its military capabilities against U.S. threats does not fit with a policy of seeking strategic partnership with the United States. Most of all, attempting to mediate U.S.-IRI conflict does not square with Beijing's refusal to use China's considerable economic and political leverage with Tehran to press it to confirm to the international community that it is not seeking nuclear weapons. This paper examines the contradictions between China's support for U.S. sanctions on the one hand, and between China's support for Iran against U.S. sanctions on the other, and explores two plausible explanations of that discrepancy, bureaucratic politics or strategic deception.

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[49] I use this "balancing" model to explain Iran-China-U.S. relations in Moving (Slightly) Closer to Iran; China's Shifting Calculus for Managing Its 'Persian gulf Dilemma', John Garver, Flynt Leverett, and Hillary Mann Leverett, Asia-Pacific Policy Papers Series, Edwin Reischauer Center, Nitze School of Advanced International Studies, John Hopkins University, October 2009. (Monograph, 56 pages.)
http://www.sais-jhu.edu/bin/y/v/moving_slightly-closer.pdf

It is tempting to conclude that Beijing is following a secret and long term strategy of convincing Washington that China is a partner on Iran, while simultaneously conniving at U.S. defeat in the form of a nuclear armed Iran that will substantially diminish the U.S. ability to dominate the Persian Gulf region. Iran would thus be grateful to China for its assistance in foiling U.S. efforts to deny Iran nuclear weapons, while Washington would be grateful for China's cooperation in trying to prevent that outcome.

While embrace of such a strategy of deception probably does characterize the thinking of some sectors of China's foreign policy elite, especially the People's Liberation Army (PLA), bureaucratic politics offers a simpler explanation that fits well with what we know of China's highly fragmented decision making process. This paper will first review China's six major Iran policies and then explore the probable bureaucratic origins of this mix of seemingly inconsistent policies.

Cooperation with the United States

Throughout the intensified post-2002 debate over Iran's nuclear programs, China declared its support for the Non Proliferation Treaty, its opposition to the spread of nuclear weapons, and its non-support for Iran's acquisition of those weapons. Chinese representatives pointed out that Iran had assured China and the international community that the IRI was not pursuing nuclear weapons. Implicit in this stance was the idea that China's ties with Iran might be adversely affected by Iranian declaration or testing of nuclear weapons.

China translated its rhetorical support for the NPT regime into support for U.S.-inspired actions in international organizations. In February 2006 China voted "yes" in the International Atomic Energy Agency (IAEA) for the "report" of the Iran nuclear issue to the United Nations Security Council. China then voted "yes" in March 2006 in support of a Security Council Presidential Statement calling on Iran to suspend uranium enrichment and plutonium reprocessing. China further voted "yes" in support of four Security Council resolutions between July 2006 and July 2010 --- threatening and then applying sanctions against the IRI for its refusal to comply with Security Council demands. China also agreed to modest increases in scope and severity of sanctions levied by successive Security Council resolutions. All of these Chinese actions were done in response to U.S. lobbying of Beijing. Beijing also urged the IRI to seriously consider Security Council proposals (along with European Union and/ or Russian, proposals) for resolving the nuclear standoff. Beijing urged Tehran to show flexibility, be ready to compromise, and earnestly seek to restore the trust of the international community that Iran's nuclear programs were of a non-military nature.

Chinese representatives apparently did not believe that many of these U.S.-inspired moves were wise or would succeed. Transfer of the issue from the IAEA to the Security Council, then the passage of Resolutions and sanctions in that body, were not conducive to the settlement of the issue via diplomatic means, Chinese representatives said. Sanctions would only make the issue more complex, increase tensions, and make compromise more difficult. And yet China went along with many U.S. proposed actions.

The major Chinese interest under-lying the policy of cooperation with the United States seems to have been ensuring a continuing favorable international macro-climate for China's economic development drive by fostering comity in the vital relation with the United States. Since the mid-1996 bilateral effort to re-normalize US-PRC relations after the confrontations of the previous seven years, Washington has stressed non-proliferation as an area where the two countries had common interests and could, thus, cooperate. One key American idea was that greater cooperation in areas of common interest would make divisive issues less dangerous. Throughout the second Clinton Administration, the George W. Bush, and the Barak Obama Administrations, U.S. officials, from the President down, repeatedly lobbied Beijing for greater cooperation on non-proliferation issues, especially North Korea and Iran where China was deemed by Washington to have considerable influence. Successive U.S. Administrations put Persian Gulf issues, including Iran, near the top of their foreign policy agendas. For Beijing to have refused to respond positively to U.S. lobbying could have done serious injury to the PRC-US relations and thus endangered the positive macro-climate for China's development effort.

Supporting the IRI against U.S. Pressure

In the debates in the IAEA and Security Council, China gave Iran considerable support. It supported Iran's claim to a "right" to the "peaceful use of nuclear energy," playing a role, along with Europe, in the U.S. acceptance of this "right." Beijing was willing to accept at face value Tehran's professions of non-military intentions behind its nuclear programs, and rejected use of intelligence casting doubt on those professions but collected by "national" (i.e. mostly U.S. or Israeli) means rather than by IAEA inspectors. Beijing rejected any threat of use of force, let alone actual use, and condemned U.S. insinuations of possible use of military force (e.g., "all options are on the table"). Beijing secured deletion of what it deemed to be harsh language from various Security Council resolutions --- insisting, for example, on the use of "report" rather than "referral" to describe IAEA transmission of the Iran nuclear case to the Security Council. "Referral," Beijing said, implied that the Iran nuclear issue was a threat to international peace and security, which hinted at possible use of force, and was thus, unacceptable.

Beijing also delayed international efforts to pressure or sanction Iran. Chinese actions at the beginning and regarding the most recent international moves to sanction the IRI illustrate this well. In November 2003 the IAEA determined that Iran had violated its obligations under the NPT to report nuclear activities. IAEA rules required rapid report of such findings to the Security Council, and the United States began pushing for such report. It occurred only in February 2006, after a delay of twenty-six months. China was not the only country responsible for this delay; but it was one. Similar delay occurred with each of the Security Council resolutions. With the most recent Resolution, 1929 adopted by the Security Council in June 2010, for example, in mid December 2009 the Obama Administration began pushing for a fourth round of Security Council sanctions after concluding that Tehran would not respond adequately to Washington's overtures over the previous ten months. China did not agree to begin discussing this matter until the end of March 2010, about three and a half months after the U.S. proposal. It then took another nine weeks to reach agreement on what became Resolution 1929. China's lethargic approach helped delay Security Council action by several perhaps six months. All together Beijing's delaying tactics probably gained several years of time for Tehran. This occurred in a situation in which Washington was urging that time was running out for a peaceful settlement and as Tehran pushed forward vigorously with its nuclear efforts.

Beijing also worked to weaken sanctions embedded in Security Council resolutions. During the negotiations over what became Resolution 1747 in March 2007, China resisted restrictions on governmental loan guarantees for firms doing business in Iran. The U.S. strongly supported such measures.[50] Resolution 1747 contained no such provision, calling, rather, for states not to grant "financial assistance and concessional loans" to the *government* of Iran.[51] (Emphasis added.) Beijing insisted that sanctions target only individuals and entities verifiably and directly linked to Iran's nuclear programs. It sought to limit the number of Iranian individuals and entities targeted. It sought to make sanctions voluntary rather than mandatory. Most importantly, Beijing sought to ensure that sanctions would not interfere with normal commercial transactions, trade, investment, and economic cooperation, especially in the energy sector that produced most of Iran's foreign currency revenues.

Beijing also supported the IRI by continuing robust, high level, and multi-dimensional interactions during a period when the IRI was becoming increasingly ostracized by the United States and its Western allies. According to China's annual diplomatic almanac, there were six high level Chinese and Iranian official exchanges in 2003, eleven in 204, fourteen in 2005, ten in 2006, seventeen in 2007, twelve in 2008, and ten in 2009.[52] Figure 1 outlines the high-level interactions between the PRC and the IRI between 2003 and 2009. The breadth of these high-level exchanges is also notable: transportation, agriculture, environmental protection, ship building, training of diplomats, information technology, labor and social security, internal security, and military industry. The nuclear

[50] "Key nations split over Iran sanctions," China Daily, 12 March 2007. World News Connection, http://wnc.dialog.com. Hereafter cited as WNC.
[51] Resolution 1747 (2007). United Nations Security Council. S/RES/1747(2007).

issue was a frequent topic of discussion during these interactions, with China's position paralleling its stands in U.N. debates.

Figure 1: High Level PRC-IRI Interactions, 2003-2009 (vice minister and above)		
	PRC to IRI	IRI to PRC
2003	deputy head of legislature	foreign minister; twice, Aug. & Nov.
	vice minister of commerce	transportion minister
		Commander Internal Security Forces
2004	Foreign minister	vice president accompanied by oil minister
	Director CCP International Liaison Dept.	vice foreign minister for Asia & Pacific
	Deputy director COSTIND	vice minister of economics
	vice minister agriculture	vice minister for legal and international affairs
	vice minister of commerce	vice minister for policy research
	vice foreign minister	
2005	Presidents meet & talk at SCO summit	Presidents meet & talk at SCO summit
	Premier meets w/ IRI 1st vice President at SCO	1st vice President meets w/ Premier at SCO
	Foreign minister	minister of labor and social affairs
	Commander Nanjing Military Region	minister of Information Technology
	Director CCP International Liaison Dept.	minister of international cooperation
	vice minister labor and social security	vice foreign minister for economics
	deputy director environmental protection agency	vice foreign minister for international affairs
2006	Presidents meet / talk at SCO summit	Presidents meet / talk at SCO summit
	Premier meets 1st vice president at SCO meet	1st vice president meets Premier at SCO meet
	deputy head legislature	Secretary Supreme National Security Comm.
	vice foreign minister	vice foreign minister for Asia and Pacific
	Foreign ministers exchange many phone calls	vice foreign minister for legal and international
		vice foreign minister for education & research
2007	Presidents meet / talk at SCO summit	Presidents meet / talk at SCO summit
	Premier meets 1st vice president at SCO meet	1st vice president meets Premier at SCO meet
	Foreign minister	Special Presidential Envoy and Nat Sec. advisor
	deputy head legislature foreign affairs committee	vice foreign minister for international affairs
	vice minister of commerce	vice foreign minister for Asia & Pacific
	vice director CCP International Laison Dept.	Minister of Interior and special government rep.
		Foreign minister phones PRC foreign minister
		minister of public heaqlth
		minister of information technology
		vice minister of energy
		deputy head legislature education committee
2008	Premier meets w/ Premier at SOC summit	President to PRC; talks w/ Hu Jintao
	Head CCP Propaganda Dept.	Vice-president to PRC for Olympics ceremony
	Vice head Consultative Assembly	Presidential Envoy and National Security Advisor
	2 vice foreign ministers visit separately	Commerce minister
	vice minister of Justice	2 vice foreign ministers visit separately
	vice minister of Culture	Chair, Organization of Islamic and Cultural Affairs
	Foreign ministers talk frequently via telephone	
2009	Presidents meet at SCO summit in Russia	First vice President to China; talks w/ Wen Jiabao
	PRC Special ME envoy represents MFA	First vice President to China; talks w/ Wen Jiabao
	Assistant Foreign Minister for 8th political talks	8th meeting of SCO Heads of Government
Source: Zhongguo waijiao (China's diplomacy), annual volumes. Beijing: Shijie zhishi chubanshe.		

IRI admission as an Observer to the Shanghai Cooperation Organization (SCO) in June 2005 was another manifestation of Chinese support. Iran's SCO role thereafter gave President Mahmoud Ahmadinejad a stage he

used nearly every year to propound Iran's views. In June 2006 Ahmadinejad attended the SCO summit in Shanghai were he held talks with Presidents Hu Jintao and Russian's Vladimir Putin, addressed the conference and called for transforming the SCO into a strong anti-U.S. organization, and held a press conference. In 2008 Ahmadinejad attended the SCO summit in Kyrgyzstan and again held talks with Presidents Hu and Putin. Also in 2008 Ahmadinejad attended the Beijing Olympic Games and again held discussions with Hu Jintao. In 2009 Ahmadinejad again meet Hu Jintao at a SCO summit, this time in Russia. Hu proposed and Ahmadinejad "fully agreed with," a four-point proposal for expanded cooperation and exchanges. Two different Iranian first vice presidents visited China, one in April and another in October. China's special envoy for the Middle East Wu Sike visited Iran in August, while in November the Assistant Foreign Ministers held the eighth round of political consultations. The IRI had other friends around the world --- Venezuela, Syria, North Korea, Hezbollah in Lebanon. But none of those friends had the status and influence of China. Beijing, for its part, made clear its desire for deep and varied partnership with the IRI, and its determination that the Sino-Iran relation would continue to develop in spite of U.S. unhappiness.

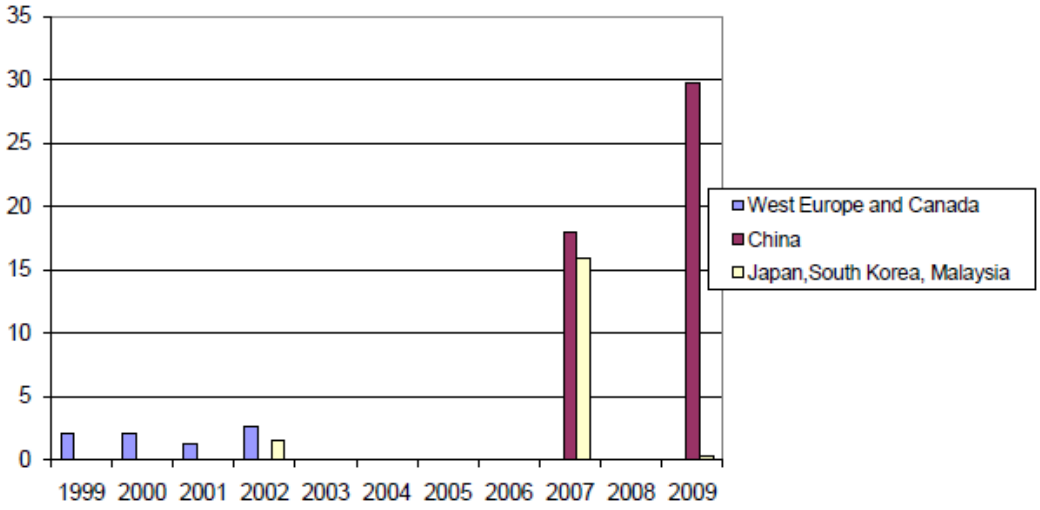
Expanding Economic Cooperation: China Fills the Vacuum Created by U.S. Pressure

As the confrontation over Iran's nuclear programs escalated during the 2000s, and as U.S. sanctions targeting firms that invested in Iran's energy sector became steadily sterner, European and Asian companies --- other than Chinese ones --- became hesitant. As illustrated by Figures 2 and 3, Chinese energy firms seized the opportunity. Figure 2 indicates that during 2009 Chinese firms entered into eight new energy deals, many of which had been abandoned by Western firms under fear of U.S. sanctions. Table 3 summarizes in bar-graph form the data from Figure 2. Together the two Figures show clearly that by 2009 China had become Iran's major energy partner. In July of that year, Iran's deputy oil minister put Chinese participation in Iranian oil at US$48-50 billion, with 35-40 percent of that involving contracts signed and under execution.[53]

[53] "Deputy –minister on Planned Chinese Investments in Iran Oil Sector," Jomhuri-ye Eslami Online, 30 July 2009. WNC.

Figure 2: Major Foreign Investment in Iranian Energy Sector, 1999-2009						
Date	field	Companies	Countries	Value		
Feb. 1999	Doroud (oil)	Total, ENI	France, Italy	$1 billion		
Apr. 1999	Balal (oil)	Total, Bow Valley, ENI	France, Canada, & Italy	$300 million		
Nov. 1999	Soroush and Nowruz (oil)	Shell	Dutch	$800 million		
Apr. 2000	Anaran (oil)	Norsk Hydro	Norway	$137 million		
Jul. 2000	S. Pars (gas), phase 4, 5	ENI	Italy	$1.9 billion		
Mar. 2001	Caspian Sea	GVA Consultants	Sweden	$225 million		
2001	19 oil wells	CNPC	China	$85 million		
Jun. 2001	Darkhovin (oil)	ENI	Italy	$1 billion		
May. 2002	Masjid-i-soleyman (oil)	Sheer Energy	Canada	$80 million		
Sep. 2002	S. Pars (gas), phase 9, 10	LG	South Korea	$1.6 billion		
Oct. 2002	S. Pars, phase 6, 7, 8	Statoil	Norway	$2.65 billion		
Feb. 2004	Azadegan	Inpex	Japan	later reduce share to 10%		
May. 2004	Masjid-i-soleyman Zagros Mts.	CNPC (75% share) other PRC firm = 25%	China	???		
June. 2006	Gamsar block (oil)	Sinopec	China	$50 million		
May. 2007	N. Pars	CNOOC (MOU only)	China	$16 billion		
Dec. 2007	Yadavaran (oil)	Sinopec (51% share) contract; MOU in 2004	China	$2 billion		
Dec. 2007	Golshah and Ferdown	SKS (MOU)	Malaysia	$16 billion		
Jan. 2009	N. Azadegan	CNPC	China	$5.76 billion		
Mar. 2009	S. Pars	CNPC Total & Shell decline	China	$3.4 billion		
Mar. 2009	S. Pars, Phase 12	Hua Fu Energy Co.	China	$3.2 billion		
Jun. 2009	S. Pars	CNPC, Petronas	China, Malaysia	$5 billion		
Jun. 2009	Resalat	Amona, CNOOC	Malaysia, China	$1.4 billion		
Jun. 2009	refinery modernization	Sinopec	China	$6.5 billion		
Jul. 2009	supply drilling rigs	ZMPC	China	$2.20		
Aug. 2009	S. Azadegan	CNPC, Inpex	China, Japan Japan = 10%	$2.5 billion		
Sources:	"The Iran Sanctions Act," CRS Report for Congress, RS20871, Kenneth Katzman, 12 12 October 2007. Global Business in Iran Database, Iran Tracker, American Enterprise Institute, http:// www.irantrackeer.org					

Figure 3: Investment in IRI Oil and Gas, 1999-2009



The premise for China's "filling the vacuum" in Iran's energy sector was China's relative policy independence from the United States. Beijing was less willing than the European countries and Japan to follow U.S. policy advice on Iran or to bow before U.S. unilateral actions penalizing non-U.S. firms for involvement in Iran's energy sector. Beijing's greater independence from Washington served China's interest in penetrating Iran's energy sector. China's support for Iran over the nuclear issue and against U.S. pressure also inclined Tehran to see China as a relatively reliable and like-minded partner.

Western governments were targeting Iranian gasoline imports by 2010, and China was stepping in to help Iran off-set that Western pressure. By early 2010 Chinese companies were supplying one third of Iran's imported gasoline.[54]

In sum, despite the relative technological backwardness of China's petroleum technology, within a very few years China was able to seize the opportunity presented by the withdrawal of Western and Japanese oil firms from Iran, persuade economic nationalist Iranian officials to grant commercially attractive terms to Chinese firms, and establish Chinese majors in a leading position in a country with vast, unexploited energy resources. Of course, the flight of European and East Asian oil majors from Iranian projects left Iran with few choices other than Chinese firms.

But no sooner had Chinese firms filled the vacuum in Iran's energy sector in 2009, than they began hesitating about moving forward with their various deals --- many of which were only MOUs. CNOOC cancelled just before the signing of a contract the $16 billion deal initialed in May 2007. CNPC reportedly halted in mid-2010 work on the South Azadegan project agreed to only the previous August. CNPC also delayed drilling at the South Pars gas field agreed to in March 2009. These moves were in line with a mid-2010 instruction from China's government to slow down implementation of the recently concluded deals in Iran.[55]

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[54] "China Takes Over From West as Iran's Main Economic Partner," AFP, 15 March 2010. WNC.

[55] Chen Aizhu, "China slows Iran oil work as U.S. energy ties warm," Iran Focus, 28 October 2010. http://www.iranfocus.com. Justin Lin, "Chinese investment in Iran: one step forward and two steps backward," East Asia Forum, 3 November 2010. http://www.eastasiaforum.org

Shifts in China's oil imports during 2008-2010, outlined in Figure 4 also suggest China has slowed the growth of energy cooperation with Iran over the past year. In 2008 and 2009, Iran supplied 11.9 percent and 11.3 percent respectively of China's total crude imports. In 2010 a 7.9 percent fall in imports from Iran reduced Iran's share of total imports to 8.9 percent. Equally interesting was a growth in Chinese crude imports from countries friendly to the United States. In 2009 and 2010 Chinese imports from Saudi Arabia grew twice as fast as imports from Iran. Oman's sales leaped by 35.2 percent in 2010, while Iraq's grew by 56.9 percent. It is possible that China's diversification of oil imports away from Iran is governed by growing risk of disruption by war or sanctions. But it is also possible, and likely in this analyst's judgment, that China's go-slow and pull-back approach to energy cooperation with Iran was apparently related to Sino-U.S. bargaining.

Figure 4: China's top Oil Suppliers, 2008-2010 (millions of tons)

	2008	% of total	2009	% of total	% increase	2010	% of total	% increase
Saudi Arabia	36.37	20.3	41.86	20.5	15.1	44.64	18.7	7
Angola	29.9	16.7	32.17	15.8	7.6	39.38	16.5	22.4
Iran	***21.32***	***11.9***	***23.15***	***11.3***	***8.6***	***21.32***	***8.9***	***-7.9***
Oman	14.58	8.1	11.74	5.8	-19.5	15.87	6.6	35.2
Russia	14.23	7.9	15.3	7.5	31.5	15.25	6.4	-0.4
Sudan	11.5	6.4	12.19	6.0	16.11	12.6	5.3	3.4
Iraq	6.92	3.9	7.16	3.5	285.08	11.24	4.7	56.9
Kazakhstan	5.84	3.3	6.01	2.9	5.92	10.05	4.2	67.4
total crude imports	179		**204**		13.9	**240**		17.5

Source: Chinese customs service data online. http://www.customs.gov.cn

Three factors tied to the United States were in play. First, the United States was implementing more comprehensive and stringent sanctions on non-U.S. firms dealing with Iran, combined with the fact that Chinese oil firms had subsidiaries listed on U.S. stock exchanges and otherwise vulnerable under new U.S. law. Second, negotiations between Beijing and Washington over Iran were underway, with Washington apparently proposing increased Chinese access to U.S. and U.S.-allied energy markets in exchange for China's drawback from Iranian energy projects.[56] Third, having advanced boldly to become Iran's major energy partner in 2009, Beijing felt it prudent to go slow for a while to palliate Washington's reaction.

Tehran was reportedly furious with the lethargy of China's oil majors. Oil Minister Masoud Mirkazemi and the director of the National Iranian Oil company traveled to Beijing in August 2010 to secure more vigorous implementation. Vice premier Li Keqiang promised Iran's representatives that China would carry through on the projects it had agreed to [57]

Continung Flow of Sensitive, Dual-Use Technologies

Between 2002 and 2009, nearly forty Chinese entities were sanctioned seventy-four times by the United States under *U.S.* legislation and Executive Orders. The annual incidence of these U.S. sanctions is shown in Figure 5. Many of these Chinese entities were large, politically well connected state-owned enterprises. Interestingly,

[56] Aizhu, op. cit. Justin Lin, op. cit.
[57] "China, Iran pledge to carry out cooperation projects," Xinhua, 6 august 2010. WNC.

however, none of China's oil majors were among the Chinese firms sanctioned, [58] in spite of those firms vigorous entry into Iran's energy sector in the late 2000s, and in spite of the apparent applicability of U.S. sanction laws to those firm's investment in Iran's energy sector. In discussions with Senate foreign relations staffer Frank Januzzi in March 2008, the Director General of China's Ministry of Foreign Affairs (MFA) Arms control Department, Cheng Jingye, said that China's energy cooperation with Iran was unrelated to the Iran nuclear issue. Beijing had made clear to the United States China's need for energy resources, Cheng said, and that China's cooperation with Iran on energy had nothing to do with the Iran nuclear issue. The U.S. Congress needed to understand this point, Cheng said. Specifically, the threat of sanctions against Sinopec was a very serious issue, Cheng emphasized. Sinopec is very important to China, Cheng said, and he "can't imagine" the consequences if the company was sanctioned by the United States.[59] Beijing was willing to tolerate U.S. sanctions against Chinese equipment and technology suppliers, but not against China's oil majors. Beijing apparently succeeded in deterring U.S. sanctions against its oil firms.

Figure 5: Chinese Entities Sanctioned by the United States, 2002-2009

year	# entities sanctioned
2002	20
2003	8
2004	17
2005	13
2006	4
2007	6
2008	3
2009	3
total	74

Source: Mark Dubowitz, Laura Grossman, Iran's Chinese Energy Partners; Companies Eligible for Investigation Under U.S. Sanctions Law, September 2010, Foundation for Defense of Democracy. http://www.defenddemocracy.org

One can infer two Chinese decisions here. One: not to comply with U.S. lobbying for Chinese compliance with U.S. legislation and instead allow Chinese firms to continue normal commerce with Iran, even while those firms encountered occasional U.S. sanctions if and when their commercial transactions came to U.S. attention. Two: to draw the line at Chinese investments in Iran's energy sector and threaten that U.S. sanctions in that area would cause serious damage to PRC-U.S. relations.

From Beijing's perspective, "unilateral," "national" decisions cannot bind third parties; the United States cannot regulate China-Iran relations. To argue otherwise, as the United States did, was a manifestation of arrogant, hegemonist mentality. The application of U.S. law beyond the sovereign territory of the United States to the territory and nationals of other countries is a modern day variant of the extra-territoriality that humiliated China in the hundred years after the Opium War. As a sovereign state, China alone has the rightful power to regulate its ties with other countries. U.S. law and Executive Orders do not over-ride China's sovereignty. If China's government agrees to regulate China's ties with Iran, perhaps via agreement to Security Council resolutions or via bilateral agreements with the U.S. government, China will scrupulously abide by those regulations and

[58] The study by Dubowitz and Grossman sourced in Figure 5 identifies the specific Chinese firms targeted.
[59] Beijing embassy to State Department, 08BEIJING1141, 26 March 2008. Wikileak documents. http://cablegate.wikileaks.org/tag/CH-0.html

restrictions. In lieu of agreement voluntarily assumed by China's government, China's ties with Iran are unfettered. This is Beijing's general view of the situation.

Stress on China's sovereignty dovetailed with recognition of energy imports as a potential bottleneck for China's development. Cramping China's machinery and technology exports would not fundamentally threaten endanger China's continued growth. China's exports to the IRI are a tiny percentage of China's global exports. Not so, China's imports of IRI oil. Undermining China's efforts to secure the imported energy it needed might well hobble China's continued development.

Beijing probably lobbied hard in Washington over this point and the pattern of non-sanctioning of Chinese oil majors suggests an understanding has been reached in this regard.

Strengthening Iran's Military Capabilities

Throughout the 2000s, in a situation in which both Beijing and Tehran believed Iran faced increasing threat from the United States, China assisted IRI efforts to improve its military capabilities. According to the Arms Transfer Database of the Stockholm International Peace Research Institute (SIPRI) presented in Figure 6, China supplied US$ 664 worth of arms to Iran during 2002-2009, ranking only behind Russia in this regard. Iran was the second ranking recipient of Chinese munitions during the 2005-2009 period, behind only Pakistan.[60]

Figure 6: International Supply of Arms to Iran (US$ millions)
(top 3 suppliers)

	2002	2003	2004	2005	2006	2007	2008	2009	Total
Russia	95	86	14	14	389	267	14	14	893
China	111	88	90	63	81	77	77	77	664
North Korea	116	114	27	0	0	0	0	0	257

Source: Arms Transfer Database, Stockholm International Peace Research Project. http://www.sipri.org

According to SIPRI, China's munitions sales to Iran during the 2002-2009 period centered on anti-ship and anti-aircraft missiles. These included hundreds of anti-ship missiles for Fast Attack Craft supplied by China in the 1990s, helicopter launched anti-ship missiles copied from an Italian design, and over a thousand portable surface-to-air missiles.[61] Many of these weapons were specifically developed by the former Soviet Union, Russia, and/or China to deal with U.S. air and naval forces.[62]

In 2004 the deputy director of China's Committee on Science, Technology, and Industry for National Defense (COSTIND), Zhang Wenmu, visited Iran. COSTIND is the heart of China's military-industrial complex and oversees China's military modernization drive. In August 2005 the commander of China's Nanjing Military Region, Lieutenant General Zhu Wenquan visited Iran for talks with the chief of joint staffs of the Iranian military. The IRI pushed during that visit for the establishment of a joint technical committed to expand bilateral cooperation in the realm of military training and research.[63] The Chinese response to this Iranian proposal was equivocal; General Zhu merely "welcomed" the Iranian proposal.

[60] "Trend Indicator Value of arms exports from China, 2005-2009." http://www.sipri.org
[61] 'Transfer of Major Conventional Weapons, Sorted by supplier, China to Iran, 1995-2009." SIPRI.
[62] Richard Fisher, Jr., "China's Alliance with Iran Grows contrary to U.S. Hopes," International Assessment and Strategy Center, 20 May 2006. http://www.strategycenter.net
[63] "Iranian, Chinese Military Officials Hold More Talks," and "Iranian, Chinese Armed Forces to Form Joint Technical Commission," both Mehr News Agency, 20 August 2005. WNC.

Other more innocuous appearing mechanisms existed for sensitive Sino-Iranian cooperation in missile development. In October 2005 Iran joined the China-led Asia Pacific Space Cooperation Organization (APSCO) designed to facilitate cooperation in space and satellite technologies.[64] Within APSCO China assisted Iran develop ballistic missiles capable of launching satellites.[65] Reports by the U.S. intelligence community stated that there had been continuous assistance by "Chinese entities" to Iran's ballistic missile programs.[66]

From Beijing's perspective, cooperation in the military area is part of normal state-to-state relations which is unobjectionable. Still, the fact remains that China continued to serve as Iran's second ranking arms supplier as tension over the Iranian nuclear issued mounted and as U.S. officials periodically stated that "all options remained on the table," a euphemism for a possible military strike if Iran refused to come to terms.

The first movement of actual military forces within the IRI-PRC relationship came in October 2010 when Iran opened its air space and allowed four Chinese Su-27 and MiG-29 combat aircraft to land and refuel at Iranian bases on their way to and from Turkey for joint exercises with the Turkish air force. This was the first time the IRI had allowed foreign warplanes to refuel at Iranian air bases.[67]

China's Effort to Mediate Iran-U.S. Conflict

Beijing's policy of watering down and delaying U.S. proposed Security Council sanctions generated suspicions in the U.S. that Beijing was conniving to ensure that those sanctions failed. China's Iran policies suggested to some Americans that Chinas was, after all, a peer competitor. Nor was Iran happy with China's balancing approach. In June 2010, shortly after China supported Security Council Resolution 1929, President Ahmadinejad visited Beijing in association with the Shanghai World Expo. Shortly before Ahmadinejad's arrival in Beijing, the head of Iran's nuclear program, Ali Akbar Salehi, slammed China's weak support at the United Nations. Speaking to the Iranian media, Salehi said: "There was a time when China branded the U.S. as a paper tiger. I wonder what we can call China for agreeing to this resolution." Beijing had "double standards," supporting North Korea even though it has abandoned the NPT, while sanctioning Iran even though it adheres to the NPT.[68]

China's balancing approach satisfied neither Washington nor Tehran, and was injuring China's relations with both. This reality seems to be the origin of Beijing's 2009 attempt to mediate the U.S.-IRI conflict. A solution to the dual erosion of Sino-Iranian and Sino-American trust via an attempt to mediate U.S.-IRI relations was offered in a 2006 article in China International Studies, a journal of the MFA's think tank, by China's ex-ambassador and long-time Iran hand Hua Liming. In that article Ambassador Hua argued:

> Since the major difficulty in resolving the Iran nuclear issue lies in the antagonism between the United States and Iran and the only way for its resolution is to conduct direct talks between the two countries, then why cannot China act as a mediator between them? … as the United States and Iran distrust each other due to long estrangement and accumulated rancor, there must be an influential big country to mediate and shuttle between them and put forward plans for settlement for them to bargain on. China can and should play this role.[69]

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[64] Richard Fisher, "China's Alliance," op cit.
[65] "Aerospace official Says Iran Building Satellite-Carrying Missiles," Iranian Student News Agency, 15 March 2005. WNC.
[66] Ibid.
[67] "Chinese warplanes refueled in Iran enroute to NATO exercise in Turkey," World Tribune TV, 12 October 2010. http://www.worldtribute.com
[68] "Ahmadinejad starts China trip," AFP, 11 June 2010. Lexis Nexis.
[69] Hua Liming, "The Iran Nuclear Issue and China's Diplomatic choice," China International Studies, Winter 2006, no. 5, p. p. 92-103.

Ambassador Hua gave several reasons why a mediation effort would serve China's interest. It would strengthen China's reputation as a responsible great power. It would have a positive impact on Sino-US relations. Iran too would be grateful for China's help in extricating it from growing isolation and pressure, while preserving and gaining international legitimacy for Iran's purely non-military nuclear energy programs. Thus, China would consolidate its important ties with both Iran and the United States.

The tone of Chinese communications with Tehran and Washington during 2006-2007 suggests that China's was urging both sides to moderate their respective demands and compromise. More conclusive evidence that China's MFA used its good offices to mediate Iran-U.S. ties came from documents in the 2010 collection of documents divulged by Wikileaks. These documents make clear that during 2009, Barak Obama's first year as President, when Obama reached out to Tehran in overtures he hoped would lead to a redefinition of US-Iran relations, China actively attempted to mediate U.S.-IRI conflict. In March 2009 the Deputy Director of the MFA's West Asian Department's Iran Division, Xu Wei, told a political officer of the U.S. embassy in Beijing that China was willing to facilitate dialogue between the U.S. and the Islamic Republic of Iran.[70] China valued its bilateral relations with Iran, Xu said, but Iran should not take for granted its economic relations with China. China had urged Iran to respond positively to U.S. overtures, Xu said, but the U.S. should expect the initial rounds of direct talks with Iran to be difficult.

In September 2009 Vice Foreign Minister He Yafei gave advice to Deputy Secretary of State James Steinberg on how to handle talks with Iran. The U.S. should not reject Iranian attempts to broaden conversation. Nor should the U.S. create the impression that talks were not making progress, He urged. The crux of the issue, according to He Yafei, were clear benchmarks, monitoring, and supervision to ensure that Iran's nuclear programs did not target nuclear weapons. Meanwhile, Vice Foreign Minister He hoped that domestic pressure in the U.S. would not force the U.S. to seek a new Security Council resolution.[71] Beijing also lobbied Tehran. On the sidelines of a Shanghai Cooperative Organization meeting in Beiing in October, Premier Wen Jiabao urged Iran's first vice president Mohammad Reza Rahimi to move forward with direct talks with the United States and offered PRC support to do so. (Emphasis added.) Wen reiterated that Iran had a right to peaceful nuclear technology, but stressed China's opposition to Iranian development of nuclear weapons. In conveying this information to a political officer of the U.S. embassy in Beijing, Deputy Director of the MFA's Iran Desk, Ni Ruchi, stressed that there was an influential constituency within Iran that advocated flexibility on the nuclear issue, but that the IRI government would need any negotiations to deliver benefits to Iran given the strength of the conservative camp.[72]

China's 2009 mediation effort indicates that Beijing is not inextricably wedded to the balancing approach to reconciling its conflicting interests with Iran and the United States. Rather, it is experimenting to find a path that better serves China's multiple interests. An active approach that seeks to use China's influence to reconcile Tehran and Washington is one that recognizes the impact of China's growing status in the world and manifests a desire to use that growing influence to make peace --- even between the United States and its adversaries.

Strategic Deception or Bureaucratic Politics?

There are two plausible explanations of the contradictory jumble of Chinese policies toward Iran: strategic deception and/or bureaucratic politics. With the first explanation, China would support U.S. efforts to prevent Iranian acquisition of nuclear weapons to the extent necessary to convince Washington that China is a

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[70] Beijing embassy to State Department, 4 March 2009. 09BEIJING560. Wikileaks. http://cablegate.wikileaks.org/tag/CH_0html

[71] Deputy Secretary Steinberg's Meeting with Vice Foreign Minister He Yafei, 29 September 2009. Wikileaks..

[72] Beijing embassy to State Department, 22 October 2009. 09BEIJING2932. Wikileaks.

responsible strategic partner. Simultaneously, however, China would work to ensure the failure of U.S. efforts and increase the likelihood of Iranian success. From this perspective, China's over-riding objective is to maintain the favorable macro-climate for China's development drive by maintaining U.S.-PRC comity, and Beijing will do whatever necessary to guarantee continuing comity. But, from this perspective, Beijing also recognizes that a strong anti-U.S. Iran is and will be a significant obstacle to realization of U.S. dreams of global hegemony, and China should do what it can, quietly and stealthily, to defeat U.S. efforts to subordinate Iran.[73]

The bureaucratic politics perspective sees the various clusters of China's Iran policies as reflecting the perspectives and interests of influential Chinese organizations, specifically the Ministry of Foreign Affairs, the PLA, state-owned oil firms such as CNPC, Sinopec, and CNOOC, and Chinese firms producing high-tech dual use goods ---- firms often closely linked to the PLA, and. Academic research centers may also play a role, although not equal to the heavy-weights like the PLA, the MFA, and oil firms. The policy preferences and prescriptions advanced by these organizations would then be mediated by a handful of China's top leaders, probably several members of the Standing committee of the Politburo whose major concerns have to do with building domestic support by satisfying as many organizations as possible.

Let me be frank. I do not know which explanation is most true. Confident judgment in this regard would require access to information about China's most sensitive decision making processes. But it seems to me that, ceteris paribus, the most simple explanation is best. That points toward the bureaucratic politics explanation. This explanation also fits well with what we know of China's highly fragmented policy process.

China's formal, all inclusive "policy" toward Iran (and most other countries, for that matter) is to expand friendly cooperative relations in various fields on the basis of common interest, mutual respect, trust, and understanding. China's cooperation with various countries does not threaten any third country, is not linked to any other issue, or under the control of any third country no matter how powerful. Within this very broad "principled" framework, various powerful Chinese organizations pursue their own objectives.

A "bureaucratic politics" explanation of China's Iran policies, *based solely on informed speculation*, looks something like this. The MFA is the immediate recipient of U.S. solicitations of increased cooperation. It also has first hand exposure to U.S. Congressional views and anger, and has greater understanding of the role of the legislative branch in the U.S. policy process. The MFA, having a deeper understanding of the United States, is less inclined to embrace sinister theories of U.S. seeking to stifle China's rise, contain or encircle it. It is also more inclined to see international regimes as viable mechanisms for regulating conflict among nations, including the PRC and the U.S. The MFA is less inclined to see the Sino-U.S. relation in terms of a hard balance of power, and inclined to place greater stress on soft power such as the positive reputation that can be gained by using China's growing influence to make peace among nations and genuinely uphold the NPT regime. The MFA is responsible for balancing competing demands from Washington and Tehran and is sensitive to both the difficulty and the political costs to both Sino-Iranian and Sino-U.S. relations of the "balancing" approach. These perspectives translate into advocacy of greater cooperation with the United States, while giving some support to Iran against U.S. pressure, and to an effort to mediate U.S.-IRI conflicts.

PLA representatives probably view MFA perspectives as idealistic and naïve. PLA leaders tend to perceive the United States as deeply hostile to China's rise as a global power beyond U.S. control. The U.S. is using all sorts of tricks to stifle China's rise: arming and ganging up with India, Japan, Australia, and Vietnam; organizing "color-revolutions" in Central Asia; preventing the unification of Taiwan; denying advanced technologies; allying the Southeast Asian countries to collectively challenge China in the South China Sea; and instigating internal dissent in China via radio, the internet, and "civil society building" programs. The way to counter these nefarious and often duplicitous U.S. schemes is to confront the U.S. with real power. A nuclear armed Iran would do this. So too would

[73] For a good overviews of Chinese peerceptions that the United States is striving to weaken and hem in China and abort its "rise," see, Ye Zicheng, Inside China's Grand Strategy, University of Kentucky Press, 2011, pgs. 93-105.

further strengthening of Iran's military capabilities. A nuclear armed Iran would thwart the U.S. drive for hegemony over the Gulf and its oil resources, would divert and tie down U.S. military strength in a region thousands of miles from China, and would offer a partner willing to tell the American's to go to hell and continue supplying China with oil in the event of a U.S.-PRC clash. The MFA mediation effort of 2009 must have seemed like incredible folly to China's military hardliners. In response to MFA charges that support for a nuclear armed Iran would injure China's reputation, the PLA prescription is probably to obfuscate and camouflage Chinese support for the IRI.

China's oil majors seek to seize the current, rare opportunity to establish themselves upstream and downstream in Iran's exceedingly rich energy sector. These oil firms understand that a degree of Chinese support for Iran in its struggles against Washington makes China an attractive energy partner for Tehran, while keeping a degree of independence from U.S. policy is a precondition for expanded Sino-Iranian energy cooperation in the face of escalating Iranian-U.S. conflict. China's oil majors also appeal to a long-standing Chinese energy security policy in which China seeks to insulate its oil-supply relations by wrapping that relation in layers of political and security cooperation. Chinese support for Iran against the U.S. thus helps insulate from political or economic shocks China's oil import relation with Iran. But China's oil majors also have major stock issue, financial, and corporate subsidiary relations in the United States which are vulnerable to U.S. legislation. They are also alert to other energy supply opportunities that are available via cooperative ties with the United States. (e.g. in Iraq, Canada, the United States, or Saudi Arabia). These interests could bring China's oil majors down somewhere between the MFA and the PLA, but also point toward camouflage and obfuscation of any Chinese support for Iran's nuclear effort.

China's top leaders, probably the paramount leader and two or so other members of the Politburo Standing Committee and perhaps foreign policy advisor Dai Bingguo, have to mediate among these competing interests and approaches. The incumbent paramount leader and his successor, whether designated (as is Xi Jinpin as of fall 2010 or undesignated (as Xi was before 2010), would seek to demonstrate to the PLA that they were tough minded enough to lead China. Softness or a seeming unwillingness to stand up to the United States could undermine vital PLA support for these top leaders. All top CCP elite participants in the policy debate would view as vital the PLA role in maintaining social stability and, ultimately, keeping the CCP in power. China's top leaders would pay close attention, and probably not reject outright, hard-security arguments about the balance of power advanced by PLA representatives. But China's top leaders would also be attentive to the dangers to the vital Sino-U.S. relation outlined by the MFA. Those arguments would carry heavy weight because collapse of comity with the United States could endanger China's development push and, thus, social stability. The gains to China's soft power qua international reputation to be had by working with the U.S., as laid out by the MFA, would also be attractive to Chinese leaders desirous of being deemed good managers of China's vital relation with the United States, in the lineage of Deng Xiaoping and Jiang Zemin.

A compromise policy of cooperation with Washington plus simultaneous support for Tehran, with a hefty amount of obfuscation on both sides of that balancing act, could well have arisen out of these bureaucratic alignments. This is, perhaps, the best explanation currently available for China's contradictory jumble of Iran policies. The PLA may indeed favor a policy of strategic deception, but the MFA and oil majors are wary of alienating Washington over Iran. The over-riding considerations of China's top leaders probably have to do as much with domestic considerations as constructing a balance of hard power in the Gulf denying the United States world hegemony. From this perspective, China's inconsistent Iran policies arises not from a central decision for strategic deception, but from a bureaucratic compromise of leaders much concerned with expanding and maintaining their domestic power base.

HEARING CO-CHAIR BARTHOLOMEW: Thanks.
Dr. Weitz.

STATEMENT OF DR. RICHARD WEITZ, DIRECTOR OF THE CENTER FOR MILITARY-POLITICAL ANALYSIS, HUDSON INSTITUTE, WASHINGTON, D.C.

DR. WEITZ: Thank you very much for having me, allowing me to contribute to your contributions about such an important topic.

It's actually very timely. President Medvedev has just arrived in China. He's now there. He's been there for about 24 hours, and so actually this is very topical, and I'm glad you're watching this.

I'm going to summarize the key points in my written testimony to you now, but there is, of course, more detail. In addition, I've written a book on the topic that you could buy on Amazon, I think, but since we're all eager for, we all appreciate your efforts to save a lot of money, you can download it for free off the Hudson Web site. So keep government spending down.

The key points I would make are the relationship definitely has improved between the two countries, and this has affected a range of economic and security issues, both internationally and regionally.

But for the most part, the relationship is still very uncoordinated. They are very aligned on sometimes their declarations, but they have different priorities, focus on different areas, and it's not been a very strong alliance.

That said, the formula they use, and President Medvedev repeated this in an interview with the Chinese television before he arrived, is "best ever," and I think that's probably true. It probably is the best relationship they've had between Moscow and Beijing under the various regimes and governments they've had in a long time.

That said, we have to be careful because that's not a very high metric. Their relationship historically has been very tense, fighting over borders, fighting over--they've definitely been very contested relationship. So saying it's best ever, well, it depends on your metric.

For the most part, the reason why I think they get along so well is they've been focusing on different things. Central Asia and North Korea are common areas of concern, but the Chinese are very much focusing on what's happening in the Asia-Pacific region, and the Russians are--that's an area of concern, but it's not their main area. They're really focused mostly on a relationship with us, a relationship with Europe, and particularly what's happening in the former Soviet Union in the North Caucasus, North and South Caucasus, and so on.

The improvements manifest themselves in many ways. They've resolved their boundary dispute. That's pretty much settled. As you know, that was actually an area where they went to war briefly or at least they fought a battle briefly in the late 1960s.

They've signed important declarations and a treaty. It's not as strong as the treaty they had during the Communist period where it was actually a mutual defense treaty. It's more a treaty that they will consult and try and harmonize their policies and agree to meet.

They share a faith in certain tenets, I would call them, state sovereignty, non-interference, anti-separatism, and these are general enough, but I think we get the idea, you know, don't worry too much about human rights, let them choose their own kind of policies, such as noninterference and separatism, terrorism, extremism sort of lumped together, anybody who's opposed to the regime's policies and could potentially use violence to disrupt them.

They share a view of the kind of world they want to see, at least in their declarations. They would like to see a multi-polar world in which the United Nations makes key decisions on use of force, and that makes sense. They both have veto. And so they don't want to see us do what we did in Kosovo or Iraq, go off and do our own mission.

I think that plays itself various ways. I think Libya, for example, they decided to abstain rather than veto because they have to worry if they start vetoing the resolutions, well, that would just encourage the countries to bypass the U.N., and they want to keep it an arena where they have a lot of control.

They've criticized American economic mismanagement and so on. They blame a lot of the problems they've been suffering on the world economy and us. It's easier than blaming themselves for some of the problems. They criticize policies the U.S. pursues in outer space and defense and so on. But it's not, it's not anywhere near the rhetoric we might have seen perhaps during the Cold War.

Their defense relationships have become much more institutionalized. They have a lot of meetings between military people, defense people. They started in the last decade or so this series of military exercises, and you can sort of figure out where their main nightmares are and how these exercises work themselves out either bilaterally or through the Shanghai Cooperation Organization, which is their main joint alliance.

The Chinese seen very concerned about being able to restore order if a government is overthrown, and so they're sort of thinking we want to start another Tiananmen, whereas, the Russians, it's very much these much more protracted counterinsurgency type operations they're eager to practice, and they're thinking another Chechnya. So you can harmonize that to some extent, but not too much.

They have some cooperation in cyber and so on. And Central Asia is interesting because that could potentially be an area of great tension. A lot of reasons why that might come into rival, but so far it's been a unifying factor in the relationship. They're sort of concerned about limiting the U.S.

role there. They're concerned about extremism getting out of hand, concerned about Afghanistan spillover.

But for the most part, in other regions they really don't work very closely together. They've got some areas of tension. A recent one has been the arms sales relationship. For awhile, after the Europeans and we cut off arms sales to China, the Russians thought this was great for them. They had a monopoly with the kind of weapons they were transferring. They had a bunch of excess Soviet stuff they wanted to get rid of, and the Chinese were looking for weapons.

But that relation experience panned itself out. As we know, both we and the Russians have been surprised by the progress China's defense-industrial complex has been making, and the Chinese no longer want Soviet-era weapons. If they want weapons from Russia, it's got to be the top of the line, and then the Russians so far have not been willing to do some of that. They're afraid that if they do, the Chinese are going to reverse engineer it, and then sell, undercut their sales in different markets. They're concerned how, you know, Taiwan, Japan, we would react, and so on. So that's an area of tension.

At societal level, they have--the relationship with the Chinese and Russians is pretty much very minimal. They have very little exchanges. There's less racism than there used to be in some of the polling.

The energy relationship is surprising. You would think naturally, given their proximity, given how much oil and gas Russia has and how much China needs, that would be a natural partnership. But so far it hasn't really evolved. It's taken a long time to finally come to agreement on an oil pipeline, and they're still fighting over gas supplies. They're fighting over different price levels.

Nuclear tensions persist. And even areas where there are common concerns, such as our missile defense projects, they haven't cooperated in trying to overcome them in any way. And so, in general, I would say the relationship is harmonious in the sense that there's not great areas of conflict, but in terms of joint cooperation with a more positive agenda, it has not arose yet.

Thank you very much.

[The written statement follows:]

PREPARED STATEMENT OF DR. RICHARD WEITZ, DIRECTOR OF THE CENTER FOR MILITARY-POLITICAL ANALYSIS, HUDSON INSTITUTE, WASHINGTON, D.C.

Thank you for the opportunity to contribute to the Commission’s deliberations regarding the important relationship between China and Russia.

Since the end of the Cold War, the improved political and economic relationship between Beijing and Moscow has affected a range of international security issues. China and Russia have expanded their bilateral economic and security cooperation. In addition, they have pursued distinct, yet parallel, policies regarding many global and regional issues. Yet, Chinese and Russian approaches to a range of significant subjects are still largely uncoordinated and at times in conflict. Economic exchanges between China and Russia remain minimal compared to those found between most friendly countries, let alone allies. Although stronger Chinese-Russian ties could present greater challenges to other countries (e.g., the establishment of a Moscow-Beijing condominium over Central Asia), several factors make it unlikely that the two countries will form such a bloc.

"Best Ever" Relations

The relationship between the Chinese and Russian governments is perhaps the best it has ever been. The leaders of both countries engage in numerous high-level exchanges, make many mutually supportive statements, and manifest other displays of Russian-Chinese cooperation in what both governments refer to as their developing strategic partnership.

The current benign situation is due less to common values and shared interests than to the fact that Chinese and Russian security concerns are predominately directed elsewhere. Although both countries have experienced a geopolitical resurgence during the past two decades, Chinese and Russian security concerns are not directed at each other but rather focus on different areas and issues, with the notable exceptions of maintaining stability in Central Asia and constraining North Korea's nuclear activities.

Most Chinese policy makers worry about the rise of separatist movements and Islamist terrorism in western China and about a potential military clash with the United States in the Asia-Pacific region, especially regarding Taiwan and the contested maritime regions of the South China and East China Seas. In contrast, most Russian analysts see terrorism in the North Caucasus, maintaining influence in Europe, and managing security relations with Washington as the main security challenges to their country. Neither Chinese nor Russian military experts perceive a near-term military threat from the other's country. The Russian government has even provided sophisticated navy, air, and air defense platforms to the Chinese military, confident that the People's Liberation Army (PLA) would only employ these systems, if at all, against other countries. In addition, China and Russia have resolved their longstanding border disputes as well as contained their rivalries in Central Asia, the Korean Peninsula, and other regions.

Recent Improvements

Since the Soviet Union's disintegration in the early 1990s, China and Russia have resolved important sources of their Cold War-era tensions. Through protracted negotiations, the two governments have largely solved their boundary disputes, which had erupted in armed border clashes in the late 1960s and early 1970s. The stoking of anti-Chinese sentiment by politicians in the Russian Far East impeded the ability of Russia's first President, Boris Yeltsin, to make substantial progress during the 1990s in demarcating the Russia-China border. These politicians sought to rally local support by accusing Moscow of planning to surrender territory to Beijing. By the mid-2000s, Yeltsin's successor, Vladimir Putin, managed to centralize sufficient political power in the Kremlin to ignore these local sentiments. Furthermore, Russia and China have demilitarized their lengthy shared frontier through a series of arms control and disarmament measures.

The Russian-Chinese friendship and cooperation treaty, signed in July 2001, establishes a basis for extensive bilateral security and defense collaboration. Its five core principles include "mutual respect of state sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and mutual benefit and peaceful co-existence." Article 2 has a mutual non-aggression clause in which Russia and China agree never to employ or threaten the use of military force against each other. The article also extends their earlier nuclear missile non-targeting pledge to include mutual adoption of a "no first use" nuclear weapons posture

toward each other. Articles 3-5 affirm that each party will not challenge the others' political-economic orientation or territorial integrity, which in Moscow's case includes reaffirming recognition of Beijing's sovereignty over Taiwan. In Article 7, the parties commit to supporting arms reduction and confidence-building measures along their joint border. Article 8 contains a standard non-aggression clause: "The contracting parties shall not enter into any alliance or be a party to any bloc nor shall they embark on any such action, including the conclusion of such treaty with a third country which compromises the sovereignty, security and territorial integrity of the other contracting party. Neither side of the contracting parties shall allow its territory to be used by a third country to jeopardize the national sovereignty, security and territorial integrity of the other contracting party." Article 9 provides for holding immediate mutual consultations "when a situation arises in which one of the contracting parties deems that peace is being threatened and undermined or its security interests are involved or when it is confronted with the threat of aggression." Article 10 calls for regular meetings "at all levels" to allow both sides to exchange views and "co-ordinate their stand on bilateral ties and on important and urgent international issues of common concern." Article 13 states that they will work to strengthen "the central role of the United Nations as the most authoritative and most universal world organization composed of sovereign states in handling international affairs, particularly in the realm of peace and development." Article 20 states that both governments "shall actively cooperate in cracking down terrorists, splittists [commonly referred to as "separatists" in later declarations] and extremists, and in taking strong measures against criminal activities of organized crimes, illegal trafficking of drugs, psychotropic substances and weapons." The treaty's initial duration is twenty years, but the text allows for automatic five-year extensions unless either party objects. Unlike the earlier bilateral defense treaty signed between China and the Soviet Union, the 2001 treaty lacks a mutual defense clause in which both parties commit to providing military assistance in case the other is attacked by a third party.

Chinese and Russian leaders share a commitment to a philosophy of state sovereignty (non-interference) and territorial integrity (against separatism). Although Russian and Chinese leaders defend national sovereignty by appealing to international law, their opposition also reflects more pragmatic considerations—a shared desire to shield their human rights and civil liberties practices, and those of their allies, from Western criticism. Chinese and Russian officials refuse to criticize each other's foreign and domestic policies in public. They also have issued many joint statements calling for a multi-polar world in which no one country (e.g., the United States) dominates. During the past few years, their leaders have commonly blamed American economic mismanagement for precipitating the global recession. They regularly advocate traditional interpretations of national sovereignty that exempt a government's internal policies from foreign criticism. Beijing and Moscow oppose American democracy promotion efforts, U.S. missile defense programs, and Washington's alleged plans to militarize outer space. The two countries strive to uphold the authority of the United Nations, where the Chinese and Russian delegations frequently collaborate to dilute resolutions seeking to impose sanctions on Burma, Iran, Zimbabwe, and other governments they consider friendly. In July 2008, they finally demarcated the last pieces of their 4,300-km (2,700 mile) frontier, one of the world's longest land borders, ending a decades-long dispute.

Chinese and Russian officials have expressed concern about the efforts by the United States and its allies to strengthen their ballistic missile defense (BMD) capabilities. Their professed fear is that these strategic defense systems, in combination with the strong American offensive nuclear capabilities, might enable the United States to obtain nuclear superiority over China and Russia. Both governments have also expressed unease regarding U.S. military programs in the realm of outer space. Russian and Chinese experts claim that the United States is seeking to acquire the means to orchestrate attacks in space against Russian and Chinese reconnaissance satellites and long-range ballistic missiles, whose trajectories passes through the upper atmosphere. In response, the Russian and Chinese governments have proposed various arms control initiatives purportedly aimed at preventing the militarization of space. For example, the Russian and Chinese representatives have unsuccessfully sought for years at the UN Conference on Disarmament to negotiate a treaty on the "Prevention of an Arms Race in Outer Space," which would seek to prohibit the militarization of outer space. More recently, China and Russia have submitted a joint Space Treaty to the Conference on Disarmament in Geneva, which would impose legal constraints on how the United States could use outer space. They have sought to link progress on other international arms control initiatives to the adoption of these space limitations.

The bilateral defense relationship has evolved in recent years to become more institutionalized and better integrated. As befits two large and powerful neighbors, the senior military leaders of Russia and China now meet frequently in various formats. Their direct encounters include annual meetings of their defense ministers and their armed forces chiefs of staff. Since 1997, they have also organized yearly "strategic consultations" between their deputy chiefs of the general staff. In March 2008, the Chinese defense minister established a direct telephone line with his Russian counterpart, the first such ministerial hotline ever created by China and another country. In December 2008, the chiefs of the Chinese and Russian general staffs created their own direct link. Senior Russian and Chinese defense officials also typically participate in the regular heads of government meetings between Russia and China, which occur about once a year as bilateral summits. They also confer frequently at sessions of multinational gatherings, such as at meetings of the SCO, which host regular sessions for defense ministers. Contacts are even more common among mid-level military officers, especially those in charge of border security units and military units in neighboring Chinese and Russian territories. Russian and Chinese military experts also engage in regular direct discussions related to their functional expertise such as communications, engineering, and mapping. Substantial academic exchanges also regularly occur. More than 1,000 Chinese students have studied at over 20 Russian military academies since 1996. The two defense communities conduct a number of larger exchanges and engagements. The best known are the major biennial military exercises that they have been holding since 2005, but smaller-scale engagements also frequently occur.

Chinese and Russian leaders also have developed shared perspectives and independent offensive capabilities regarding governmental activities in the cyber domain. The two governments have been developing their information warfare capabilities and now possess an extensive variety of offensive and defensive tools in this domain. Furthermore, recent revelations regarding Chinese cyber-espionage activities suggest the extent to which Chinese operatives have penetrated Western information networks. In Russia's case, cyber attacks against Estonia, Georgia, and other countries illustrate the extensive offensive capabilities available to that country's forces. Russia's hybrid August 2008 campaign against Georgia was particularly effective in disabling Georgia's infrastructure as well as demonstrating a potential capacity to inflict widespread physical damage. Both countries appear to have already conducted extensive surveying of U.S. digital vulnerabilities and to have prepared targeted campaign plans to exploit U.S. network vulnerabilities if necessary. Although these offensive and defensive preparations are being conducted independently, the Chinese and Russian governments are collaborating, along with other Eurasian allies in the SCO, to deny Internet resources to civil liberties groups and other opponents of their regimes.

Central Asia perhaps represents the geographic region where the security interests of China and Russia most overlap. Although China and Russia often compete for Central Asian energy supplies and commercial opportunities, the two governments share a desire to limit potential instability in the region. They especially fear ethnic separatism in their border territories supported by Islamic fundamentalist movements in Central Asia. Russian authorities dread the prospect of continued instability in the northern Caucasus, especially Chechnya and neighboring Dagestan. China's leaders worry about separatist agitation in the Xinjiang Uighur Autonomous Region. The shared regional security interests between Beijing and Moscow have meant that the newly independent states of Central Asia—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan—have become a generally unifying element in Chinese-Russian relations. Their overlapping security interests in Central Asia have manifested themselves most visibly in the Shanghai Cooperation Organization (SCO). Since its founding in 2001, the SCO has essentially functioned as a Chinese-Russian condominium, providing Beijing and Moscow with a convenient multilateral framework to manage their interests in Central Asia. At present, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan are also full members, while India, Iran, Mongolia, and Pakistan have observer status in the organization. Yet, this harmony between Beijing and Moscow arises primarily because the Chinese leadership considers the region of lower strategic priority than does Moscow, which still considers Central Asia an area of special Russian influence. China's growing interest in securing Central Asian oil and gas could lead Beijing to reconsider its policy of regional deference.

Tensions and Constraints

Despite their improved relationship, China and Russia have not formed a mutual defensive alliance and still tend to pursue distinct, if largely parallel, policies regarding many issues. Personal and economic exchanges between China and Russia remain minimal compared to those found between most large countries in Europe and North America.

The most noteworthy development in their bilateral defense relationship has been the sharp decline of Russian arms sales to China in recent years. The ongoing improvement in the quality and quantity of China's national defense production confronts Russian officials with a difficult choice. Until now, the Russian government has refused to sell its most sophisticated weapons systems—such as long-range ballistic missiles, strategic bombers, or air and missile defense systems—to the PRC for fear that such weapons could disrupt the balance of power in East Asia. The Russian government has also declined to sell China weapons—such as advanced land warfare weapons or tactical air support aircraft—that could assist the PLA in a ground war with Russia. Instead, Russia has transferred advanced weapons mostly for naval warfare and air defense. Moscow's restraint has meant that Russian arms sales to Beijing have been insufficient by themselves to enable China to defeat the more technologically advanced militaries of Taiwan, Japan, or the United States. Now the growing prowess of China's indigenous defense industry has decreased Beijing's interest in purchasing low-quality Soviet-era weapons from Moscow, leaving the PLA interested in only the most advanced Russian weapons. The Russian government has thus far declined to sell such weapons for fear the Chinese might copy their technology and use it to design weapons that Chinese firms could then sell to potential Russian customers at lower prices, in addition to the above concerns regarding Russia's national defense. This transformation has meant that bilateral defense-industrial ties between China and Russia have gone from being the foundation of their new post-Cold War partnership to a major irritant.

Russian officials are similarly reluctant to transfer their best nuclear energy technologies and other knowledge products that could allow lower-cost Chinese manufacturers to displace Russian exports from third-party markets. The rest of their bilateral energy relationship remains equally problematic. The two sides repeatedly announce grandiose oil and natural gas deals that, until recently, have failed to materialize. Russian energy firms try to induce European and Asian customers to bid against one another. Although this approach enhances Russian bargaining leverage, it reinforces Chinese doubts about Russia's reliability as a long-term energy partner. The two governments remain suspicious about each other's activities in Central Asia, where their state-controlled firms compete for oil and gas. Chinese officials have steadfastly refused to endorse Moscow's decision to recognize Abkhazia and South Ossetia as independent states, which Russia pried from Georgia during the August 2008 war. At the societal level, ties between ordinary Chinese and Russians remain minimal despite years of sustained efforts by both governments to promote humanitarian exchanges and the study of the other country's language. Chinese criticize the failure of the Russian government to ensure the safety and respect the rights of Chinese nationals working in Russia. Russians in turn complain about Chinese pollution spilling into Russian territory and worry that large-scale Chinese immigration into the Russian Far East will result in large swaths of eastern Russia becoming de facto parts of China.

After many years of false hopes and frustrated deals, China and Russia have made only modest progress in establishing their long-anticipated energy partnership. Notwithstanding China's efforts at energy supply diversification over the past decade, it was not until 2009 that Russia became China's fourth largest oil supplier, providing 7.8% of China's imports in 2009, up from 6.3% in 2008. This figure is now rising further thanks to the opening of the Eastern Siberia–Pacific Ocean oil pipeline on January 1, 2011. Still, this low figure is surprising because the two countries would appear to be natural energy partners. Furthermore, negotiations over a direct natural gas pipeline remain stalled due to disagreements over what price China will pay for the gas. Russia has carved out only a small share of China's expanding nuclear energy sector.

Given the geographic proximity between the two nations, the fact that Russia is the world's largest oil producer, and the fact that China is the world's largest energy importer and fastest growing economy, it would seem that Russia and China would have aligned sooner. Russia's oil and natural gas deposits, some of the largest in the world,

lie much closer than the more distant energy reserves of the Persian Gulf and Africa. Oil and gas from these regions can only reach the PRC through international waters vulnerable to interdiction by foreign navies and sea pirates, whereas Russian energy can enter Chinese territory directly without having to pass through third-party territories. Some energy-exporting Central Asian countries also enjoy these advantages, though Chinese policy makers act warily in this region given Moscow's traditional dominant regional position, which generally guarantees an important role for Russian companies in the exploitation and especially transportation of Central Asian oil and gas.

Despite these advantages and other mutual incentives to increase bilateral energy cooperation, Chinese-Russian energy cooperation has been surprisingly limited. Technical obstacles, pricing conflicts, inadequate transportation infrastructure, and mutual suspicions have historically kept Chinese purchases of Russian energy at relatively low levels. Frequent delays in shipments on the part of the Russians and attempts to leverage the competing interests of the Chinese, Asian, and European markets off each other have prevented Chinese policy makers from regarding Russia as a reliable long-term supplier. In assessing energy relations between the two countries, it is important to distinguish concrete contracts from mere declarations of intent. Many of the bilateral agreements reached in recent years—often described as memoranda of understanding or framework accords—aim merely to signify interest as well as gain leverage regarding third parties, such as Japan and Europe.

Despite their 2008 boundary agreements, tensions regarding the Russian-Chinese border periodically reappear, such as when the Chinese government first learned that two Russian coast guard ships had sunk a Chinese-owned freighter off its coast on February 15, 2009. Revelations about the incident produced sharp protests in the Chinese media, which ran stories recounting how Czarist Russia had seized the land from a weak China during the 19th century and citing examples of how contemporary Russians mistreat Chinese nationals. Nationalist politicians in both countries can mobilize people behind extremist platforms using racism and ethnic hatred.

Their trade imbalance is another source of tension. The decline in Russian arms purchased by China in recent years has shifted this balance significantly against Russia. Before 2007, Russia racked up steady surpluses from large deliveries of energy, arms, and other industrial goods. Since then, the terms of trade have shifted markedly in the PRC's favor due to a decline in Chinese purchase of weapons systems and other high-technology items. At present, Russian exports to the PRC consist overwhelmingly of raw materials, especially natural resources like oil and timber. Oil deliveries alone often account for half the value of all Russian exports to China. When prices of these commodities collapsed in 2008, Russia ran a $13.5 billion trade deficit with China. The resurgence in energy prices in the past year has now returned Russia's surplus, but Moscow policy makers are eager to reduce their dependence on volatile raw material exports by reviving the PRC's purchase of high-value industrial goods and services. China could address this source of tension by purchasing more Russian weapons and high-technology products.

Mutual investment is another lagging area of cooperation that has attracted the attention of both governments. In 2009, the PRC's direct (non-financial) investment in Russia amounted to only $413 million, which itself represented a 73.5 percent growth over the previous year. By the end of 2009, China's accumulative non-financial direct investment in Russia was only $2.02 billion. Most Chinese non-financial capital flows into Russia's textile, timber, and raw materials sector. The parties have drafted, but not yet implemented, a Sino-Russian Investment Cooperation Plan, designed to increase their mutual cooperation in investment and financing. The Russian government is particularly eager to secure Chinese investment to help achieve their goal of modernizing the Russian economy. In addition, Russian officials want Chinese firms to participate in the government's plans to sell Russian state-owned shares in hundreds of large companies. Through this partial privatization, Russian officials hope to receive an influx of cash at a time when surging government spending and weak revenues are pushing the budget into deep deficit. One factor likely limiting Chinese interest is that the privatization process could take five years to implement and the Russian government will still retain majority ownership and therefore control over most of the companies. Despite their mutual concern about American strategic ambitions, the governments of China and Russia have not undertaken any widespread collaboration in this area. For example, they have not pooled their military resources or expertise to overcome U.S. ballistic missile defense (BMD) systems by, for

instance, undertaking joint research and development programs to create shared anti-BMD technologies. Nor have they coordinated pressure against other countries in Europe or Asia to abstain from deploying U.S. BMD assets, even in Central Asia or Northeast Asia, regions that border Chinese and Russian territories.

In East Asia, China and Russia share a concern regarding the evolving political, military, and economic situation on the Korean peninsula, which borders both countries. In these dimensions, the two governments have thus far pursued largely independent but parallel policies toward both North and South Korea. In terms of influence, Beijing enjoys a more dominant role, while Moscow often struggles to maintain even a supporting position. Their policies towards Japan and Taiwan are also not well integrated. Beijing considers its ties with these countries as among its most important bilateral relationships, whereas Moscow manages its relations with both states almost as an afterthought.

In the Middle East, the governments of China and Russia have also followed parallel but typically uncoordinated policies. They both want to sell Iran weapons, nuclear energy technologies, and other products. In addition, Beijing and Moscow have defended Tehran at the Security Council while warning against any Iranian ambitions to acquire nuclear weapons. In addition, they both opposed the U.S.-led invasion of Iraq but have shared concerns that an early American military withdrawal from that country could lead to an increase of Islamic militarism throughout the Middle East, which could disrupt China's energy supplies and reinvigorate the Muslim insurgency in southern Russia. Thus far, however, neither country has sought to make issues related to Iran or Iraq major areas for bilateral Sino-Russian cooperation or significant points of confrontation with Washington.

More recently, China and Russia have declined to coordinate their policies regarding Libya or other manifestations of the Arab Awakening despite common fears of contagion, dislike of Western military intervention on humanitarian grounds, and concerns about losing valuable commercial opportunities. Sino-Russian cooperation in the Libyan War has thus far predominately consisted of their government officials' citing each other's opposition to Western interference.

The limits of foreign-policy harmonization between China and Russia are also visible in South Asia, where the two governments have adopted divergent positions on critical issues. For instance, despite the recent improvement in Chinese-Indian relations, Russia's ties with New Delhi still remain much stronger than those between China and India. Persistent border disputes, differences over India's growing security ties with the United States, competition over energy supplies, and other sources of Sino-Indian tensions have consistently impeded realization of the vision of a Moscow-Beijing-New Delhi axis that has periodically arisen over the past decade, especially when Russian Prime Minister Yevgeny Primakov visited New Delhi in 1998.

The Russian military has begun to cite China's growing military potential as a reason why Russia needs to acquire more warships and retain tactical nuclear weapons (TNWs) despite U.S. pressure to negotiate their elimination in the next round of the strategic arms talks. It is difficult to sustain a major conventional military force in the Russian Far East, but TNWs can help compensate for shortages in numbers. The Commander in Chief of the Russian Navy, Admiral Vladimir Vysotsky, has also cited Beijing's interest in the Arctic as a reason to field a larger fleet. (Russian strategists often describe control over the Arctic region as a vital national interest and fundamental for sustaining Russia's great power status in the 21st century). Until recently, Russian analysts were confident about maintaining military superiority over China for at least the next decade, but recent displays of growing Chinese defense capabilities, combined with a more confrontational manifestation of Chinese diplomacy, appear to be causing the same unease in Russia as in other countries.

Future Scenarios

The next few years will most likely see a continuation of this pattern of decent but not excellent relations between China and Russia, in which they loosely cooperate on a few issues but basically ignore each other regarding most others. But alternate China-Russia futures are imaginable. These alternatives naturally fall into two broad

categories—ones in which the China-Russia relationship significantly deteriorates, and those in which ties radically improve.

A major worsening of China-Russia ties would actually represent a regression to the mean. The modern Chinese-Russian relationship has most often been characterized by bloody wars, imperial conquests, and mutual denunciations. It has only been during the last 20 years, when Russian power had been decapitated by its lost Soviet empire and China has found itself a rising economic--but still militarily weak--power that the two countries have managed to achieve a harmonious balance in their relationship. According to various metrics, while China now has the world's second largest economy, Russia has the world's second most powerful military, thanks largely to its vast reserves of nuclear weapons. But China could soon surpass Russia in terms of conventional military. Under these conditions, Moscow could well join other countries bordering China in pursuing a containment strategy designed to balance, though not prevent, China's rising power.

One could well imagine heightened China-Russia tensions over border regions. The demographic disparity that exists between the Russian Far East and northern China invariably raises the question of whether Chinese nationals will move northward to exploit the natural riches of underpopulated eastern Russia. Border tensions could increase if poorly managed development, combined with pollution, land seizures, and climate change, drive poor Chinese peasants into Russian territory. Russians no longer worry about a potential military clash with China over border issues, but they still fear that the combination of the declining ethnic Russian population in the Russian Far East, Chinese interest in acquiring greater access to the energy and other natural resources of the region, the growing disparity in the aggregate size of the Chinese and Russian national economies due to China's higher growth rate, and suspected large-scale illegal Chinese immigration into the Russian Far East will result in China's de facto peaceful annexation of large parts of eastern Russia. Although the Russian Federation is the largest country in the world in terms of territory, China has more than nine times as many people as Russia.

Although shared concerns about preserving stability in Central Asia have thus far been a unifying force in the China-Russia relationship, one could conceive of renewed rivalry for local allies and energy resources, especially if NATO withdraws from the region, leaving Moscow and Beijing as the two natural competitors for regional primacy. Should U.S power in the Pacific falter, China and Russia might also become natural rivals for the allegiance of the weak states of East Asia as they search for a new great power patron, either by aligning with or balancing against China's hegemonic potential in the Asia Pacific region. India has traditionally seen Moscow as a potential balancer against China and its regional ally Pakistan.

Conversely, the China-Russia relationship would improve if the two countries could finally consummate their long-anticipated energy partnership. Given the geographic proximity between the two countries, Russia's role as the world's largest oil producer, and China's role as the largest energy importer and fastest growing economy, it would seem that Russian and China should be natural energy allies. Despite these advantages and other mutual interests in increasing bilateral energy cooperation, Chinese-Russian energy cooperation has been surprisingly limited. Various technical obstacles, pricing conflicts, inadequate transportation infrastructure, and mutual suspicions have historically kept Chinese purchases of Russian energy at relatively low levels. But during the past two years they have finally opened a direct oil pipeline, and large-scale natural gas deliveries could occur within the next few years provided the parties can agree on a mutually acceptable price.

Finally, more events such as the upheavals in Tunisia, Egypt, and Libya, following the earlier disorders in Iran and Kyrgyzstan, could drive Beijing and Moscow closer as the world's two most powerful authoritarian regimes. The SCO could provide a suitable multilateral mechanism for defending the Eurasian autocracies. Through the SCO, supplemented by their UN Security Council veto, Beijing and Moscow can fight for their cherished principles of national sovereignty, territorial integrity, and civil liberty restrictions under the banner of countering the three evil forces of terrorism, extremism, and separatism.

Richard Weitz is Senior Fellow and Director of the Center for Political-Military Analysis at Hudson Institute. His current research includes regional security developments relating to Europe, Eurasia, and East Asia as well as U.S. foreign, defense, and homeland security policies. Dr. Weitz also is a non-resident Senior Advisor at the Project on National Security Reform (PNSR), where he oversees case study research, and a non-resident Senior Fellow at the Center for a New American Security (CNAS), where he contributes to various defense projects. Dr. Weitz has published or edited several books and monographs, including The Russian Military Today and Tomorrow (Strategic Studies Institute, 2010); Global Security Watch-Russia (Praeger Security International, 2009); a volume of National Security Case Studies (Project on National Security Reform; 2008); China-Russia Security Relations (Strategic Studies Institute of the US Army War College, 2008); Kazakhstan and the New International Politics of Eurasia (Central Asia-Caucasus Institute, 2008); Mismanaging Mayhem: How Washington Responds to Crisis (Praeger Security International, 2008); The Reserve Policies of Nations: A Comparative Analysis (Strategic Studies Institute, 2007); and Revitalising US–Russian Security Cooperation: Practical Measures (International Institute for Strategic Studies, 2005).

PANEL IV: Discussion, Questions and Answers

HEARING CO-CHAIR BARTHOLOMEW: Great. Thank you.

We'll start our questions with Commissioner Wortzel.

COMMISSIONER WORTZEL: I want to thank you all for being here.

John, I'm going to reserve a question for you, if I may. I like very much your strategic deception versus bureaucratic politics approach. I guess the question I have is why would China care if Iran had nuclear weapons? I mean Beijing has no reservations about nuclear weapons in North Korea. They don't present a threat to China.

Iran having a small nuclear force is consistent with China's own views on the advantages of minimal deterrence. It complicates U.S. security policy, and if Beijing believes that the United States might take military action, it certainly changes the security calculus for Washington, which keeps up the energy flow from Iran and makes it more secure. I guess I'm coming down on the strategic deception side.

But the question that raises for me is it seems that the bigger threat to China's energy supplies from Iran is instability. So I wonder if you are aware of what China may be doing to help strengthen political control in Iran?

DR. GARVER: The assumption of your comment is that Iran's drive for nuclear capabilities, possibly including nuclear weapons, leads to instability.

COMMISSIONER WORTZEL: No. My assumption is that leads to minimal deterrence, and political instability is a separate problem. It is a greater threat to secure energy supplies for China, and therefore what are they doing to help with that problem?

DR. GARVER: With social stability?

COMMISSIONER WORTZEL: Social stability.

DR. GARVER: Social stability. Let me go back and answer your first

question. I think on this issue, there are divergent voices in China. If you look at what authoritative Chinese journals say, it's actually exactly what you're saying, that the United States is trying to bludgeon Iran into submission in order to control the rich oil of the Middle East, in order to have its hand on the spigot and turn it off or on in order to tell countries around the world, India, China, Korea, Japan, yes or, you know, okay or not okay.

The view expressed in these Chinese journals is that the reason Iran wants nuclear capability is because of American pressure and American threats. The Americans have been unable to improve relations with Iran, unlike China, and the Iranians feel they need to arm themselves or have these capabilities. If the Americans would stop being so arrogant and resorting to sanctions and threats and military maneuvers, Iran wouldn't do this.

This is one Chinese point of view. But there's also another Chinese point of view that argues that China would be best served by a genuine strategic partnership with the United States, that as permanent members of the Security Council, China, the United States are both privileged under the existing NPT regime, that it's not in China's interests to undermine that, that the best chance for China's continued growth over the next ten, 20, 30, 40 years is partnership with the United States. This point of view also places much greater credence on the efficacy of international regimes as mechanisms for regulating great power competition. Based upon the second perspective, the Chinese Foreign Ministry in 2009 undertook an incredible effort to mediate the Iran-U.S. conflict. So you have divergent points of view. I have a hunch that there are certain sectors in China that favor the multi-polarity and say, well, it's not antithetical to China's interests if Iran is strong and confident because of its nuclear capabilities. In fact, it would move the world in the direction of multi-polarity, which is our sacred objective.

To address your second question, in terms of social stability, there is cooperation between China and the IRI in terms of monitoring the Internet, in terms of training police to deal with demonstrations in nonlethal fashion. Some of the lessons that China learned after 1989 are being shared.

But China doesn't have any sympathy for the Islamic Republic per se. China's objective is to have good cooperative relations with Iran regardless of what government is in power in Tehran, rather like China's relations with Pakistan.

HEARING CO-CHAIR BARTHOLOMEW: Okay. Commissioner Blumenthal.

COMMISSIONER BLUMENTHAL: Thank you. Dr. Cha--well, thank you all very much for your interesting testimony.

I think that I agree with the assessment that China has some really strong imperatives with respect to North Korea, as you laid out, that include

concern about their own domestic situation in the northeast, that include historical memories about invasion of China and some other things, but that does lead to a puzzle, which is the cooperation you mentioned in 2005 and 2006, and besides your own great diplomatic skill, which I've seen in action, and others in the Bush administration, who at the time were pressing China, what would account for China to, I guess, put lower down on the list of priorities the strategic imperatives that you mentioned and be more cooperative in that time period?

DR. CHA: Thank you for the question.

In this 2005 to 2007 timeframe, I think it was a confluence of things, but perhaps most important was that we, the United States, made it a very high priority in U.S.-China relations.

President Bush, made it a very high priority in U.S.-China relations, and essentially told Hu Jintao to "man-up" on North Korea, and that if you wanted to be a big player on the international stage and if you couldn't help to solve this problem right on your border, then you weren't worth your salt.

And also I think in both our Senior Dialogue and our Strategic Economic Dialogue with the Chinese, and all these high level dialogues, North Korea figured very prominently, and I think that registered in the Chinese system. They understood that this was important for their relationship with the United States, and I think that was the difference.

Now I would argue that that is not the case today with the current administration, and that they have a whole list of other things that they put ahead of North Korea when they seek Chinese cooperation.

COMMISSIONER BLUMENTHAL: Thank you.

Secretary Gates did go to China recently and say some things that certainly caught my attention and, I think, other people, but the important question I have is whether it caught the Chinese attention. He essentially said, and now let me say I'm interpreting what he said, but he essentially said the North Korea threat is changing from a threat to our allies to a direct threat on the U.S. homeland, and it wasn't caught too much in the Western press, but that's quite a change, and I wonder if the Chinese are getting the message?

If not, who in the Chinese government needs to be spoken to and at what level about the changing risk calculation that the U.S. itself is now facing with respect to the potential for conflict on the Peninsula essentially?

DR. CHA: Well, as you did, I took notice of that statement, as well, and it was very clearly made in China in front of the Chinese, and I think the administration intended it to convey to China the signal that the United States takes this threat much more seriously, not just as a distant one.

I think part of the issue was back in the mid-2000s, you had an American president that was really pushing China on this issue, and you also

had different politics in the region in the sense that in Japan, you had successive conservative prime ministerships that were really pushing the envelope in terms of their own military development and cooperation with the United States on ballistic missile defense, as well as a number of other issues.

And I think it was that combination of things that really got the Chinese concerned, and I would argue you have neither of those two things today. So I do think Gates' statement is important; it's significant. I think it signals to many Chinese strategists that the United States takes this more seriously. But whether that percolates to the top of this government under Hu or a future government under future leadership, it's not clear at this point. And I think the Japan part of it is an important part of it, too.

COMMISSIONER BLUMENTHAL: I took the statement as an assessment by Secretary Gates of a change in North Korean capabilities that can actually affect the United States, and if that is correct, then, again, we need to be talking with the Chinese about this in the ways that you are indicating.

Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Great. Commissioner Shea.

COMMISSIONER SHEA: This is a great panel. I'm going to ask three questions, one for each panelist, so I'm going to be pretty quick here.

First, for Dr. Garver, you said in response to Commissioner Wortzel's question that there are some in the PRC who believe that a nuclear Iran is not necessarily antithetical to their interests. But in your prepared testimony you go much further than that.

Citing the elements within the PLA, you said a nuclear-armed Iran would thwart the U.S. drive for hegemony over the Gulf and its oil resources, would divert and tie down U.S. military strength, and would offer a partner willing to tell the Americans to go to hell and continue supplying China with the oil in the event of a U.S.-PRC clash.

So you suggest that there are elements within the People's Liberation Army who affirmatively support a nuclear-armed Iran. So I'd like you to sort of flesh that out a little bit.

Second question. Dr. Weitz, could you please describe Chinese immigration into the Russia Far East and what that portends for the Sino-Russian relationship?

And Dr. Cha, I like your analogy about a "mutual hostage," that the Chinese and the North Koreans are in a mutual-hostage situation. You know, typically, we've heard over the years that there are many issues in the U.S.-China relationship and maybe you need to soft-pedal some of the economic issues because we need China on issues like Iran or North Korea.

But if China is in a hostage situation with North Korea, then it has very limited movements, very limited ability to do anything. So why should we make that, the North Korea issue, part of our calculus with how to deal with

China?

HEARING CO-CHAIR BARTHOLOMEW: Dr. Garver, you want to start?

COMMISSIONER SHEA: Dr. Garver. I'm sorry for being so long-winded.

DR. GARVER: The Chinese foreign policy decision-making process is opaque. It's not transparent. We don't really know what the PLA stance on this issue is.

The evidence is that, first of all, very authoritative Chinese journals, published by China's top think tanks, and this is, I think, almost a consensus, that the United States is driving for world hegemony in the extremely unbalanced situation that's occurred in the post-Cold War period after the end of the Soviet Union and trying to bludgeon countries in the Middle East into submission, first Iraq and now Iran, all in order to dominate the world. These are not the types of publications for mass consumption. These are the product of elite think tanks. The mass media will fan these types of sinister scenarios in order to legitimatize the regime. We're not talking about that. We're not talking about the popular media. We're talking about authoritative academic journals.

Then the question becomes whose view do these journals represent? Some people must believe them. It must be an authoritative view because the people in these think tanks are the same people that advise the top leaders on these issues.

But what is the evidence linking these views to the PLA? Again, there's a critical inference--and I'll be very frank here, that this is an inference. The basis for this inference, is that what we know about the PLA indicates that it takes a very hard realist view of the world. It's not inclined to accept multinational regimes as guarantees of China's security. It's much more insistent that China's security will depend upon its hard power in the world.

So there's acertain congruence between what we know of the PLA's world view and the world view expressed in these articles.

Also, another basis for this inference, and, again, very frankly, it is an inference, is that the PLA is charged with thinking through the scenarios of war and peace in China, and when they think through the possibility of a conflict with the United States over Taiwan and the Americans blockade our oil supply, they must ask themselves what are we going to do? If China is going to get that oil, in that eventually a lot of it is going to have to come from the Middle East overland through Central Asia where they're building the pipelines. But still you've got to have a supplier willing to tell the Americans “no” and to keep putting oil into that line to get to China.

And what country in the Middle East would be willing to do that? Not Saudi Arabia, not Kuwait, not Iraq. Well, Iran, especially an Iran that was powerful and confident the United States couldn't do anything. One that was grateful to China for China's past support. So these are the geometry of

that inference.

COMMISSIONER SHEA: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Actually I'll yield my time so that you can get answers from Dr. Cha and Dr. Weitz.

COMMISSIONER SHEA: Thank you.

DR. WEITZ: Okay. The immigration, the whole immigration issue is something that it's obviously very important in the bilateral relationship. It's become a little less salient. I mean there was a lot of concern when the Soviet Union fell apart, and then it looked like Russia itself was going to start falling apart with Chechnya separating, and that the Russian Far East would be someplace that they would have a lot of difficulties controlling in Moscow.

But during the Soviet period, the people living there were heavily subsidized. They urged people to go there. That all ended with the collapse of the Soviet Union. Some of it has come back. But basically you've got a major problem from the point of view of Russian planners in that you have a lot of resources you want to exploit there, but the living conditions are very hard.

So it's hard to get people to come. The people who might want to come there are all those Chinese around there because there are so many of them, a ten-to-one difference. But you don't want too many of them to come. And there was a lot of concern about the immigration, but so far people who have come, most of them seem to be going back.

That said, there has been, the Russian planners, the strategic military planners, are thinking long-term, and for the past year or so, you've seen some interesting discussions in the Russian debate about why they might need to keep tactical nuclear weapons and actually citing China. It was the first time I've actually seen this. They don't normally cite China as a potential threat.

Now, this may be related to--because as you know, the Congress has required the administration to raise this issue in the next round for START negotiations for the next year. And it may be just you cited this useful; we can't give them up because we got to worry about China too, and so on.

But it's something that it's a long-term problem they've been trying to address through various means, basically trying to get Slavics to go back there because potentially there's a lot of resources, and they couldn't get a lot out of it, but they want to retain control and not have it fall to China's de facto control.

HEARING CO-CHAIR BARTHOLOMEW: Don't you want Dr. Cha?

COMMISSIONER SHEA: Yes, thank you, Commissioner Bartholomew. Dr. Cha.

DR. CHA: I think China is locked into the mutual hostage relationship because it continues to see its policy with regard to North Korea about

avoiding more costs. Essentially, they're trying to avoid even more destabilizing costs, and the way to break them out of that is to get them to think about the Peninsula in terms of things that they will benefit from if they change their policy.

I mean that was what caused them to shift from a one-Korea policy to a two-Korea policy in 1992 when they normalized relations with the South. They did that because they started thinking about gains they could get by a relationship with South Korea rather than simply avoiding losses by, or, even worse, costs by maintaining this relationship with the North. So I think that's the part we want to push on with China.

Now, on the question of where this should fall in terms of U.S. priorities, I certainly take the point that no administration can have everything be a first priority issue, but I think with China, personally I don't think we should soft-pedal any issues with China. I think if we want to push them on currency and if we want to push them on North Korea, all at the same time, I think we should do it. That's certainly what the Bush administration did.

And there are others who can speak to this better than I, but I think in many ways, the Chinese respected that more than sort of a calculating American stance that said, oh, we'll push on this now, but we're not going to push on this. I think it sends a much clearer signal when you tell them exactly what you want them to do on the wide range of issues.

COMMISSIONER SHEA: Thank you very much, and thank you, Carolyn.

HEARING CO-CHAIR BARTHOLOMEW: Thanks.

Commissioner Wessel.

COMMISSIONER WESSEL: Thank you, Commissioner, and thank you, gentlemen, for being here.

Dr. Cha, I actually find myself agreeing with a lot of the things you've said, and I actually like your diplomatic approach. I think you described it as "man-up." I would have liked to have been watching during your activities in the NSC and maybe urge you to go back in the government at this point.

[Laughter.]

COMMISSIONER WESSEL: I want to take advantage, if I can, and if you don't have knowledge of this, quickly just tell me, the Kaesong Industrial Zone. I assume you have some knowledge of that.

How should we view that in terms of a contravening or wedge into changing some of the structure in North Korea? As I'm sure you know, the U.S.-Korea Free Trade Agreement will allow products from Kaesong to have duty-free access to the U.S.--components, not final products. And as I understand it, Kaesong --a little aberration over the last couple of months--but has supplied millions of dollars to the North Korean regime in terms of income, which some of it has gone back to the workers, but a small amount.

How should we look at that in terms of U.S. policy and whether that's

a factor that may mediate some of the influence in North Korea? Should we be expanding benefits for Kaesong through the FTA; what should we be doing?

DR. CHA: It's a very good question, and I think the answer is that Kaesong--it is complicated. On the one hand, I think that there have been thousands, if not tens of thousands, of North Korean workers that have been through Kaesong. And, yes, they don't get the wages that the South Korean companies pay, but they do have a much better work environment, and word gets out, and, you know, there is this famous story about the Choco Pies.

They're basically moon pies.

COMMISSIONER WESSEL: Uh-huh.

DR. CHA: They're made by a Korean company, and South Korean companies who are in Kaesong decided to give these to the workers as an added benefit. And initially they started eating all of these things, and then they realized that they were not finding any more wrappers in the cafeteria because what these North Korean workers did was they tried these, and they said this stuff is pretty good. They started selling it on the black market.

One Choco Pie, which costs maybe 15 cents in the United States, is worth $9 on the North Korean black market. Their monthly wage is $36. So they sell four of these; they make their monthly wage.

So that sort of mentality starts to grow in North Korea, which is a good thing. The bad thing, of course, is that Kaesong was set up by a progressive South Korean government, and they made rules that greatly benefited the North Korean regime. So we have no transparency into the wages that are paid to these workers which all clearly go to the North Korean government.

And yet the North Korean government continues to demand higher wages. So this is clearly a problem. On KORUS, there is a committee that has been set up to review any products that come out of Kaesong.

COMMISSIONER WESSEL: Final products, not components though.

DR. CHA: Yes, yes, yes. And this was a big issue in the initial negotiations because the progressive government wanted it, and I think our team did a good job of trying to ensure that they would not be freely just coming into the United States as duty-free goods, as tax-free goods.

But there are some technical issues with regard to components versus final products that are still a big problem.

COMMISSIONER WESSEL: I don't know that I consider it as technical. Hyundai is the creator of the Kaesong Industrial Zone and is desiring to export a lot of product to the U.S. so making a lot of auto parts and other things that will flow through that pipeline, if you will.

Let me ask a broader question going to a discussion we had earlier in terms of avenues for influence. How should we be viewing Chinese companies, both state-owned, state-invested, and others, Huawei, for

example, which claims to be a private enterprise? In the areas that each of you focus on, what have been the activities of Chinese companies and are they agents of Chinese foreign policy or are they acting independently?

HEARING CO-CHAIR BARTHOLOMEW: Can I interrupt at that point to just say that's a very large question, and there are 30 seconds left on the clock?

COMMISSIONER WESSEL: Ten seconds each then.

HEARING CO-CHAIR BARTHOLOMEW: So if we could have the witnesses provide a written response, I think that you would probably be more satisfied.

DR. GARVER: That's fine.

HEARING CO-CHAIR BARTHOLOMEW: Okay. Commissioner D'Amato.

COMMISSIONER D'AMATO: Thank you very much, Madam Chairman, and I would thank the panel for very interesting testimony.

I have a two-part question dealing with the PLA, the reality and challenge of the new PLA role as we've heard about it. I think Dr. Cha and Dr. Garver both can address these questions.

Dr. Cha, you talk in your testimony about policymaking in the North Korea case being made by the CCP and the PLA together, the Foreign Ministry really not that involved in this particular case, and we keep hearing discussion of new actors in foreign policy always including the PLA.

How do we measure the extent, the new extensiveness of the PLA role here, and how do we determine what it might become in the run-up to a new leadership? Obviously, there is jockeying for power. They're a new boy on the block, and they have been making policy in North Korea, but expanding it to other areas.

The problem I see is that they seem to be more insular than other actors in the Chinese system, and their internal narrative about the United States is not particularly attractive from what we understand.

And to what extent are they broadening their knowledge and their experience by participating in these new institutional fora with the U.S. in terms of, at least, on the security side maybe they're learning more about the U.S.?

And Dr. Garver, in terms of the Iranian situation, do we have any understanding of what the extent is of PLA involvement in policy with regard to Iran? We cite a lot of diplomatic exchanges, but is the PLA involved there as much as it is certainly not as much as in North Korea but elsewhere? How involved is the PLA involved in the Chinese policy toward Iran?

DR. CHA: Well, it's a very good question. And as you stated in your question, in the North Korean case, this has been the norm. So one metric would be to see to the extent to which that gets reproduced in other relationships like Iran.

In the North Korean case, the content of this relationship is not just

military exchanges, but it's also economic exchanges that take place between these two militaries, and this is the part of the economic relationship between the DPRK and China that we never see. It's never reported in trade statistics or anything.

So I also want to look, and you would--obviously this would be more of an intelligence community project--would want to see the extent to which the PLA has economic relationships, substantive economic relationships, with other militaries around the world that are also involved in the economy the way the Chinese military is.

DR. GARVER: In terms of the PLA's role in decision-making regarding Iran, we don't know. At least we in academia don't know. It's based upon surmise and some evidence. More generally, I'd say that China has kept the military security relation with Iran very low. For example, in terms of Indian Ocean ports visited by squadrons of the PLA Navy, those began in 2005, and they're pretty much all around the Indian Ocean littoral from Malaysia to Myanmar to Bangladesh, even to India, to Pakistan, to Dar es Salaam, to Tanzania. No visits to Iran. In spite of the important relation, no visits to Iran.

In terms of military-to-military visits, just people going back and forth, military uniformed people going back forth, far fewer between China and Iran than between China and Pakistan.

The way I read that is that China has wanted to avoid the image of a security obligation to Iran. It very clearly has a security obligation vis-a-vis Pakistan, but not towards Iran. Why? Because Iran is in this loggerheads relation with the United States, and there you go.

So I think that China has systematically tried to keep the security military relationship low in order to, again, to manage the contradictions between China's relations with the United States, on the one hand, and its relations with Iran on the other.

COMMISSIONER D'AMATO: Thank you. Thank you.

HEARING CO-CHAIR BARTHOLOMEW: All right. Commissioner Fiedler.

COMMISSIONER FIEDLER: Two quick questions. Dr. Garver, everything that we've talked about this afternoon sort of ignores the following: there's a finite amount of time before the Iranians develop nuclear weapons, and there's probably a finite amount of time before Israel decides that it cannot depend upon the United States for its survival and takes action on its own, and what does that mean for Chinese oil supplies?

Don't they believe that there's a possibility of a real conflict blowing up here?

DR. GARVER: Articles in Chinese journals and the Chinese analysts and people that I've talked to believe that the major cause of--the major danger of war in the United States, a major cause of tension involving Iran, is American policy. We have been unwilling to recognize the Islamic Republic

of Iran. We haven't been willing to establish diplomatic relations. Sanctions after sanctions, military threat after military threat, the tanker war of the 1970s, and so on, there's a long litany, and so if you're concerned about the possibility of war in the Middle East, the first thing to do is for the United States to change its policy.

COMMISSIONER FIEDLER: But that doesn't change, I mean assuming that it doesn't change-- American policy--

DR. GARVER: Right.

COMMISSIONER FIEDLER: --the time is running out.

DR. GARVER: So then if there's an Israeli nuclear attack?

COMMISSIONER FIEDLER: I didn't say nuclear.

DR. GARVER: Right. Preemptive. Right, preemptive attack.

COMMISSIONER FIEDLER: It has the possibility of getting out of control. Does it not?

DR. GARVER: Right.

COMMISSIONER FIEDLER: Most conflicts have the possibility of getting out of control.

DR. GARVER: In 2009, Israeli leaders went to, a series of Israeli leaders went to Beijing to lay this argument on the table to present the intelligence that Israel had regarding the military natures of Iran's program and so on and so forth.

Those do not seem to have--

COMMISSIONER FIEDLER: So they didn't believe it. Okay. They didn't believe it.

I have another question for Dr. Cha. So what's the end game with North Korea if what, I mean Commissioner Blumenthal mentioned Secretary Gates' statement, which ups the ante. Another way of saying that is that Gates told the Chinese that this is now a "core interest" of the United States. Time is also running out here in terms of crazies having control of the weaponry.

Is the onus on the United States to convince the Chinese through other means? In other words, effecting policies unrelated to North Korea? Or is the onus on the Chinese?

DR. CHA: Well, I think the U.S. reaction has been to these provocations and the growing capabilities of the North to reach out and touch the continental United States has been to up the tempo, both BMD preparations and military exercises in the region. Those are meant to enhance readiness, deter North Korean provocations, but also to put pressure on China. I think that's one thing that they have been doing. So that is one aspect of it.

The other aspect in terms of onus on the United States would be whether people think the U.S. should engage in negotiations with North Korea and China to try to put this problem, as some would say, in a parking

spot somewhere. Clearly this administration has not moved in that direction and I think justifiably so.

The other aspect from the Chinese side, and this in part addresses the question to Dr. Garver, I think, is that I think we really underestimate China's ability to sort of muddle through and freeride. Muddle through and freeride low-cost, low-risk, is their policy.

I had a very interesting conversation--I was in Asia last week--with a Chinese scholar who said to me, you Americans don't understand. You've had only a 200 plus year history, and it's all been good. We've had thousands of years, and it's all been bad. You know, at one point we only had a million ethnic Chinese. We were going to be cleansed by the northern invasion.

When you have that kind of history, "muddle through" is your grand strategy. I said, but muddle through--that doesn't have a very good connotation in English. It actually sounds pretty bad. He goes that's the difference between you and us. We think it's a good thing. If we can just survive and muddle through and push off as much of the problems as we can on others, that to us is a good strategy.

COMMISSIONER FIEDLER: But the low risk is determined by us, getting back to my question on the onus.

And one other comment before the co-chair cuts me off, just a political comment. I don't recall that the Bush administration or any administration, Clinton, Bush or any, really pushed the Chinese on the currency question.

HEARING CO-CHAIR BARTHOLOMEW: Okay. Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Madam Chairman.

Dr. Weitz, I was looking at your bio, and you worked with the Defense Science Board and you've done a lot of national security work. So you're broader than just Russia-China relations.

DR. WEITZ: Yes, sir.

COMMISSIONER MULLOY: I was struck by your testimony on page five where you talk about the growing prowess of China's indigenous defense industry and how surprised people are how quickly this is coming on.

Now, Congressman Rohrabacher, who is a very respected senior member of the House Foreign Affairs Committee, said that the transfer of technology and investment in R&D by American corporations into China has helped them in numerous ways.

Do you tie all this foreign investment, transfer of technology, R&D, to their ability to have such progress in their indigenous defense industry?

DR. WEITZ: Yes, I think there's an inevitable fact that when Russia's corporations, American corporations, European corporations, Israeli corporations deal with the Chinese, there's inevitable flow of knowledge, insights, and so on, some of which is applicable to the military-industrial

complex, which, as we know, it's, in China, it's not always clear where the division lies between non-military and military items.

So that is a factor that needs to be taken care of in the sense that we need to watch out for it. It needs to be minimized, but, of course, there are other reasons why we're dealing with China in the economic realm as are the other countries I mentioned. So you have to weigh the balance, but I think, yes, it's inevitable that if you're helping the Chinese develop strong corporations, dealing with a lot of dual-use potential, that some of it is going to spill over and help their military develop and military capacity.

And the Russians are very much aware of this as well. So they try to not give the Chinese certain technologies which they're afraid could either compete with them in third markets or potentially be used against Russia if there ever were a conflict with Russia.

COMMISSIONER MULLOY: As I understand, many of these Chinese companies that our companies do joint ventures with are state-owned enterprises, and then the Chinese industry may be doing civilian things at one part of the company and defense things in the other. So if you aid the one, you're helping the other as well. Is that it?

DR. WEITZ: Yes, I wouldn't say necessarily so, but it can. It can be the case.

COMMISSIONER MULLOY: It can be the case.

DR. WEITZ: Right. Because in certain areas you might be able to conceive of it being transferred, and that means that you insist upon due diligence on at least the American corporations and the Europeans and so on as far as engaged with the--

COMMISSIONER MULLOY: Now, I'm always curious--Dr. Cha, I think you were in DoD and on the NSC in the Bush Administration. Why hasn't DoD played a bigger role in looking at this whole economic relationship in the transfer of wealth and power from here to China and transfer of technology that's helping them strengthen the defense capabilities so rapidly?

DR. CHA: Well, I think there are portions of DoD that I think have looked at these issues in OSD policy shop, the net assessment shop, Andy Marshall's shop, have looked at some of these issues, so I think they have been.

Whether this actually percolates up into policy changes across the different agencies, I think, is a much more difficult task.

But I think this is--clearly the extent to which the economic relationship between the two countries has security implications is something I think that many people inside the government have been thinking about, but I think frankly we're a long way before it actually affects policy unfortunately.

There have been CFIUS cases where the Chinese have tried to make

purchases of certain what we consider strategic industries, and that's where we started seeing the policy manifested.

COMMISSIONER MULLOY: We have 20 seconds--anybody have any other comment? Yes, Dr. Garver.

DR. GARVER: Part of it is technology transfer for market access.

COMMISSIONER MULLOY: I'm sorry?

DR. GARVER: Part of the answer is that a typical arrangement has been the market access for technology transfer. American firms have particular technology they were reluctant to transfer, but transfer is the quid pro quo for getting access to the market.

COMMISSIONER MULLOY: To the Chinese market, yes. Right.

HEARING CO-CHAIR BARTHOLOMEW: Okay.

COMMISSIONER MULLOY: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Our esteemed chairman, Mr. Reinsch, has a question.

CHAIRMAN REINSCH: I need to have at least one during the day. Dr. Cha, it occurred to me, having looked at your testimony, which I thought was really enlightening, that one solution from a Chinese point of view of their problem with North Korea is to have a more cooperative North Korean government. Have they ever done anything to try to facilitate that?

DR. CHA: Yes. I think they've been trying for quite some time to try to do that.

CHAIRMAN REINSCH: I meant with a little more dynamics than we've seen the last 15 years.

DR. CHA: Yes. Well, I think the problem that they face is they can do this either with carrots or sticks or a combination of the two. And I think they feel like the carrot policy just gets them exploited by the North, and the stick policy, the North always basically leverages its own vulnerability or collapse to get the Chinese to back off.

So the North has historically been quite good as, you know, essentially using a "feed me or I'll shoot myself" strategy--

[Laughter.]

DR. CHA: --with the Chinese that has frankly been quite, quite effective.

Now I think that the Chinese do get sick of this. I think sometimes they get terribly tired with it, and until either the South Koreans or the United States or others come up with a better alternative that would show the Chinese that there is actually a very positive sum outcome if this regime were to collapse and unification were to occur, if that argument could be made credibly to the Chinese, I think we have a whole new ball game.

The problem is that even if you say that to them, and it has been said to them, they don't believe it, and they don't trust us when we say forces will stay south of the 38th.

They don't trust any of that, and they--and this is where I think the question about the PLA, this is where I think the PLA plays a large part in how they think about unification, because from a PLA perspective, regardless of how bad North Korean behavior is, from a PLA perspective, unified Korea, democratic U.S. ally, with potential U.S. forces on the border of their northeastern provinces, is just a non-starter for them.

CHAIRMAN REINSCH: No. I think I understand that. I was thinking that from the Chinese point of view, the optimal outcome would be a North Korean government that was separate, not unified, but a North Korean government that followed Chinese policies and didn't cause international trouble and undertook internal reforms, like the Chinese have undertaken, so the Chinese can say, look, you know, this is a good thing.

Is there anybody in the North Korean power structure, such as it is, that has different views from Kim Jong-il?

DR. CHA: It's a very good question. They're trying to transfer power over now to the third son of Kim Jong-il.

CHAIRMAN REINSCH: Kim Jong Un.

DR. CHA: Right. A 27 or 28 year-old.

The one person that people sometimes thought might be an individual worth considering is this fellow Chang Sung-taek, who is the brother-in-law of Kim Jong-il, because he was associated with a lot of the reforms that they attempted in 2002, and then disappeared from the scene and came back.

The problem was he's come back as a hardliner, not as a reformer, which shows that in North Korea, it really isn't about hardline versus not; it's just about power. So I think those expectations have really been deflated with his new role.

But I think you're right. The only chance that the Chinese and the North Koreans have is that if North Korea has their equivalent of a Deng Xiaoping someday. I just don't see that day.

CHAIRMAN REINSCH: Which you said in your testimony doesn't exist.

DR. CHA: Doesn't exist right now. Certainly doesn't exist right now.

CHAIRMAN REINSCH: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Thanks.

Dr. Cha, we're getting you out of here with two minutes left. I have a question, but I'm going to ask Dr. Weitz, so if you need to get up and leave. Thank you to all of our witnesses.

Dr. Weitz, it was sort of a throw-away line that there's some cooperation between China and Russia on cyber, or in cyber. I wonder if you could elaborate on that a little.

DR. WEITZ: Right. Their cooperation is, as in most of their areas, primarily at the declaratory plane. They both bilaterally and particularly in the Shanghai Cooperation Organization have talked about international information security, and their concern historically, at least until recently,

has been they don't want NGOs and Chechen emigres or Uighurs using the Internet to contact, communicate, arouse disturbances in their countries. So they're trying to figure out collectively--

HEARING CO-CHAIR BARTHOLOMEW: How to censor.

DR. WEITZ: --how to deal with that. Now in practical terms I've seen some cooperation, mostly with China and Iran, and I think the Russians and Iranians, too. They haven't cooperated that much together, but they seem to watch other and emulate each other's tactics. I'm sure the Chinese have studied very closely how the Russians used cyber-offensive operations in the war on Georgia and are thinking about how they might be able to do that, say, if war in Taiwan or something.

HEARING CO-CHAIR BARTHOLOMEW: And is there any evidence that they're sharing censorship technology or anything?

DR. WEITZ: Not directly. It's more they share with it other third countries, and not directly, and my impression, at least from the Russians, is the Chinese have been as active as they've been with us, keeping, trying to get whatever information they can from the Russian government Web sites, Russian industry Web sites, so on, and so China has a campaign to collect whatever information they can that might be relevant to their national security, and the Russians are aware of this so they don't want to share anything that could be used against them.

HEARING CO-CHAIR BARTHOLOMEW: Okay. Thank you very much. Gentlemen, thank you. It was a really interesting panel. We appreciate all of your comments and look forward to further discussions with you. Thanks.

DR. WEITZ: Thank you.

DR. CHA: Thank you.

DR. GARVER: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: We're going to take a ten-minute break, and then we'll proceed with our last panel.

[Whereupon, a short break was taken.]

PANEL V: NEW INTEREST GROUPS IN CHINESE FOREIGN POLICY

HEARING CO-CHAIR BARTHOLOMEW: We're going to go ahead and get started. For our final panel of the day, getting to the question of new interest groups in Chinese foreign policy. Before I introduce our witnesses, I'm going to say that I think that this might be the first time in the history of the Commission that we have had an all-female panel.

Now, that shouldn't be noteworthy, but because it's the first time, it is noteworthy. So welcome to all of you.

HEARING CO-CHAIR BROOKES: Can we have an historian look at that?

[Laughter.]

HEARING CO-CHAIR BARTHOLOMEW: Well, we can have an historian

confirm that fact. But our panelists today:

Dr. Yu-wen Chen is a Visiting Scholar at the University of Virginia. She has previously taught at the University of Konstanz and the University of Greifswald in Germany. She is also an Honorary Research Fellow at the La Trobe University, Australia, Institute for Human Security. She covers a lot of ground.

Dr. Erica Downs is a Fellow at the Brookings Institution. She previously worked at the CIA as an energy analyst. She most recently published the monograph, *Inside China, Inc: China Development Bank's Cross-Border Energy Deals*, which I think you could find on the press table, but I think we might be out of copies by now. It's popular.

And our last witness of the day will be Ms. Susan Lawrence, who is an analyst in Asian Affairs at the Congressional Research Service. She has served as a staff reporter in China and in Washington, D.C. for the Far Eastern Economic Review, The Wall Street Journal, and U.S. News & World Report.

We're very glad to have you all here, and we'll start with Dr. Chen.

STATEMENT OF DR. Yu-WEN JULIE CHEN, VISITING SCHOLAR UNIVERSITY OF VIRGINIA, CHARLOTTESVILLE, VIRGINIA

DR. CHEN: First, I would like to thank the Commissioners for inviting me to share my thoughts at this hearing today. I would like to apologize that I'm having a cold, and let me first clarify, actually I'm an interest group expert, so my role today is to analyze the different actors who have been active in China's foreign policy landscape and then look at their behaviors and analyze whether they really use some kind of interest group strategies to influence the politics of China.

I would like to clarify today that maybe I'm a little bit different from the other panelists who are really China experts in this domain.

So let me begin. The primary decision-making locus for foreign policymaking in China can be found in the black box of the Politburo Standing Committee. It is widely surmised, but it's only a conjecture, that a lot of major foreign policy decisions are first deliberated or discussed in the Foreign Affairs Leading Small Group, and the role of the PSC lies more in giving the final approval.

So in the end, it's the PSC that has the final say on all the major foreign policy decision-making.

The role of the Foreign Ministry has been a lot in interpreting the policies made at the highest level and then in carrying them out. The PLA, which the Commissioners have asked me to elaborate on today, is a notable actor, well-entrenched in the Party-State system. So the embeddedness of the PLA in the dominant system disqualified it from being called an "interest

group," as the term is understood in liberal democracies such as in America.

However, it is worth observing the PLA's changing role because its leaders have become more vocal about China's foreign relations, and I think most of you have observed in recent months the PLA has apparently trespassed on the Foreign Ministry's conventional role as the mouthpiece of foreign affairs.

It appears that the PLA has become autonomous in foreign affairs, asserting its realist attitude towards international politics and in defending what it believes to be China's core national interests. It is intriguing how one can interpret the PLA's seemingly autonomous behavior in recent months.

Are these incidents a lack of coordination between the PLA and the Foreign Ministry, or are they signs that the PLA is really becoming more active in managing China's foreign affairs?

This is worthy of continuous observation, but with regards to the PLA, I wouldn't directly suggest that it has become a kind of "interest group," but it certainly has become more vocal in asserting some kind of PLA group interest.

Next, I would like to talk about the state-owned economic players in China. They have become more prominent because of China's support of marketization and China's gradual integration into the global economic system. While these actors may not directly lobby policymakers to influence policies, their actions at times do have impacts on China's foreign relations.

For instance, when China-made melamine-tainted milk products affected consumers in foreign countries, the state-owned dairy products company, Sanlu, triggered crises that had implications for China's relations with other countries.

And moreover, when China's energy companies develop global ambitions to operate in conflict-ridden African countries, such as Sudan, they play a role in China's formation of foreign policy toward Sudan and toward countries that have a stake in Sudan.

To a certain extent, the ways these economic actors operate is more comparable to the way interest groups operate in liberal democracies. Their economic importance give them greater access to the locus of China's decision-making process, and their ability to provide more detailed and expert knowledge, and--I think this is the key-- they have expert knowledge on certain vital economic issues--this increases their value for decision-makers.

But in the end, again, I would like to emphasize in the Party-State system, it's the decision-makers that have the final say and the final outcome of the policy.

In interest group politics, we often discern two kinds of strategies. One kind of strategy is called inside strategy, or access strategy, meaning

that the interest groups try to join the policymaking process, or at least be invited into the process and through direct communication with the decision-makers where they can try to mold China's foreign policy priorities.

The second kind of strategy is called "outside strategy," or "voice strategy," meaning that the actors try to mobilize the wider constituents in the society and hoping that these constituents can join the collective effort for the government to attend to their needs.

When I talk about these economic actors, because of their significance and economic importance, they have adopted certain kind of inside strategy, or access strategies, to influence policy. And as for outside strategies, well, these approaches are often used by actors who do not have the capacity to gain access to the decision-makers, and this is the last group I'm going to talk about.

That will be the media and the netizens. Well, these actors are in the periphery of the policymaking establishment. I would never term this group as interest groups in any way. They are merely actors articulating either their individual interests or interests that they believe would have an impact on the public goods.

In addition, most of the time online interest articulation is so fragmented that they do not become salient enough to catch the attention of the policymakers.

Having said this, netizens do have a role to play in foreign policy. For instance, in 2005, triggered by Japan's downplay of the extent of the wartime atrocities in China, more than 40 million Chinese netizens signed a petition to oppose Japan's attempt to enter the U.N. Security Council as a permanent member.

It is nothing new for Chinese netizens to express nationalist sentiments or anti-Japanese views. And due to the fact that the Communist Party's legitimacy is partly dependent on nationalism, this is where netizens can have some impact on foreign policy or at least put the Party-State in a difficult situation where they need to respond.

So netizens are not interest groups, per se, but they can articulate group interests and they can invite more netizens to join their collective elaboration of interests. However, in my research, I find it very difficult to establish a link between online pressure and government's foreign policy. It is more appropriate to say that policymaking elites can entertain certain online special interests, and pick and choose the ones they see most beneficial for the execution of foreign affairs.

So in the case of anti-Japanese sentiment, the elites can allow the anger to rise, signaling a kind of collective Chinese discontent with Japan, and hoping that such discontent could push Japan to concede on certain issues.

Or if they see the need to adopt a more mature and rational strategy,

then they will put down anti-Japanese sentiments.

To conclude, first of all, there is a proliferation of actors seeking to affect China's handling of foreign affairs. However, except for the PLA and some heavyweight state-owned agencies, most groups lack access to key decision-makers, and economic actors seem to fare much better than non-economic actors with regard to foreign policymaking.

This, to a certain extent, mirrors the experience of interest group politics in Western Europe and in the United States.

Secondly, while the PLA and the state-owned economic players are not new, they have shown a certain capacity and willingness to become more autonomous, and so their rising significance suggests the waning role of the Foreign Ministry and indicates a slow--I have to stress, a slow process of pluralization of China's foreign policymaking process.

Thirdly, while some observers have used the term "interest group" in a Chinese context, strictly speaking, what I observe is the rise of government agencies and social groups seeking to articulate their perceived group interests. It is clear that more group interests are now being articulated in China than ever before, even in foreign policymaking.

But, again, I would like to stress, these groups are not, and should not be understood as interest groups in liberal democracies.

Lastly, having noted that group interests have been elaborated in China, I think the question remains whether the decision-makers will take their voices into account, and this is very difficult to assess given that foreign policy is a black box, even sometimes in liberal democracies.

I would like to caution that not much empirical evidence exists for us to establish too firm a link between the rising expressions of positions by these actors and their actual impact on China's foreign policymaking process.

That wraps up my presentation. I await your questions.

[The written statement follows:]

PREPARED STATEMENT OF DR. Yu-WEN JULIE CHEN, VISITING SCHOLAR UNIVERSITY OF VIRGINIA, CHARLOTTESVILLE, VIRGINIA

First, I would like to thank the Commission for inviting me to share my thoughts at this hearing today.[74] The primary decision-making locus for foreign policy in Beijing can be found in the black box of the Politburo Standing Committee (PSC). Other actors who try to shape China's thinking with regard to foreign policy can be found in the party apparatus, government agencies, and the People's Liberation Army (PLA). The Foreign Ministry plays a vital role in interpreting policies, made at the highest levels, and in carrying them out.

Having said this, my task today is to discuss whether there is an emergence of new interest groups in China's foreign policy-making process. I would like to identify who these interest groups are and address the influence they

74 I wish to thank Dr. James Leibold at La Trobe University for his comment on an early draft of this statement.

have on foreign policy decision-making. In tandem with the emergence of these new interest groups vying to affect China's formation of foreign policies, I will address how the role of the Ministry of Foreign Affairs has changed.

Before I delve into this subject, I would like to first clarify that — within a Chinese context — the use of the term "interest groups" is not always appropriate.

Articulation of Group Interests ≠ Interest Groups

Increasingly in recent years, when talking about China's socioeconomic transformation, we see the emergence of the term, "interest groups," in scholarly work and in the press. It's true that many scholars have noted the emergence of a civil society (or civil societies) in China. The largest and most active groups are economically driven. However, the operation and purpose of these diverse "organizations," don't really fit within the understanding of the term interest groups that are widely discussed in liberal democracies. In China, most groups are guided by the Chinese state. While some of these groups are afforded quasi-official status, most are operated by local elites who seek to mediate interests between the dominant system (i.e., the state) and the subsystem (i.e., society). In fact, the vast majority expect to become part of the dominant system, rather than to counter it. The function of these types of groupings isn't always to affect policy-making or influence the institution of government, but try to create a closer association between their group and the dominant institution. While it's debatable whether one can use the Western term "interest groups" to describe such entities in China, they nevertheless exist, proliferate and must be discussed. In fact, they have demonstrably created a new space in which to redefine the conventional relationship between the Chinese state and society, or the dominant system and subsystem. Because this is an emerging phenomenon, scholars are still debating and defining what they have observed. Some scholars dare to borrow the Western term "interest groups,"[75] while others are more reserved.

In the following analysis, I will discuss these actors and indicate which groups operate more like interest groups, as understood in liberal societies, and which don't fit that description at all, but that nevertheless "articulate their own group's interests." While these new actors might be somewhat influential in certain socioeconomic domains, they are less influential in the realm of foreign policy-making, as foreign policy-making in China remains a highly sensitive and opaque area controlled by a select number of party and government elites. Albeit less influential, the arrival of new actors in these so-called "interest groups" changes the landscape of China's foreign policy-making.

New and Not-So-New Actors

It is important to note that the PLA, which the Commissioners have asked me to elaborate on, is a notable old actor, well-entrenched in the party-state system. The embeddedness of the PLA in the dominant system disqualifies it from being called an "interest group." However, it's worth observing the PLA's changing role, because its leaders have become more vocal about China's foreign relations. In fact, in recent months, the PLA has apparently trespassed on the Foreign Ministry's conventional role as the mouthpiece of foreign affairs. For example, at the U.S.-China Strategic and Economic Dialogue in May 2010, a PLA officer called the U.S. a "hegemonic country." And in June 2010, two PLA officers engaged in a heated debate with Defense Secretary Robert Gates.[76] It appears that the PLA has become more autonomous in foreign affairs, asserting its realist attitudes toward international politics and defending what is believes to be China's national interests.[77] It is intriguing how one can interpret the PLA's seemingly autonomous behavior in foreign affairs. Are these incidents an indication of a lack of bureaucratic

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75 Jakobson, Linda; Knox, Dean (2010) "New Foreign Policy Actors in China," *Stockholm International Peace Research Institute Policy Paper* No. 26, http://books.sipri.org/product_info?c_product_id=410.

76 "America: PLA Finally Learns to Demonstrate its Muscles; MFA: Ask the Military about the Chengdu J-20," January 8, 2011, http://news.backchina.com/viewnews-122118-big5.html (in Chinese); "PLA Interferes in Foreign Affairs, Embarrassing Chinese Diplomats," *China News*, October 5, 2010, http://news.creaders.net/headline/newsViewer.php?nid=446997&id=1013186&dcid=3 (in Chinese).

77 Shambaugh, David (2011) "Coping with a Conflicted China," *The Washington Quarterly,* Vol. 34, No. 1, pp. 7-27.

coordination between the PLA and the Ministry of Foreign Affairs? Or are they signs that the PLA is becoming more active in managing China's foreign affairs? This is worthy of continuous observation. With regard to the PLA, while I wouldn't directly suggest that it has become a kind of "interest group," it certainly has become more vocal in articulating a kind of "PLA" group interest.

In addition to the PLA, many quasi-state actors can be found outside the official channels of foreign policy making, such as state-own enterprises (SOEs), energy companies, large financial institutions, local governments, and research institutes - all of which have increasingly demonstrated an intention to express their positions and articulate their interests on issues that have a bearing on China's foreign relations.

State-owned economic players have become more prominent because of China's support of marketization and the country's gradual integration into the global economic system. These actors may not directly lobby political elites to influence the shaping of foreign policy, but their actions do, at times, impact on China's foreign relations. For example, when China-made melamine-tainted milk products affected consumers in foreign countries, the state-owned dairy products company, Sanlu, triggered crises that had implications for China's relations with other nations.

Moreover, when Chinese energy companies develop global ambitions to operate in conflict-ridden African countries, such as Sudan, they play a role in the formation of China's foreign policy toward Sudan, and toward countries that have a stake in Sudan.
To a certain extent, the ways these economic actors operate is more comparable to the way interest groups operate in liberal democracies. Their economic importance gives them greater access to the locus of China's decision-making process. Their ability to provide more detailed and expert knowledge on certain vital economic issues also increases their value for decision-makers.

In interest group politics, scholars often discern two kinds of strategies that groups use to influence processes and policies. One is known as an inside strategy or an access strategy. Employing this strategy, the interest groups seek to join the policy-making process, or at least be invited into the process. Through more direct communication with key decision-makers, the group seeks to set and mould China's foreign policy priorities. The second type of strategy often used is known as an outside strategy or a voice strategy. In this approach, the actors attempt to mobilize the wider constituents of a society who wish to join a collective effort to get the government to attend to their needs.[78] Although it remains debatable whether China's most influential economic players fit precisely into the image of an "interest group," as the term is understood in liberal democracies, in China, these economic actors adopt certain inside strategies or access strategies in their efforts to affect China's foreign policy-making.

As for outside strategies or voice strategies, these approaches are often used by actors who lack the capacity to directly access decision-makers. This group of actors — which consists primarily of China's media and netizens — is the last group I will discuss today. The pluralization of media channels and the advent of the Internet have given Chinese citizens new avenues by which to obtain political information and understand politics. Cyberspace provides an important milieu for Chinese citizens to articulate their opinions and interests, thus creating diverse kinds of public spaces, online. However, these media and cyber-actors reside at the periphery of the policy-making establishment. I would not term these groups "interest groups." They are mere actors either articulating their individual interests or the interests they believe would have an impact on the public good. One should also note that most online interest articulation is fragmented and rarely becomes salient enough to catch the attention of key policy-makers.

78 Beyers, Jan (2004) "Voice and Access: Political Practices of European Interest Associations," *European Union Politics*, Vol. 5, No. 2, pp. 211-40; Kollman, Ken (1998) *Outside Lobbying: Public Opinion and Interest Group Strategies*. Princeton: Princeton University Press.

Although there are incidences in which public opinion can affect certain public policies, this is less so in the highly sensitive domain of foreign policy. However, having said this, netizens do have a role to play in foreign policy. For example, in 2005, triggered by Japan's downplay of the extent of its wartime atrocities in China, more than 40 million Chinese netizens signed a petition to oppose Japan's attempt to become a permanent member of the United Nations Security Council. [79]

It is nothing new for Chinese netizens to express nationalist sentiment and anti-Japanese views. Due to the fact that the communist party's legitimacy is partly dependent on nationalism, this is where netizens can have some impact on foreign policy, or at least put the party-state in a (difficult) situation where they need to respond.[80] Netizens aren't interest groups, per se, but they can articulate group interests, inviting more netizens to join their collective elaboration of interests. However, it is hard to establish a link between online pressure and the government's foreign policy. It is more appropriate to say that policy-making elites can entertain online expression of interests, picking and choosing the ones they see as being most beneficial for the execution or conduct of foreign affairs. In the case of anti-Japanese sentiment, the elites can allow the anger to rise, signaling a kind of collective Chinese discontent toward Japan, while hoping that such discontent forces Japan to concede on certain issues.[81] Or, if they see the need to utilize a more mature and rational strategy when dealing with their Japanese counterparts, elites can suppress anti-Japanese sentiment.

The Chinese government does realize the potential of netizens. The Foreign Ministry has opened up an online forum between government officials and Chinese netizens for the purpose of discussing certain foreign policy issues.[82] In fact, leaders in liberal democracies are doing similar things. This simply suggests that China is using the pluralization of communication channels to allow the articulation of ideas and sentiments by certain group interests. In this case, hardly any interest group politics come into play. An intriguing question worthy of further observation is whether these actors routinely communicate with one another to find common ground or whether, by and large, they simply try to consolidate their own views.[83]

Conclusions

A few conclusions can be drawn regarding the roles of various new and not-so-new actors on the landscape of foreign policy making in China. First, there is a proliferation of actors seeking to affect China's handling of foreign affairs. However, except for the PLA and some heavyweight state-owned agencies and companies, most groups lack access to key decision-makers who can determine the ultimate outlook of China's foreign policy. In the end, it is decision-making elites who can define and determine which groups can exist and enter the foreign policy-making process. Economic actors fare better than non-economic actors with regard to exercising an impact on foreign policy-making. To a certain extent, this mirrors the experiences of interest group politics in Western Europe and the United States.

Secondly, while the PLA and state-owned economic players aren't new, they have shown a capacity and willingness

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79 Jakobson, Linda; Knox, Dean (2010) "New Foreign Policy Actors in China," *Stockholm International Peace Research Institute Policy Paper* No 26, http://books.sipri.org/product_info?c_product_id=410.

80 I wish to thank Dr. James Leibold for strengthening my argument here.

81 "Netizens Criticize Japan's Arrest of Chinese Fisherman," *People's Daily*, September 9, 2010, http://english.peopledaily.com.cn/90001/90776/90882/7135579.html.

82 "Int'l Department of CPC Opens to Netizens for First Time," *People's Daily*, April 1, 2011, http://english.peopledaily.com.cn/90001/90776/90883/7338086.html; "Chinese Netizens Talking Hearts on Internet," *Xinhua News Agency*, February 24, 2004, http://www.china.org.cn/english/Life/88219.htm.

83 Leibold, James, "Blogging Alone: China, the Internet, and the Democratic Illusion?" (unpublished paper).

to become more autonomous by getting involved in international affairs. Their rising significance suggests the waning role of the Foreign Ministry and indicates a slow process of pluralization in China's foreign policy-making process.

Thirdly, I would like to emphasize, again, that these actors don't precisely fit into the image of "interest groups," as that term is understood in liberal democracies. While some observers have used the term "interest groups" in the Chinese context, strictly speaking, what they observe is the rise of government agencies or social groups seeking to articulate their perceived group interests. It is clear that more "group interests" are now being articulated in China than ever before, even in the highly-sensitive domain of foreign policy. But again, these groups aren't interest groups as understood in liberal democracies.

Finally, having noted that group interests have been exerting an increasing influence in China, the question remains as to whether key foreign policy makers have taken the interests of such groups into consideration. This is a difficult question to assess and answer. Foreign policy making is traditionally a black box, sometimes even in liberal democracies. I should caution that not much empirical evidence exists for us to establish too firm a link between the rising expressions of positions by these new actors and their actual impact on China's ultimate foreign policy choices. It is more prudent to say that the role of these actors lay in providing information and views, thus suggesting a potential way to influence China's foreign policy agenda or priorities.

HEARING CO-CHAIR BARTHOLOMEW: Thank you.
Dr. Downs.

STATEMENT OF DR. ERICA S. DOWNS
FELLOW, BROOKINGS INSTITUTION, WASHINGTON, D.C.

DR. DOWNS: Good afternoon. I first would like to thank the members of the Commission for the opportunity to testify. It's an honor to participate in this hearing.

My remarks today will focus on how Chinese companies are shaping China's diplomacy. The international expansion of Chinese companies and their increasing influence on China's foreign policy is eroding a long-standing principle of Chinese foreign policy, noninterference in the internal affairs of other countries.

The global business activities of Chinese firms are heightening domestic and international pressures on the Chinese government to protect Chinese assets and citizens abroad and to help resolve international crises.

I will now discuss four ways in which the cross-border deals of Chinese firms, especially China's national oil companies, and the China Development Bank, have prompted the Chinese government to move away from the principle of noninterference.

First, the global activities of Chinese companies are spurring the Chinese government to substantially increase its efforts to protect Chinese citizens abroad.

The expansion of Chinese companies around the world has increased

the number of Chinese citizens working overseas including in countries with elevated levels of political risk. The number of Chinese workers abroad is estimated to have increased from 3.5 million in 2005 to about 5.5 million today. This has prompted China's foreign policy establishment to step up its efforts to ensure the safety of Chinese citizens overseas.

The evacuation of nearly 36,000 Chinese citizens from Libya is the most prominent example of this phenomenon. It was the largest and most complicated evacuation of Chinese citizens in the history of the People's Republic of China. The evacuation was also noteworthy because it involved military deployment beyond China's borders.

Libya evacuation underscores the Chinese government's enhanced ability to protect its nationals abroad. The prominent coverage of the evacuation in the Chinese media was probably aimed in part at demonstrating to the Chinese public, which expects its government to take care of compatriots working overseas, that Beijing has improved its crisis management skills with respect to ensuring the safety of the Chinese people.

Indeed, the swift and efficient rescue of Chinese citizens in Libya stands in contrast to the government's more tepid responses to previous situations in which Chinese nationals have found themselves in harm's way such as when Chinese oil workers were kidnapped and killed in Ethiopia in 2007.

That response triggered criticisms from China's Internet users, or netizens, some of whom urged Beijing to dispatch the military to defend China's interests abroad.

Second, the expanding global business portfolios of Chinese companies are prompting Beijing to seek to influence economic policies in other countries to protect investments made by Chinese companies and to ensure that loans extended by Chinese banks are repaid.

China Development Bank's loans to Venezuela are a case in point. In 2010, the Bank agreed to extend two lines of credit totaling $20.6 billion to the Venezuelan government. The Bank's efforts to ensure repayments of its loans involve two noteworthy endeavors to shape Venezuela's economic policy and decision-making.

First, in May 2010, a Chinese delegation comprised of more than 30 representatives of government bodies and companies spent 18 days in Venezuela where they drafted plans to help Caracas improve its economy. The plans covered issues including the achievement of price stability, improving the investment climate, reforming the exchange rate and developing selected industries.

The healthier the Venezuelan economy, the more likely Venezuela will be able to repay its loans.

Second, China Development Bank is playing an active role in

determining Venezuela's allocation decisions. Projects funded by the lines of credit require the Bank's approval, and China Development Bank probably wants to ensure that its loans are financing projects that will be perceived as benefiting the country of Venezuela as a whole, and not just the administration of President Hugo Chavez.

Chinese officials and business leaders clearly calculate that the focus on such projects may also ensure that if China Development Bank is still owed money after President Chavez leaves office, his successor will continue to repay the loans.

Third, China Development Bank's cross-border deals provide Beijing with financial leverage over distressed borrowers to advance other Chinese interests. This is especially true for Venezuela and Turkmenistan, where China Development Bank has leveraged its loans to advance other Chinese foreign policy goals including supporting the international use of China's currency and enhancing energy supply security.

In the case of Venezuela, the Bank has taken advantage of its status as Venezuela's largest foreign creditor to further the Chinese government's goal of promoting greater international use of the renminbi. More than half of the $20.6 billion loan is denominated in Chinese currency which locks Venezuela into spending the money on Chinese suppliers of goods and services.

China Development Bank was able to structure its loan in this way because Venezuela's high level of sovereign risk makes accessing international capital markets difficult, and because President Hugo Chavez has foresworn borrowing from the International Monetary Fund, probably because the conditionalities imposed by the IMF would likely cause his government to fall.

In the case of Turkmenistan, China Development Bank has leveraged its role as a provider of emergency funds to enhance China's energy supply security. In 2009, the Bank agreed to lend $4 billion after an explosion on Turkmenistan's natural gas export pipeline to Russia deprived Ashgabat of a major source of revenue for nine months.

The loan is being used to finance the development of South Yolotan, one of the world's five largest natural gas fields. Not only did the loan help China National Petroleum Corporation secure a role in the development of South Yolotan, but some of the field's gas will eventually flow to China.

Fourth, the growing overseas activities of Chinese firms are contributing to increasing international pressure on Beijing to assume global responsibilities commensurate with China's global economic interests.

Two of the most high-profile and well-known examples involve Sudan and Iran. In the case of Sudan, Washington and other world capitals urged Beijing to use whatever influence it derived from China National Petroleum Corporation's investment in Sudan to press Khartoum to stop violence in

Darfur. In the case of Iran, Washington and other world capitals have lobbied Beijing to prioritize curbing Tehran's nuclear ambitions over the expansion of Chinese oil companies in Iran.

In both cases, international pressure appears to have modestly influenced China's diplomacy. With respect to Sudan, in 2006 and 2007, Beijing helped to persuade Khartoum to accept a hybrid United Nations-African Union peacekeeping force in Darfur.

With respect to Iran, in 2010, China voted in support of United Nations Security Council Resolution 1929, which contains a fairly comprehensive arms embargo and laid the groundwork for more robust unilateral sanctions. More recently, China's national oil companies appear to be following Washington's warning not to backfill projects abandoned by European oil companies and other firms in Iran.

In conclusion, the international expansion of Chinese companies is redefining China's national interests and the actions that Beijing takes to protect them. Noninterference in the internal affairs of other countries is no longer an option for the Chinese government when events in other countries threaten the assets of Chinese companies and the lives of Chinese citizens.

Indeed, the Libya evacuation is likely to elevate expectations within China that the Chinese government will similarly protect Chinese workers abroad in future crises.

Moreover, as Chinese firms continue to expand overseas, Beijing is also likely to find itself under greater international pressure to influence the policies of countries in which Chinese companies are invested to help address global challenges involving these countries.

Thank you.

[The written statement follows:]

PREPARED STATEMENT OF DR. ERICA S. DOWNS
FELLOW, BROOKINGS INSTITUTION, WASHINGTON, D.C.

The international expansion of Chinese companies and their increasing influence on China's foreign policy is eroding a longstanding principle of Chinese diplomacy, noninterference in the internal affairs of other countries. The global business activities of Chinese firms are heightening domestic and international pressures on the Chinese government to protect Chinese assets and citizens abroad and to help resolve international crises. My remarks today will focus on four ways in which the cross-border deals of Chinese firms, especially China's national oil companies and China Development Bank, have prompted the Chinese government to move away from the principle of noninterference.

First, the global activities of Chinese companies are spurring the Chinese government to substantially increase its efforts to protect Chinese citizens abroad.

The expansion of Chinese companies around the world has increased the number of Chinese citizens working

overseas, including in countries with elevated levels of political risk. The number of Chinese workers abroad is estimated to have increased from 3.5 million in 2005 to 5.5 million today.[84] This has prompted China's foreign policy establishment to step up its efforts to ensure the safety of Chinese citizens overseas.

The evacuation of nearly 36,000 Chinese citizens from Libya, where Chinese workers were attacked and Chinese projects looted, is the most prominent example of this phenomenon. It was the largest and most complicated overseas evacuation of Chinese citizens in the history of the People's Republic of China. The evacuation was also noteworthy because it involved military deployment beyond China's borders. The government diverted a naval frigate from anti-piracy patrols in the Gulf of Aden and dispatched four military aircraft to participate in the evacuation.

The Libya evacuation underscores the Chinese government's enhanced ability to protect its nationals abroad. The prominent coverage of the evacuation in the Chinese media was probably aimed in part at demonstrating to the Chinese public, which expects its government to take care of compatriots working overseas, that Beijing has improved its crisis management skills with respect to ensuring the safety the Chinese people. Indeed, the swift and efficient rescue of Chinese citizens in Libya stands in contrast to the government's more tepid responses to previous situations in which Chinese nationals have found themselves in harm's way, such as when Chinese oil workers were kidnapped and killed in Ethiopia in 2007. That response triggered criticisms from Chinese internet users, some of whom urged Beijing to dispatch the military to defend China's interests abroad.[85]

Second, the expanding global business portfolios of Chinese companies are prompting Beijing to seek to influence economic policies in other countries to protect investments made by Chinese firms and to ensure that loans extended by Chinese banks are repaid.

China Development Bank's loans to Venezuela are a case in point. In 2010, China Development Bank agreed to extend two lines of credit totaling $20.6 billion to the Venezuelan government which are secured by deliveries of oil to China National Petroleum Corporation. The bank's efforts to ensure repayment of its loans involve two noteworthy endeavors to shape Venezuela's economic policies and decisions.

First, in May 2010, a Chinese delegation comprised of more than 30 representatives of government bodies and state-owned enterprises spent eighteen days in Venezuela, where they drafted plans to help Caracas improve its economy. The plans covered issues including the achievement of price stability, improving the investment climate, reforming the exchange rate and developing selected industries. The healthier the Venezuelan economy, the more likely Venezuela will be able to repay its loans.

Second, China Development Bank is playing an active role in determining Venezuela's allocation decisions. Projects funded by this line of credit require the bank's approval. China Development Bank probably wants to ensure that its loans are used to finance projects -- such as the construction of housing and power plants -- that will be perceived as benefitting the country of Venezuela as a whole and not just the administration of President Hugo Chavez. Chinese government officials and business leaders clearly calculate that the focus on such projects may also ensure that if China Development Bank is still owed money after Chavez leaves office, his successor will continue to repay the loans.[86]

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[84] "Libya a reminder that citizens must come first," *South China Morning Post*, March 4, 2011.

[85] Edward Cody, "China Expansion Puts Workers in Harms Way; Attack on Ethiopian Oil Fields Highlights Political Perils of Pursuing Resources Abroad," *Washington Post*, April 26, 2007; and Rowan Callick, "China's African venture is risky business," *The Australian*, April 30, 2007.

[86] For more information on China Development Bank's loans to Venezuela, see Erica Downs, *Inside China, Inc: China Development Bank's Cross-Border Energy Deals*, John L. Thornton China Center Monograph Series, No. 3 (Brookings Institution, March 2011).

Third, China Development Bank's cross-border deals provide Beijing with financial leverage over distressed borrowers to advance other Chinese interests.

This is especially true for Venezuela and Turkmenistan, where China Development Bank has leveraged its loans to advance other Chinese foreign policy objectives, including supporting the international use of Chinese currency and enhancing energy supply security.

In the case of Venezuela, China Development Bank has taken advantage of its status as Venezuela's largest foreign creditor to further the Chinese government's goal of promoting greater international use of the renminbi. More than half of the $20.6 billion loan from China Development Bank ($10.6 billion) is denominated in Chinese currency, which locks Venezuela into spending the money on Chinese suppliers of goods and services. China Development Bank was able to structure its loan in this way because Venezuela's high level of sovereign risk makes accessing international capital markets difficult, and President Hugo Chavez has foresworn borrowing from the International Monetary Fund because the conditionalities imposed by the IMF would likely cause his government to fall.

In the case of Turkmenistan, China Development Bank has leveraged its role as a provider of emergency funds to enhance China's energy supply security. In 2009, the bank agreed to lend $4 billion after an explosion on the pipeline that delivers most of Turkmenistan's natural gas exports to Russia. Deliveries did not resume for nine months, depriving Ashgabat of a major source of revenue. The loan from China Development Bank is being used to finance the development of South Yolotan, one of the world's five largest natural gas fields. Not only did the loan help China Natural Petroleum Corporation secure a role in the development of South Yolotan, but some of the field's natural gas will flow through the Central Asia Natural Gas Pipeline to China.

Fourth, the growing overseas activities of Chinese firms are contributing to increasing international pressure on Beijing to assume global responsibilities commensurate with China's global economic interests.

Two of the most high-profile examples involve Sudan and Iran. In the case of Sudan, Washington and other world capitals urged Beijing to use whatever influence it derived from China National Petroleum Corporation's substantial investments in Sudan to press Khartoum to stop the violence in Darfur. In the case of Iran, Washington and other world capitals have lobbied Beijing to prioritize curbing Tehran's nuclear ambitions over the expansion of China's national oil companies in Iran.

In both cases, international pressure appears to have modestly influenced China's diplomacy. With respect to Sudan, in 2006-2007, Beijing helped to persuade Khartoum to accept a hybrid African Union-United Nations peacekeeping force in Darfur. With respect to Iran, in 2010, China voted in support of United Nations Security Council Resolution 1929, which contains a fairly comprehensive arms ban and provided a platform for the implementation of more robust unilateral sanctions against Iran by the United States, the European Union, Japan and other countries. More recently, China's national oil companies appear to be following Washington's warning not to "backfill" oil and natural gas exploration and production projects abandoned by European and other firms.

In conclusion, the international expansion of Chinese companies is redefining China's national interests and the actions Beijing takes to protect them. Noninterference in the internal affairs of other countries is no longer an option for the Chinese government when events in other countries threaten the assets of Chinese companies and the lives of Chinese citizens. Indeed, the Libya evacuation is likely to elevate expectations within China that the Chinese government will similarly protect Chinese workers abroad in future crises. Moreover, as Chinese firms continue to expand overseas, Beijing is also likely to find itself under greater international pressure to influence the policies of countries in which Chinese firms are invested to help address global challenges involving these countries.

STATEMENT OF MS. SUSAN V. LAWRENCE
ANALYST IN ASIAN AFFAIRS, CONGRESSIONAL RESEARCH SERVICE, WASHINGTON, D.C.

HEARING CO-CHAIR BARTHOLOMEW: Thank you.

Ms. Lawrence.

MS. LAWRENCE: Thank you very much for inviting me to testify before the Commission today. It's likewise an honor for me.

We've been asked to discuss the policymaking process for foreign policy in China and also new actors.

Even as China's global engagement expands and deepens, major foreign policy decisions continue to be made by a handful of officials at the very top of the system. As with other aspects of Chinese policy, however, senior leaders often seek to set the tone and outline the broad contours of China's foreign policy but leave lower levels to work out the details.

At the lower levels, different parts of the bureaucracy, sometimes with overlapping mandates, interpret instructions from high up in ways that suit their own institutional interests. Mechanisms intended to promote coordination often prove ineffective with even fellow government ministries frequently unwilling to give ground to each other in service of broader national policy. The result can be confusion for outsiders about what Chinese foreign policy really is.

Coordination between government ministries and the PLA is even more challenging than coordination within the government. The PLA's line of command consists of uniformed officers up to the top of the political system where two civilians, Central Military Commission Chairman Hu Jintao and Vice Chairman Xi Jinping, exercise ultimate control and oversight of the armed forces.

The military does not answer to anybody analogous to the U.S. Congress nor does it have a culture of communication with government agencies. Few analysts question the military's loyalty to the Communist Party, but in recent years, some have questioned the effectiveness of the Party's efforts to coordinate the military's statements and activities with, for example, those of the Foreign Ministry.

An array of new actors in Chinese foreign policy and the changing roles of traditional ones have made Chinese foreign policy messier still. In a recent study from SIPRI [the Stockholm International Peace Research Institute], two scholars documented the influence of foreign policy actors on the margins, including powerful state-owned corporations, local governments, research institutes and academia, the media, and China's growing ranks of outspoken Internet-enabled netizens.

They conclude that as a result of the rivalries among bureaucratic

players and the emergence of new actors on the margins, we have a fracturing of authority in China's foreign policy, meaning that, quote, "foreigners can no longer deal solely with the Ministry of Foreign Affairs and must instead take into account multiple actors who have both a stake and a say in the decision-making processes on any given issue."

To talk a little bit about the existing elite level foreign policy process, the two key entities are the Communist Party's Politburo Standing Committee, comprised of the top nine figures in the Communist Party, and the Party's Foreign Affairs Leading Small Group and its attached public office.

The Politburo's Standing Committee is China's most senior decision-making body. Its meetings are not publicized, but the group is believed to meet several times a month and to operate on a consensus basis.

China's March 2011 decision to abstain on the United Nations Security Council vote to authorize a no-fly zone over Libya would almost certainly have been approved by the Politburo Standing Committee.

Several PSC members have a strong institutional stake in foreign policy issues. The key figures, though, appear now to be Hu Jintao and Xi Jinping, the number-one and number-six ranked people in the Party.

They also serve as the chair of the body that a lot of analysts believe to be the locus of foreign policymaking in China, which is the Communist Party's Foreign Affairs Leading Small Group. It's the coordinating body. Its membership is not public, but members are believed to be drawn from the Party, the government, and the military. Significantly, some close observers of Chinese foreign policy believe that the Foreign Affairs Leading Small Group may not have met as a full body for as long as two years. If true, it's unclear why this should be so other than perhaps that Hu and Xi feel comfortable running foreign policy without regular input from the full membership.

Attached to the Foreign Affairs Leading Small Group is an office that has a public profile. Its role is to conduct research, advise the Foreign Affairs Leading Small Group on Foreign Policy issues, and coordinate implementation of foreign policy decisions.

It's headed by China's most senior dedicated foreign policy official, the 70-year-old State Councilor Dai Bingguo. He, rather than the Foreign Minister, is U.S. Secretary of State Hillary Clinton's counterpart.

Individual members of the broader 25 person Politburo play prominent foreign policy roles, too. Strikingly, though, the Politburo itself does not seem to have a role in foreign policy. The Party has posted online now agendas from Politburo meetings going back to 2002, and they give no indication that the Politburo discusses foreign policy issues.

Beneath the level of the Standing Committee and the Foreign Affairs Leading Small Group, lines of authority become much more blurred. U.S.

officials have discovered this at times to their chagrin. U.S. officials have seen commitments made by China's top leaders apparently blunted in implementation. Whether this is by design or because top leaders are truly unable to impose their will on their bureaucracies is unclear.

One particularly pronounced example has been the refusal of China's military to commit to sustained military-to-military relationship with the United States. Although President Obama and President Hu pledged in two joint statements to take concrete steps to advance sustained and reliable military-to-military relations, the military continues to hold the military relationship hostage to the issue of U.S. arms sales to Taiwan.

The strongly nationalist tone in popular media, such as the tabloid Global Times, and in many Chinese Web postings related to foreign policy no doubt contributes to foot-dragging in the bureaucracy and perhaps at the leadership level.

While the Party experiments with more sophisticated ways of measuring public sentiment, leaders at all levels still tend to rely heavily on the outbursts of China's unruly netizens as a gauge of popular opinion. Always fearful of public protests, leaders can be weary of appearing to embrace positions that the netizenry opposes.

To counter such trends, the U.S. Embassy in Beijing has made a point of reaching out to popular Chinese bloggers, embedding them on trips that the U.S. Ambassador makes to the provinces, where they blog from banquets given in his honor.

China's top micro-bloggers have millions of followers who often re-tweet their tweets to their friends and followers, shaping popular opinion and the climate for official decisions.

I want to just, as a case study, to talk a bit about China's engagement with Africa as an illustration of how broad the cast of actors has become and how the traditionally dominant role of the Ministry of Foreign Affairs in managing China's relations with the world has shrunk as a consequence.

In Africa, as in many regions now, foreign governments and other institutions deal with a host of Chinese government bodies in addition to and often independent from the Foreign Ministry.

At the national level, the Ministry of Commerce has emerged as a major new player in Africa both through development cooperation work and its other work with Chinese corporations in Africa. The Ministry of Finance manages debt relief and aid. China Eximbank provides concessional loans.

The China Development Bank provides loans and, through its China Development Fund, has taken equity stakes in projects across Africa, including a series of special economic zones modeled on similar ones in China.

The Ministry of Agriculture is involved in agricultural projects. The Ministry of Health oversees medical teams. Provinces are heavily involved--

Shaanxi, for example, is paired with Sudan--and are launching their own relationships with Africa.

Quasi-governmental research institutes and associations affiliated with government departments are seeking to influence the debate about the shape of China's engagement through reports, conferences, and participation in meetings convened by the government to solicit input on policy.

The PLA, of course, is involved in anti-piracy missions in the Gulf of Aden and also helped with the evacuation of the Chinese citizens in Libya, which involved deploying to the Mediterranean for the first time in its history.

Corporations are increasingly powerful players. Giant state-owned corporations are drilling for oil and mining such resources as nickel, copper, and manganese, chromium and gold. They're also building roads, railways, dams, power plants, hospitals, government buildings and other infrastructure, usually with Chinese labor.

The Ministry of Foreign Affairs is the convener of the Forum for China and Africa Cooperation, a mechanism that meets every three years to engage in collective consultation and dialogue and includes participation from multiple ministries. It also has joint responsibility with the Ministry of Commerce for drafting China's annual aid plan to Africa.

But many of the Chinese players in Africa now do not answer to the Foreign Ministry, and they do not necessarily feel compelled to coordinate their activities with it. Nations hoping to engage China in a serious way on its activities in Africa now need to speak not only to the Ministry of Foreign Affairs but to dozens of other players whose competing interests sometimes collide with those of the Foreign Ministry.

China risked diplomatic isolation for a period when the business interests of its powerful corporations and the energy security appeals of constituencies in Beijing led it to maintain close relations with the government of Sudan at the height of the atrocities in Darfur.

An appreciation for the increasingly broad range of actors involved in China's relations with the world helps but does not completely explain why China took that course and why China's foreign policy on other issues of importance to the United States, such as North Korea and Iran, seems at times so constrained.

Thank you.

[The written statement follows:]

PREPARED STATEMENT OF MS. SUSAN V. LAWRENCE
ANALYST IN ASIAN AFFAIRS, CONGRESSIONAL RESEARCH SERVICE, WASHINGTON, D.C.

Even as China's global engagement expands and deepens, major foreign policy decisions continue to be made by a handful of officials at the very top of the system. As with other aspects of Chinese policy, however, senior leaders often seek to set the tone for and outline the broad contours of China's foreign policy, but leave lower levels to work out the details. At the lower levels, different parts of the bureaucracy, sometimes with overlapping mandates, interpret instructions from on high in ways that suit their own institutional interests. Mechanisms intended to promote coordination often prove ineffective, with even fellow government ministries frequently unwilling to give ground to each other in service of broader national policy. The result can be confusion for outsiders about what Chinese foreign policy really is.

Coordination between government ministries and the People's Liberation Army (PLA) is even more challenging than coordination within the government. The PLA's line of command consists of uniformed officers up to the top of the political system, where two civilians, Central Military Commission Chairman Hu Jintao and Vice Chairman Xi Jinping, exercise ultimate control and oversight over the armed forces. The military does not answer to any body analogous to the U.S. Congress. Nor does it have a culture of regular communication with government agencies.[87] Few analysts question the military's loyalty to the Communist Party – embedded Party organizations, political commissars, and the PLA's General Political Department ensure both loyalty and ideological conformity. But in recent years, some have questioned the effectiveness of the Party's efforts to coordinate the military's statements and activities with, for example, those of the Foreign Ministry.

An array of new actors in Chinese foreign policy, and the changing roles of traditional ones, have made Chinese foreign policy messier still. In an authoritative recent study from the Stockholm International Peace Research Institute (SIPRI), "New Foreign Policy Actors in China," scholars Linda Jakobson and Dean Knox document the influence of "foreign policy actors on the margins," including powerful state-owned corporations, local governments, research institutions and academia, the media, and China's growing ranks of outspoken, Internet-enabled "netizens." (China's latest official figures put the number of Chinese Internet users at 457 million, 303 million of them mobile Internet users.)[88] They conclude that the result of rivalries among bureaucratic players and the emergence of new actors on the margins is a "fracturing of authority" in Chinese foreign policy, meaning that, "Foreigners can no longer deal solely with the [Ministry of Foreign Affairs] and must instead take into account multiple actors who have both a stake and a say in the decision-making processes on any given issue."[89]

Elite Foreign Policy-making Bodies

Most analysts agree that at the top of the Chinese political system, two institutions play key roles in foreign policy-making: the Communist Party's Politburo Standing Committee and the Party's Foreign Affairs Leading Small Group (FALSG) and its attached FALSG Office.

The **Politburo Standing Committee (PSC)** is China's most senior decision-making body, comprised of the top nine officials in the Chinese Communist Party. PSC meetings are not publicized, but the group is believed to meet

[87] The military and state hierarchies intersect in the State Council, which includes the Ministry of National Defense, but the MND is a weak body created to facilitate exchanges with foreign militaries, and is largely peripheral to the real power hierarchy in the military.

[88] *27th Statistical Report on Internet Development in China*, China Internet Network Information Center (CNNIC), released January 19, 2011. See http://www.cnnic.net.cn/dtygg/dtgg/201101/t20110118_20250.html.

[89] Linda Jakobson and Dean Knox, "New Foreign Policy Actors in China," SIPRI Policy Paper 26, September 2010.

several times a month and to operate on a consensus basis. China's March 2011 decision to abstain on the United Nations Security Council vote to authorize a no-fly zone over Libya would almost certainly have been approved by the Politburo Standing Committee. Jakobson and Knox argue that because none of the nine PSC members has an exclusive foreign policy portfolio, "both official foreign policy actors and those on the margins of the foreign policy establishment can try to affect the consensus-building process by influencing any given PSC member."[90]

Several PSC members have a strong institutional stake in foreign policy issues, including Premier Wen Jiabao, who oversees the entire government apparatus, and Zhou Yongkang, the PSC member in charge of security matters. The two PSC members with the greatest involvement in foreign policy, however, now appear to be Hu Jintao and Xi Jinping. They are ranked number one and number six in the Party, and serve as State President and Vice President, and as Chairman and first Vice Chairman of the Party and State Military Commissions. As Hu, Xi and others position themselves for a sweeping leadership transition that will begin next year, the conduct of foreign policymaking will no doubt reflect some degree of political jockeying.

Hu and Xi also serve as Chair and Vice Chair of the body that many analysts believe to be the locus for foreign policy decision-making in China, the Communist Party's **Foreign Affairs Leading Small Group** (FALSG), a coordinating body that shares personnel with the **National Security Leading Small Group**.[91] The FALSG's membership is not public, but members are believed to be drawn from the party, the government, and the military. They reportedly include the State Councillor for foreign affairs; the head of the Party's International Department; the Ministers of Foreign Affairs, Commerce, Defense, State Security, and Public Security; leading officials in charge of propaganda, Taiwan policy, and Hong Kong and Macau affairs; and a Deputy Chief of the People's Liberation Army's General Staff Department.[92] The FALSG's official role is believed to be to review major foreign policy issues and make recommendations to the Politburo Standing Committee for action. Significantly, however, some close observers of Chinese foreign policy believe that the members of the FALSG may not have met as a body for as long as two years.[93] If true, it is unclear why this should be so, other than perhaps that Hu and Xi feel comfortable running foreign policy without regular input from the full membership.

Attached to the FALSG is an office that, unlike the FALSG, has a public profile. The role of the **Office of the FALSG** is to conduct research and advise the FALSG on foreign policy issues and to coordinate implementation of foreign policy decisions. It is headed by China's most senior dedicated foreign policy official, 70-year-old State Councillor Dai Bingguo. As a State Councillor, Dai is one of nine officials in the Chinese government system who sit between the ministries and the Premier of the State Council. He thus outranks the Minister of Foreign Affairs. (He, rather that the Foreign Minister, is U.S. Secretary of State Hillary Clinton's counterpart in the strategic track of the premier U.S.-China dialogue, the annual Strategic and Economic Dialogue (S&ED)).[94]

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[90] Ibid. p. 4.

[91] Scholars Hao Yufan and Hou Ying, for example, write that, "the Standing Committee of the Politburo and the Foreign Affairs Leading Small Group, which include the chairman/general secretary of the CCP, are the de facto foreign policy-making institutions." Hao, Yufan and Hou, Ying, "Chinese Foreign Policy Making: A Comparative Perspective," *Public Administration Review*, December 2009. pp S136-S141.

[92] Alice Miller, "The CCP Central Committee's Leading Small Groups," *China Leadership Monitor*, No. 26, Fall 2008. Available at http://www.hoover.org/publications/china-leadership-monitor/article/5689.

[93] Author interviews, April 2011.

[94] Dai's membership in the FALSG, his role as director of the FALSG Office, and his State Councilor position all combine to give him considerable authority on foreign policy matters. If the full FALSG is indeed not meeting, that may arguably have increased his authority further, leaving him as Party General Secretary Hu and PSC member Xi Jinping's principal advisor on foreign policy matters. Over the years, Dai has also sought to shape Chinese foreign policy doctrine. His statement at the 2009 Strategic and Economic Dialogue, and an article published under his name in December 2010, for example, set forth and refined a framework for Chinese foreign policy based on a set of "core interests." See Dai Bingguo, "Persisting with Taking the Path of Peaceful Development," (中国外交的戴国宾特点和发展道路), *Chinese Ministry of Foreign Affairs website*, December 6, 2010, http://www.gov.cn/ldhd/2010-12/06/content_1760381.htm (in Chinese).

Some individual members of the broader 25-person Politburo play prominent foreign policy roles, too. Vice Premier Wang Qishan, for example, holds a foreign trade portfolio. He is U.S. Treasury Secretary Timothy Geithner's counterpart in the economic track of the S&ED, and the counterpart to the U.S. Commerce Secretary and United States Trade Representative in the Joint Commission on Commerce and Trade dialogue with the United States.[95] To complicate matters further, as a Politburo member, Wang outranks Dai Bingguo, who is not.

Implementation of Foreign Policy Decisions

Below the level of the Politburo Standing Committee and the Foreign Affairs Leading Small Group, lines of authority in foreign policy have become more blurred, as U.S. officials have at times discovered to their chagrin. The head of the Office of the FALSG, Dai Bingguo, previously served as head of the Party's International Department and as Party Secretary (and Vice Minister with the rank of full minister) at the Foreign Ministry, so would appear to be well placed to coordinate implementation of policy with those two important party and government departments on such topics as North Korea. (The Foreign Ministry is believed to hold a far more jaundiced view of the North Korean regime of Kim Jong-il than the International Department, which has recently argued, successfully, for a closer relationship with Pyongyang.) Dai also sits on the Party committee of the State Council, giving him authority over the many ministries, commissions, and administrations under the State Council.

Yet U.S. officials have repeatedly seen commitments made by China's top leaders apparently blunted in implementation. Whether this is by design or because top leaders are truly unable to impose their will on their bureaucracies is unclear. One particularly pronounced example of this phenomenon has been the refusal of China's military to commit to a sustained military-to-military relationship with the United States. Although President Obama and China's President Hu pledged in their 2009 Joint Statement to "take concrete steps to advance sustained and reliable military-to-military relations in the future," and reaffirmed in their 2011 Joint Statement that "a healthy, stable, and reliable military-to-military relationship is an essential part" of their shared vision, China's military continues to hold the military relationship hostage to the issue of U.S. arms sales to Taiwan.[96] Either the military is intentionally confounding Hu's effort to establish a reliable military-to-military relationship, or Hu's commitments to President Obama were intentionally hollow.

Secretary of Commerce and now Ambassador-designate to China Gary Locke voiced frustration about implementation of senior level decisions in a January 2011 speech ahead of Hu's state visit to Washington. Locke identified five steps he identified as necessary to create a new "norm" in Chinese commercial culture: 1.) "a statement of principle from Chinese officials that action will be taken to solve a market access issue;" 2.) codification into binding law or regulations; 3.) faithful implementation by the central government; 4.)

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[95] The Politburo itself appears to devote little, if any, of its time to foreign policy topics, according to a record of its meetings that the Communist Party has posted online. In 2010, with one exception (a meeting to discuss relief work following the Yushu earthquake in Qinghai province), it also does not seem to have focused its meetings on urgent developments in either domestic or international spheres. The records show that the Politburo met a dozen times in 2010, or approximately once a month. Topics for those 12 meetings included discussion of the 12th Five-Year Plan for economic and social development, the government's proposed work report to the National People's Congress, policy in the ethnic minority border-lands of Tibet and Xinjiang, Party anti-corruption efforts, and plans for such areas as education and human resources. See http://cpc.people.com.cn/GB/64162/106114/182388/index.html.

[96] In response to a question at a joint press conference with visiting U.S. Secretary of Defense Robert Gates in January 2011, Chinese Defense Minister Liang Guanglie stated that, "United States arms sales to Taiwan seriously damaged China's core interests and we do not want to see that happen again; neither do we hope that the U.S. arms sales to Taiwan will again and further disrupt our bilateral and military-to-military relationship." Department of Defense, "Joint Press conference with Secretary Gates and General Liang from Beijing, China," transcript, January 10, 2011, http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4750. The statement was widely read as a threat to suspend the military-to-military relationship again if the United States approves new arms sales to Taiwan.

implementation by provincial and local governments; and, 5.) "the most important step," making the new law or regulation "an accepted way of doing business in China's commercial culture." Locke complained that, "When it comes to indigenous innovation, intellectual property or a variety of other market-access issues, an enduring frustration is that in too many cases only the earliest steps are taken, but not all five. Perhaps an agreement is made, but it never becomes binding. Or perhaps there's a well-written law or regulation at the national level, but there's lax enforcement at the provincial or city level."[97]

The strongly nationalistic tone evident in popular media, such as the tabloid Global Times (Huanqiu *Shibao*), and in many Chinese web postings related to foreign policy no doubt contributes to foot dragging in the bureaucracy and perhaps at the leadership level. While the Party experiments with more sophisticated ways of measuring public sentiment, leaders at all levels still tend to rely heavily on the outbursts of China's unruly netizens as a gauge of popular opinion. Always fearful of public protest, leaders can be wary of appearing to embrace positions that the netizenry opposes. To counter such trends, the U.S. Embassy in Beijing has made a point of reaching out to popular Chinese bloggers, embedding them on trips that the U.S. Ambassador makes to the provinces, where they ride with him in his limousine and blog to their followers during banquets.[98] China's top "micro-bloggers" – users of Chinese versions of Twitter operated by Sina.com and Tencent – have millions of followers, who often re-tweet their tweets to their friends and followers, shaping popular opinion, and the climate for official decisions, on a wide variety of subjects.[99]

The Broad Cast of Foreign Policy Players

A brief review of China's engagement with Africa illustrates just how broad the cast of actors has become, and how the traditionally dominant role of China's Ministry of Foreign Affairs in managing China's relations with the world has shrunk as a consequence.

In Africa, as in many regions, foreign governments and other institutions deal with a host of Chiense government bodies in addition to, and often independently from, the Foreign Ministry. At the Chinese national government level, China's Ministry of Commerce has emerged as a new major player in Africa, both through the development cooperation work of its Department of Foreign Aid, and through its other work with Chinese corporations active in Africa. The Ministry of Finance manages debt relief and aid through multilateral institutions. China Eximbank provides concessional loans, as well as non-concessional loans and preferential buyer's credits. The China Development Bank provides loans and, through its China Development Fund, has taken equity stakes in projects across Africa, including a series of special economic zones modeled on similar zones in China.[100] The Ministry of Agriculture is involved in agriculture projects, including technology demonstration centers in 14 African countries, and the Ministry of Health oversees medical teams. (At the end of 2009, 42 Chinese medical teams with more than 1,000 medical staff were working in 41 African countries.)[101] At the provincial government level, individual Chinese provinces are paired with individual African nations – the inland province of Shaanxi, for example, is paired with Sudan – and are launching their own relationships with Africa.

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[97] Secretary of Commerce Gary Locke, "Remarks at U.S.-China Business Council Luncheon," January 13, 2011, http://www.commerce.gov/news/secretary-speeches/2011/01/13/remarks-us-china-business-council-luncheon.

[98] Author interviews, Beijing, April 2011.

[99] In a new book, technology guru Kai-fu Lee, formerly of Microsoft China and Google China, notes that at the end of December 2010, his Sina Weibo followers stood at 2.8 million, making him that service's 12th most followed micro-blogger, and his Tencent Mico-blog followers stood at 7.8 million, ranking him as the second most followed micro-blogger on that service. Lee Kai-fu, *Micro-blog: Changing the World* (微波 改变一切), Shanghai: Shanghai University of Finance and Economics Press, February 2011, p. 6 (in Chinese).

[100] For a comprehensive discussion of Chinese financing and foreign direct investment in Africa see Benedicte Vibe Christensen, "China in Africa: A Macroeconomic Perspective," *Center for Global Development Working Paper 230*, November 2010, revised December 22, 2010.

[101] Chinese Academy of International Trade and Economic Cooperation, "China-Africa Trade and Economic Relationship Annual Report 2010," Beijing, 2010.

At the quasi-governmental level, research institutes and associations affiliated with government departments seek to influence debate about the shape of China's engagement through reports, conferences, and participation in meetings convened by the government to solicit input on policy. Two influential research institutes on China-Africa relations are the International Poverty Reduction Center in China (IPRCC), affiliated with the State Council Poverty Alleviation Office, and the Chinese Academy of International Trade and Economic Cooperation, affiliated with the Ministry of Commerce.

The People's Liberation Army is involved in anti-piracy missions in the Gulf of Aden, off the coast of Somalia. (It also helped with the evacuation of nearly 36,000 Chinese citizens from Libya earlier this year, which involved deploying to the Mediterranean for the first time in its history.[102])

Corporations are increasingly powerful players. Giant Chinese state-owned corporations are drilling for oil and mining such resources as nickel, copper, manganese, chromium, and gold. State-owned corporations are also building roads, railways, dams, power plants, hospitals, government buildings, and other infrastructure, usually with Chinese labor. In 2008, the Industrial and Commercial Bank of China bought a $5.46 billion stake in a South African bank. Chinese telecommunications companies, such as Huawei Technologies, have built 3G networks for more than 30 African nations and national optical fiber networks and e-government networks for more than 20 African nations.[103] Entrepreneurial Chinese have on their own set up mom-and-pop businesses in communities all over Africa.

The Ministry of Foreign Affairs is the convener of the Forum for China and Africa Cooperation (FOCAC), a mechanism that meets every three years to engage in "collective consultation and dialogue" and includes participation from multiple Chinese ministries and representatives from 49 African countries.[104] The Ministry of Foreign Affairs also has joint responsibility with the Ministry of Commerce for drafting China's annual plan for aid to Africa.[105] But many of the Chinese players in Africa now do not answer to the Foreign Ministry, and do not necessarily feel compelled to coordinate their activities with it. Nations hoping to engage China in a serious way on its activities in Africa now need to speak not only to the Ministry of Foreign Affairs, but also to dozens of other players, whose competing interests sometimes collide with the Foreign Ministry's. China risked diplomatic isolation for a period, for example, when the business interests of its powerful Chinese state-owned corporations, and the energy security appeals of constituencies in Beijing, led it to maintain close relations with the government of Sudan at the height of the atrocities in Darfur. An appreciation for the increasingly broad range of actors involved in China's relations with the world helps, though does not completely, explain why China took that course, and why China's foreign policy on other issues of importance to the United States, such as North Korea and Iran, seems at times so constrained.

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[102] For analysis, see Gabe Collins and Andrew Erickson, Missile Frigate Xuzhou Transits Suez Canal to Arrive Off Libya Wednesday March 2 China," *Signpost blog entry*, February 28, 2011, http://www.chinasignpost.com/2011/02/missile-frigate-xuzhou-transits-suez-canal-to-arrive-off-libya-wednesday-2-march-china%e2%80%99s-first-operational-deployment-to-mediterranean-addresses-libya%e2%80%99s-evolving-security-situation/.

[103] Chinese Academy of International Trade and Economic Cooperation, "China-Africa Trade and Economic Relationship Annual Report 2010," Beijing, 2010.

[104] For more information, see the FOCAC website at http://www.fmprc.gov.cn/zflt/eng/.

[105] Benedicte Vibe Christensen, "China in Africa: A Macroeconomic Perspective," *Center for Global Development Working Paper 230*, November 2010, revised December 22, 2010, p. 13.

PANEL V: Discussion, Questions and Answers

HEARING CO-CHAIR BARTHOLOMEW: Wonderful. Thank you very much.

Commissioner Wortzel, we'll start with you.

COMMISSIONER WORTZEL: Thank you all for your thoughtful testimony and written statements.

Probably Ms. Lawrence and Dr. Chen will be in a position given their testimony to respond to this, but some observers and China's policy analysts have suggested that nationalistic popular opinion is a factor in making China's diplomacy more strident.

In a June 2010 article, Da Wei of the China Institute of Contemporary International Relations, which is an organization affiliated with the Ministry of State Security, suggested that China's leaders must assess, guide, and mold public opinion, maximizing its potential to make national policy flexible and steady.

So if guiding and molding popular opinion is a Party goal, how do we know that the more nationalistic tone of public commentary in China is not a result of guidance and molding by the Central Propaganda Department which Chinese officials then use as a pretext to justify their more stringent and activist foreign policy?

MS. LAWRENCE: If I can take an initial stab at that, I think there is an element of that. I think that this is why it's so dangerous that Chinese leaders rely so heavily on expressions of opinion on the Internet for their sense of Chinese popular opinion, because the army of people who monitor the Internet in China are often removing comments that they feel are not appropriate to be out there, and nationalist comments are the ones that are most likely to stay up there.

So the censors definitely are feeling the environment, the foreign policy environment, the signals from Beijing, and censoring appropriately. Beijing then, though, reads these posts on Internet sites and thinks that this is actually fully representative of popular views, and that becomes a cycle that I don't think is helpful for anyone.

DR. CHEN: I would like to comment, in recent months, there have been a number of scholarly works about online nationalism and its impacts on China's foreign policymaking. So it is certain that online nationalism has been taken into account by the leaders.

Public opinion does mean something for the policymakers. But I still would like to caution that the policymakers might manipulate and pick and choose nationalist sentiment for its own interests.

However, it is hard to scientifically measure and prove that online pressures made by netizens really have a direct impact on the policymaking. It's more like the policymakers will try to mold and pick those ones beneficial for their own interests.

HEARING CO-CHAIR BARTHOLOMEW: Okay. Commissioner Blumenthal.

COMMISSIONER BLUMENTHAL: Yes. I want to follow up on that line of questioning, which is we read a lot in our materials, and you testified as well as quoted some of the materials we saw from China experts who are talking a lot about both the constraints as well as the push and pull on Chinese foreign policymaking by public opinion. I guess this is the new thing in China scholarship.

But I wanted to go back and ask the question a little bit differently and say essentially these patriotic education campaigns that began in the '90s or after Tiananmen Square bore some fruit in the sense of the effect that the kinds of public opinion that's being expressed.

I understand you can pick and choose what kind of public opinion you want to listen to, but I do take it at face value that Chinese foreign policymakers are constrained by a wave of hyper-nationalism and sometimes xenophobia. Certainly when you meet with Chinese youngsters who are born in 1990 and 1989, they've never heard of Tiananmen Square, for example.

So, I just wonder if the Chinese government in some form or fashion is not riding an uncontrollable tiger that it has a huge role in creating?

MS. LAWRENCE: I guess I'd agree with that, that they are, that they've had a role in creating something they're having trouble managing.

I think Libya is an interesting point. The government made the decision to join several other nations in abstaining on that U.N. Resolution. In other words, it chose not to block military action in Libya. It said it was doing that because it was respecting the views of the African Union and the Arab League although it had reservations.

That was a position that basically allowed military action to begin. Since then, responding to a lot of the popular pressure that they're seeing on blogs and in these populist tabloids and so on, which are very, very critical of the military action in Libya and very critical of the United States, you now see the Foreign Ministry saying increasingly stridently that the military action must stop, that ceasefire is necessary, that we're risking human catastrophe. Yet China enabled this.

COMMISSIONER BLUMENTHAL: I wonder if we can take that one step further and deeper, which is if you're educated, let's say from 1990 to now, in China, is there any constituency whatsoever for pro-Western or pro-American or pro-democratic views? Or how much do all of you know about the education system, the patriotic education system or the propaganda system that would go into influencing how young people think in general in China?

DR. CHEN: I'm sorry. I don't have knowledge of these educational aspects.

DR. DOWNS: I don't either, but I did have another comment on Libya taken from a slightly different angle. The other thing that I thought was

really interesting about the evacuation of the Chinese citizens in Libya is how much of the coverage of it and how it was being talked about was aimed at a domestic audience. That I had heard from colleagues who were in Beijing at the time, that this was sort of getting top billing on Chinese television.

Certainly if you went to some of the Web sites, like I work on oil, so I look at the oil company Web sites, that this was a top story in all the Web sites. And I think that this had a lot of salience in China.

I think there was a real effort on the part of the government to demonstrate, I think first and foremost, to Chinese citizens that it can take care of their compatriots abroad.

I think a lot of this goes back especially to incidences in the past when the government hasn't done as much and hasn't been so active in working to get Chinese citizens out of harm's way. And just going back to the example in Ethiopia, this is one where the government didn't do a lot, and there was a lot of criticism from netizens. Again, this was a case where the criticism was taken down. Soon after it was put up, those posts were taken down.

So I guess here's an example where you did have public opinion that wasn't shaped by the government as indicated by the fact that those postings were taken down right away.

MS. LAWRENCE: To come--sorry.

COMMISSIONER BLUMENTHAL: Oh, sorry.

MS. LAWRENCE: I just was going to respond to your question about education. I think that the patriotic education is much more anti-Japanese than it is anti-American. A new museum has just opened up in Tiananmen Square, the revamped version of the Chinese Revolutionary History Museum, the National Museum of China, and it now includes a huge section on China's humiliations at the hands of foreigners. It does include exhibits on humiliations at the hands of the United States, but that's in the context of humiliation from many other countries. So I wouldn't say that United States at all stands out in those.

And, in fact, the Chinese leadership since 1989 has been really quite steadily committed to a strong relationship with the United States. Despite all the other sort of chatter in the atmosphere, every leadership has decided that it's in their interest to have a strong relationship with the United States, and so they face this awkward position that their policies, in fact, have been quite supportive of this relationship, and yet they also somehow have fostered a situation where in the media there is a lot of anti-American rhetoric, and that complicates their lives.

HEARING CO-CHAIR BARTHOLOMEW: Okay. Commissioner Slane.

VICE CHAIRMAN SLANE: First, I wanted to thank you for your testimony and taking the time to come here.

China's next Five Year Plan calls for a change of their economy from

export-driven to domestic consumption. My question is can you discuss the power and the influence of the export industry to push back on these planned changes?

MS. LAWRENCE: I think China is still very committed to exports, but the notion is just to heavily develop the domestic market, too. It's not to sort of say that they're not going to be--that the export industry is somehow going to be forgotten.

But, of course, there's been a big debate within the Chinese bureaucracy over the exchange rate issue, and the constituencies that support the export-led industries have argued hard against a revaluation of the renminbi.

And it's possible that with a reorientation perhaps those constituencies may be a little weaker in the interagency process now.

DR. DOWNS: I also think, in general, it's hard to get a sense. I think it's easy to assume that certain economic actors, especially state-owned corporations, seek to influence policy, and that they are able to lobby the government based on the high bureaucratic and Party ranks that they have, but I think it's very difficult to know, even if they do lobby, even if they do seek to influence, what impact do they actually have. I think it's really difficult for outside observers to know that.

It's something I'd like to know in the case of the companies that I look at, but it's difficult to know, even if they do have access to the leaders at the very top and we have a sense of what case they might be making, what impact do they end up having at the end of the day. I think that's hard to figure out.

DR. CHEN: I echo her view that so far there's no empirical evidence of the state-owned enterprises' actual impact on policy making. So I wouldn't make further comments here. It's worthy of further observation.

VICE CHAIRMAN SLANE: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Commissioner Brookes.

HEARING CO-CHAIR BROOKES: Thank you.

I'm occasionally struck by comments that come out of the Chinese government or other places, I just don't expect. For instance, earlier this year, a Chinese admiral made a comment to a major Canadian newspaper that seemed to make claims toward the Arctic.

This is a bit of reverse of what we've been talking about today--but is there any sense that the Chinese government is using groups other than the Party leadership or the Foreign Ministry as outlets for testing out potentially controversial policies, while at the same time providing plausible deniability for the government? Such as business leaders or even the PLA?

MS. LAWRENCE: I guess I'd strongly doubt that they would be doing that in the case of a PLA admiral simply because he would be seen as very much representing the Chinese leadership or the Chinese state in a way that

perhaps semi-official actors might not.

I think certainly semi-official actors may well be used to float ideas. You do have this interesting relationship between scholars and the government that, on the one hand, scholars often will present themselves as being independent analysts of the situation, and yet there are classes of scholars who are cleared by the government to essentially speak for it and also to run with certain kinds of ideas and see what kind of response they get from them. But I don't think that would be happening with senior PLA figures.

HEARING CO-CHAIR BROOKES: You would say that would be considered to be Chinese national policy then?

MS. LAWRENCE: Yes. I think if an admiral says that, I think that it's--

HEARING CO-CHAIR BROOKES: It's not always true--

MS. LAWRENCE: It's not always--

HEARING CO-CHAIR BROOKES: --in terms of other countries, but in this case, you would say that it--

MS. LAWRENCE: I would, yes.

DR. DOWNS: I also think there's also the possibility that you have a situation where you have an actor on the fringe of the foreign policy establishment, be it an academic, be it a company, that goes out and floats an idea, and it's not something that they were asked to do by the government, but they do it, and then the international response to that could end up impacting the government's views on whatever the issue is at hand.

DR. CHEN: There is one very good example of this scholar, Zheng Bijian, probably some of you have heard of him. So years ago, he proposed this idea of China's "peaceful rise," and it really has echoed a lot even within the decision-making community and also in a scholarly circle. So that kind of idea has some kind of a success for awhile, but in the end, the decision-makers decided to take that down and use the other term "peaceful development of China."

HEARING CO-CHAIR BROOKES: But that was his concept. That was not floated by the government through him as an outlet to see how it would be received?

DR. CHEN: Yes, but that was his idea, and it shows how somebody from not the formal establishment could actually interact and communicate with the decision-makers to make certain impacts.

HEARING CO-CHAIR BROOKES: So he influenced the policy makers as opposed to the other way around?

DR. CHEN: Yes.

MS. LAWRENCE: But again I just make the point about his background, that sometimes it's difficult to tell who they're speaking for. In Zheng Bijian’s case, he was from the Central Party School and was a very close

advisor to, probably the closest advisor to, Hu Jintao in the early days on foreign policy issues. So he was--

HEARING CO-CHAIR BROOKES: The point I'm getting at here is you can't--who should you pay attention to outside of the top leadership in terms of getting a sense of policies?

Many countries use outsiders to float ideas to see what sort of reaction they might get. We see that in our own domestic politics. I was just kind of wondering who else we should pay attention to in terms of these interest groups that might have some relationship with the government and are worthy of listening to what they have to say, or they may be a precursor to Chinese policies since it's so difficult to get inside actual Chinese policy decision-making.

MS. LAWRENCE: I'd say that there are a couple of classes of people who play that role. So, yes, there is a group of scholars, and you kind of have to know the individual names, but there are a group of scholars who are entrusted by the government to speak somewhat authoritatively about government policies, but to do it in a more accessible way than the government will do itself. So there's that class.

There are also a number of institutions. A lot of ministries have now spun off think tanks, associations, other entities, which have very close relationships with the ministries but are not actually government entities themselves, and so they too often are able to really parse government policy in a much more effective way. You see this with military think tanks.
The Second Department of the PLA, the Intelligence Department, has a think tank in China, the Chinese Institute for International Strategic Studies, which a lot of Westerners see as a very good source for a more accessible understanding of what China's thinking.

HEARING CO-CHAIR BARTHOLOMEW: Thank you.

Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Madam Chair.

Dr. Downs, in your bio, which this is material in our briefing book, you were an energy analyst at the CIA, and you were the lead drafter of the intelligence community assessment of East Asian energy issues. Is that correct?

DR. DOWNS: Yes.

COMMISSIONER MULLOY: Now our staff put also in the briefing book an article from Foreign Affairs, March-April 2011, which you wrote with Suzanne Maloney.

DR. DOWNS: Uh-huh.

COMMISSIONER MULLOY: And in this article, you say the White House should encourage Chinese nationally-owned companies, national oil companies, to invest in the United States instead of Iran.

When a Chinese national oil company develops its energy, does it put

it into the market or what does it do with it?

DR. DOWNS: I think all the investments made by China's national oil companies in oil and natural gas are certainly helping to increase global supplies, and I think what the companies end up doing with the oil they produce depends on a number of different factors, including who has title to the oil, who has the rights to market the oil. It may not necessarily be the Chinese company; it may be the partner.

And then I think other issues that come into play are going to be the amount of oil that they produce and geography, and transportation issues, how easy is it to get that oil back to China.

I think it really varies. This is a hard issue to get a handle on because the companies don't make publicly available information on what they do with every barrel of oil that they produce.

COMMISSIONER MULLOY: Well, if I can understand, a nationally-owned oil company, that's an arm of the state of China. It's a government-owned entity; is that right?

DR. DOWNS: I would say it is government owned, and the heads of the companies are appointed by the Communist Party, but the companies do have a fair amount of autonomy in their operations.

COMMISSIONER MULLOY: Now, do you think we should encourage those companies to invest and produce U.S. oil and develop our oil?

DR. DOWNS: Well, the example that Suzanne and I had mentioned in our article involves the investments made by China National Offshore Oil Corporation,--

COMMISSIONER MULLOY: Yes.

DR. DOWNS: --also named CNOOC, into shale gas projects in partnership with Chesapeake Energy, and the idea there is that you have China's national oil companies interested, very interested in increasing their international competitiveness. And one of the ways for them to do that is to develop capacities that they don't already have or need to strengthen like the ability to produce unconventional gas like shale gas. This is one capacity that the companies, especially CNOOC, are interested in.

And so it seemed to me that there might have been some link between the fact that you have CNOOC that's been looking at investing in a natural gas field, the North Pars Field--it's a huge field in Iran--but they don't have the technology, nor do the Iranians, for that matter, to liquefy that gas.

However, I think the United States does provide alternatives in that we do have tremendous shale gas resources here. It's something that Chinese companies are interested in, and I think Chinese companies will continue to keep their eyes on Iran for the longer term, but to the extent that there are other projects out there, not just in the United States, I mean Iraq is another example where China National Petroleum Corporation has some big projects, that they have other projects where they can develop gas

resources now where they're not constrained, politically or economically, by sanctions, then I think that that's--

COMMISSIONER MULLOY: There was one other point I wanted to get your view on. In this article, you talk about the Republican Party resurgence in Congress--

DR. DOWNS: Uh-huh.

COMMISSIONER MULLOY: --in November 2010 will put pressure on the White House to turn up the heat on both Iran and China.

DR. DOWNS: Uh-huh. Uh-huh.

COMMISSIONER MULLOY: Why do you think--what is it in the Republican Congress that you think is going to turn up the heat on China?

DR. DOWNS: When we wrote the article--we drafted this article right around the time of the elections, and at the time our sense was that there might be tougher talk both on China and Iran, and a lot of this came from what we were hearing about efforts to promote new sanctions, legislation, that would--

COMMISSIONER MULLOY: On Iran.

DR. DOWNS: Yes, that would sanction--but it relates to China. That, for example, would sanction any company that purchases crude from Iran. Right now buying crude isn't an activity that's sanctionable under Iran Sanctions Act or the CISADA that was passed last summer, and that's something, for example, that probably would be welcome news in Beijing because Iran has been one of China's, has been China's number three crude supplier behind Saudi Arabia and Angola for the past few years.

Moreover, there's been a lot of pressure I think--a lot of this also comes from outside Congress, but it's also directed at Congress to turn up the heat on China.

I'm sure you've seen some of this stuff as well--that there are groups out there that are concerned that China could undermine not just U.S., but all the other unilateral sanctions, that the new unilateral sanctions that were implemented on Iran last summer, because right now, as you probably know, and as we mentioned in the article, Chinese companies are the only major players that still have a presence in Iran.

And because of that, I think, they're getting a lot more attention than they did in the past. There's a lot of concern that if these companies continue to expand in Iran, especially if they move into projects that were abandoned by European or other companies, that this could bring the sanctions regimes down because you do have a lot of companies that are voluntarily refraining from some types of business activities in Iran in order to basically help the United States.

And a lot of this also goes back to gasoline sales or, if you look at Europe, if you look at the EU sanctions on Iran, for example, the sanctions do prohibit new investments, but there's nothing in those sanctions that

forbids European firms from selling gasoline to Iran.

But European companies voluntarily agree to do that in compliance with CISADA, with the Comprehensive Iran Sanctions and Divestment Act, that was passed last summer. And so I think there are concerns that if Chinese companies, all of a sudden, if we do see an uptick in gasoline sales to Iran or if we see them moving into projects that were abandoned by European companies, that this might cause a rethink among other actors in other countries in terms of what they're willing to do to turn up the pressure on Tehran.

COMMISSIONER MULLOY: Thank you very much.

HEARING CO-CHAIR BARTHOLOMEW: Commissioner D'Amato.

COMMISSIONER D'AMATO: Thank you, Madam Chairman.

I'll be quick. I think I'm following up a question that Commissioner Blumenthal was getting at in terms of netizens, netizens as a policy actor.

Dr. Chen, you talk in your testimony about the PLA and netizens as two different types of policy actors. Obviously, we can more readily relate to the PLA as a policy tool. They've got ships and planes and things that can be used, and they automatically become policy tools, however they are used.

But in terms of netizens, it gets a little bit more airy-fairy, in a sense. On the other hand, it's pretty clear that the regime was concerned about the power of the Internet as a result of the activities in the Middle East, Tunisia and Egypt, and the use of the Internet by those groups.

And then we even had something dubbed the "jasmine revolution" that reared its head for a brief period in China, and we've had testimony discussing the Internet as a "virtual reality." I don't know what that means--virtual reality.

When it becomes real reality, that becomes more powerful, I suppose, but we have had in the past testimony in evidence that there are mechanisms that can be used to circumvent the firewall by people who are schooled in the technology, and American government has, in fact, funded some of that, and this Commission was involved in that funding.

And then you have the growth of the Internet from half a million Twitter users, I'm told, currently to perhaps five million in the next few years.

So the question I have is what is your sense of the power of this tool? Obviously, the government can and has used the Internet as a nationalistic tool for its own purposes, and it's been very effective as a tool developing nationalism on certain issues. But to what extent do we see a growing virtual reality in terms of the netizen role, and is there a way to evaluate how important as an independent actor the Internet is becoming and will become over the next couple of years?

DR. CHEN: Well, this is part of my ongoing research. What I have found is more articulation of interests. For instance, more recently we see

the Jasmine Revolution which inspired netizens to mobilize. They wanted to meet in 62 locations in China and do some small protest.

But there isn't too much research on how this is actually going to occur yet. That's why in my testimony, I try to be a little bit more cautious. Unlike some people who like to say netizens really do have impact on foreign policy, I really do not see that. I just see that the netizens try to express their social discontent, put it this way--social discontent.

Sometimes it's relevant to certain foreign events, but most of the time, it's more about social, economic injustice in China, and then, you know, they try to--so through this online channel they try to express it. So this is the benefit of the Internet, if I would call it.

And as for the government, the government has a lot of tools to control the netizens' behavior. So this is a chicken game, implying a confrontation between the individuals and the states, and it's worth observing. I don't have any concrete empirical evidence to evaluate the actual impact of the netizens yet.

COMMISSIONER D'AMATO: Yes, the old saying of "the pen is mightier than the sword" at some point may become more of a reality in terms of this.

DR. CHEN: Oh, right. I would like to just mention another thing--there might be some kind of balkanization on the Internet, meaning that actually these netizens do not really communicate with each other. What they do is try to consolidate their own views. For instance, you see netizens expressing anti-Taiwan sentiments online, but they are fragmented. They're not really communicating with each other.

So it's a process that we need to observe, whether these netizens are really powerful to gather together to come to generate some kind of collective effort or they are just fragmented, talking to their selves. This is why we call a self-mass communication through the Internet.

MS. LAWRENCE: If I could jump in, I think the thing about the Internet is that it's just changing so quickly, that there are new tools, new technologies coming along all the time. The latest figures from the official Chinese agency that keeps track of Internet statistics says that there are now 457 million Internet users in China, 303 million of them using mobile devices.

One of the new trends, which I'm finding very interesting, is this trend of micro-bloggers and celebrity micro-bloggers. This is basically Twitter--there are Chinese versions of Twitter--so it's sending messages of no more than 140 characters with these Twitter-like services. You have people who build up followings. The most popular service in China, Sina Weibo, was launched in 2006. The other really popular one, QQ, run by Tencent, is also very recent. I mean this is just in the last five years, I guess.

But you have celebrity micro-bloggers now who have millions and

millions of followers. I quote in a footnote here that Kai-fu Lee, the former head of Google and Microsoft in China, is one of these celebrity micro-bloggers, and he was saying at the end of 2010, his Sina Weibo blog had 2.8 million followers. His QQ blog had 7.8 million followers.

So he's got, just there, more than ten million people who are following his every word, and each of them, when you post things that people are interested in, they re-tweet them on to their followers, and so very rapidly you can have certain ideas that are reaching hundreds of millions of people. It's a very different dynamic from the old dynamic on the Chinese Internet where you had people just simply posting a message to a chatroom, where it was immediately taken down, or posting a message to a chatroom which kind of went unnoticed, or those sorts of uncoordinated things.

Now we have people joining up. It is communicating. People are tweeting on to other people. It's not quite so anonymous. It's a very powerful social trend, and we don't know quite where it's going to end.

HEARING CO-CHAIR BARTHOLOMEW: Okay.

COMMISSIONER D'AMATO: Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Commissioner Shea.

COMMISSIONER SHEA: Thank you for being here and for your interesting testimony.

Would it be fair to say that the Chinese foreign policymaking process is informal, sometimes disjointed, and often uncoordinated? If you can comment?

MS. LAWRENCE: I would certainly say that, yes. That's kind of the point of my written testimony, to say that it is often very disjointed. It's one of the characteristics of the Chinese system that it's somehow very, very bad at coordination. You see this all the time. Ministries at the same level don't seem to be able to sit down and give ground on anything.

One ministry can't tell another ministry what to do in any circumstance. You need a higher authority. So, for example, you need the State Council to step in and order the ministries to do something before it will happen. You have this terrible stove-piping in the Chinese system where ministries will do things but not cooperate.

COMMISSIONER SHEA: Great. Is there recognition of this fact within the Chinese decision-making among the Chinese authorities? Is there a feeling that maybe the system needs to be improved, and if so, what sorts of ideas are they thinking about? Do you have insights into that?

DR. DOWNS: I just would like to second what Susan had to say. One, I think the terms that you used--informal, disjointed and coordinated--are ones that many people inside and outside of China would also use to discuss the policy or decision-making process in the energy sector, and so I think it's part of this larger systematic problem that coordination is hard to do when you have a lot of actors that have the same bureaucratic rank, and so they

can't tell each other what to do.

And the other, I guess the other point I'd like to make--this also comes from the issues that I work on, which is energy and the energy foreign policy nexus--is that Chinese companies, especially in the energy and mining and other sectors have gone abroad and the Ministry of Foreign Affairs has no authority over these companies, and I know Susan had mentioned it in her testimony.

These companies don't feel any need to coordinate their activities with the Ministry of Foreign Affairs or with other actors involved in the foreign policymaking process unless, of course, they're in situations where they feel like it might be to their advantage to have help, from a certain part of the government in closing a deal.

COMMISSIONER SHEA: Well, is there a recognition that this is becoming problematic?

DR. DOWNS: Yes. You can certainly find commentaries by Chinese scholars, saying that we think that Chinese companies are hijacking the foreign policy process in terms of policy towards Sudan or Iran. And so I think it's--and certainly in the energy. I know this is not a hearing about energy policy--

COMMISSIONER SHEA: No, that's all right.

DR. DOWNS: --but there, you know--

COMMISSIONER SHEA: But then you have the Chinese state-owned--the Central Organization Department removed--didn't they do musical chairs--some CEOs?

DR. DOWNS: There was a big oil boss switch—yes--

COMMISSIONER SHEA: Yes.

DR. DOWNS: --has been going on.

COMMISSIONER SHEA: Right.

MS. LAWRENCE: Just to respond to your question about whether they're doing something about this, there are a few things that are underway. One, of course, is you see this proliferation of bodies at the State Council level. We have now long lists of the State Council offices for this and offices for that because often you can't get ministries to coordinate on anything at the same level, so you've got to have the State Council step in.

It's not a very efficient system because you have to have a Vice Premier--usually these bodies at the State Council level have to be headed by a Vice Premier. A Deputy Secretary-General of the State Council has to step in and basically run the thing. It's an attempt to force entities under the State Council to coordinate on something.

You have this proliferation of these bodies just to try to make the system work, because it's not working otherwise.

COMMISSIONER SHEA: No. I have one more minute. I don't know who

was talking about it--you have the Hu Jintao and Xi Jinping, number one and six on the Standing Committee, basically making the decisions on the top foreign policy issues. They're somewhat being informed by this Foreign Affairs Leading Small Group.

But in order to make a decision, the decision has to be brought to you. The issue has to be brought to you. Do you know anything about how the agenda gets set for Hu and Xi, who puts the action items on the agenda?

MS. LAWRENCE: The Foreign Affairs Leading Small Group has an office, which is mentioned in my testimony, and their job is to set the agenda; they work on the agenda for the Foreign Affairs Leading Small Group; they'll pull together whoever needs to be in the room to brief the top leaders on certain issues. So that's their job. But it's a small office. There aren't that many people.

COMMISSIONER SHEA: Okay. Thank you.

HEARING CO-CHAIR BARTHOLOMEW: Commissioner Cleveland.

COMMISSIONER CLEVELAND: I join in my fellow Commissioners in thanking you for appearing.

I apologize in advance of this question because we've been here a long time, and I'm getting a little tired, but Dr. Downs, if you could clarify your fourth point in your testimony where you talk about "growing overseas activities of Chinese firms are contributing to increasing international pressure on Beijing to assume global responsibilities commensurate with their interests"?

And then you go on to talk about China voted in support of U.N. Council Resolution 1929 imposing arms bans on Iran. I'm not sure I see that connection between how Chinese firms would have a vested interest in additional sanctions on Iran or is that--

DR. DOWNS: No, no. I would agree with you. I think, if anything, I would not be surprised, and I'm purely speculating here, that Chinese companies, and specifically Chinese oil companies that have spent a lot of time and effort trying to secure projects in Iran. If anything, they're lobbying the government to adopt policies that protect or advance their interests abroad.

The point I was making here is that in part, precisely because Chinese oil companies have interests in Iran and probably would like to expand in Iran over the long term, that they've attracted a lot of attention from Washington, from London, from Paris, from other capital cities because there's concern that if the Chinese companies do continue to expand in Iran, then that's going to undermine efforts by the United States and other countries to turn up the pressure on Tehran, and so the effort really has been, I think, on the part of the United States and other countries to convince the Chinese government that preventing Iran from acquiring a nuclear weapons capability is in their interests, and that they should

prioritize that over letting Chinese oil companies take advantage of the departure of other companies to expand in Iran.

And I think that my own view is that if we look at how events played out last year, that international pressure did work.

COMMISSIONER CLEVELAND: It trumped. All right.

DR. DOWNS: Yes. Does that make sense?

COMMISSIONER CLEVELAND: It helped. Yes.

DR. DOWNS: Okay.

COMMISSIONER CLEVELAND: Because I was not understanding when you said "the growing overseas activities are contributing." In that instance you're saying it's not the firms that are influencing in terms of their interests--

DR. DOWNS: Right.

COMMISSIONER CLEVELAND: --it's the reverse. They are causing--

DR. DOWNS: Right.

COMMISSIONER CLEVELAND: --attention to be drawn to Beijing.

DR. DOWNS: Uh-huh.

COMMISSIONER CLEVELAND: I got it.

DR. DOWNS: And my sense is more generally, if we look at the influence of Chinese companies on foreign policy, it's sort of this inadvertent impact, meaning that the companies are going out and they're pursuing their commercial interests and that ends up creating a variety of diplomatic challenges for Beijing.

The other issue that you raised I think is a really interesting one, which is this issue that Julie had talked about, to what extent do you have economic actors lobbying the government? I have no doubt that lobbying occurs, but because it's involving the head of a Chinese oil company and a senior Chinese official, it's not something that outsiders are privy to.

I can speculate about it happening, but it's hard for me to come up with concrete examples of, yes, this company lobbied on this issue, and here's who they lobbied, and here's what the result was, that it's difficult to know that from the outside.

COMMISSIONER CLEVELAND: Well, you anticipated my next question because in our last hearing we heard various witnesses speak about that exact activity, that you had senior corporate officials sitting in now increasingly on official meetings.

Without knowing specifically who they're lobbying or what they're doing, who would you or which companies would you say are the most influential in terms of shaping foreign policy? And if you can't identify by company, sort of by sector, do you think?

DR. DOWNS: I do a lot of work on the oil sector and how that is impacting on China's foreign policy, and so I would look at China National Petroleum Corporation and Sinopec and China National Offshore Oil

Corporation, and a lot of it has to do not only with the fact that these companies have projects around the world, but also if you look at the role that they play in the Chinese system, and that these companies are pretty powerful political actors; they have at least vice ministerial rank.

If you look at the people who head them, they have at least vice ministerial rank. If we looked at China National Petroleum Corporation and Sinopec, at least before the big oil boss switch that happened over the past two weeks, that two of the men, Su Shulin, who is now Governor of Fujian Province, and Jiang Jiemin, who looks like he's going to be Governor of Yunnan Province, they were both members, alternate members, of the Central Committee of the Chinese Communist Party, which ranks them among the 371 most powerful individuals in China.

So these are companies that have a lot of political clout, and they certainly have direct access to the leadership for some of the reasons that you just mentioned, they sit in on meetings, sometimes their views are requested on certain policy issues, they travel a lot with the leaders abroad, and so they certainly do have face time when they are able to raise issues.

I think in the study that Susan had mentioned by Linda Jakobson and Dean Knox at SIPRI, they talk about how interviews they did suggested that the oil companies are lobbying Zhou Yongkang, who used to be General Manager of China National Petroleum Corporation and is now one of the nine guys on the Politburo Standing Committee.

I don't know. I can't confirm or deny that, but that's out there as well.

COMMISSIONER CLEVELAND: It would be logical. Yes. Okay. Are we done? Or can I ask another question?

HEARING CO-CHAIR BARTHOLOMEW: I would like to ask a question, and then we can perhaps have a second round.

COMMISSIONER CLEVELAND: Oh, go ahead. Sorry.

HEARING CO-CHAIR BARTHOLOMEW: First, a comment. Ms. Lawrence, it's interesting you talk about the micro-bloggers. It will be interesting to see with the renewed crackdown in China how much space those micro-bloggers have. The arrest of Ai Weiwei was a pretty audacious act in terms of the rest of the world, and it will be interesting to see if somebody who has nine million followers is going to be able to blog freely. I say that without even knowing if that person is blogging freely or is very cautious of the line that can and can't be crossed.

But that's actually my question. I came in this morning really thinking about the challenges to the United States of where is the foreign policy apparatus, where are the decisions being made, and how do we do diplomacy in a context like that?

But I'm actually leaving interested in that but more perplexed about the ability of China's leadership to maintain control over what is looking like

an increasingly unwieldy, it's not a bureaucracy, but there are all of these different players. They're playing on all of these different stages.

It's one thing if you have different players, you have to mediate within your own country, but actions that any of these players take outside of China, be it an oil company investing in Sudan or the PLA sending a message somewhere, all has consequences that really reverberate with China's role on the global stage.

I just wonder how long China's leadership can sustain this thing that looks like it's growing and growing and growing and spinning out of control, or is it not doing that?

MS. LAWRENCE: I don't know if it's quite spinning out of control, but you put it very well, the challenge that China is facing right now. This comes back to Commissioner Shea's question, too.

China is aware that the system is not working very well at the moment, and there are certain initiatives underway which are not dramatic, but I think are kind of moving in the right direction.

I was just in Beijing two weeks ago, and was struck that the Foreign Ministry has got a new program whereby it's now openly recruiting diplomats from all over the country. These are people who are leaving positions in local governments or state-owned corporations, state banks, state oil companies, others, who are given a crash course in diplomacy.

They're given a course--it's only a couple of months in Beijing--in diplomacy, and then they're sent off to be ambassadors or councilors, very senior people in embassies around the world. They've done this now for a few years. This is the latest batch.

I happened to be at a banquet with the latest batch of these people who have been recruited from all over, and I think it's just a good step to start having people from other systems come in and spend some time in the Foreign Ministry, although I thought it was a pretty bold thing to send them off to be your ambassador with that short training. Nonetheless, just having people move around a bit within the bureaucracy is a way to try to do something about the stove-piping where different hierarchies simply don't talk to each other. But, yes, it's a really unwieldy thing for the leadership to try to manage, I agree.

DR. DOWNS: Yes. I would like to add from the issues that I work on that I think the foreign policy establishment or the government seems to be struggling to sort of reshape itself to deal with China's growing global economic interests and the impact that those interests can have often inadvertently on Chinese foreign policy.

I think a lot of this has happened in the wake of the global financial crisis, which, for example, really heralded the arrival of China Development Bank as a major lender on the world stage, and certainly you had a lot of energy and resource companies in response to the oil price collapse and the

credit crunch deciding to take advantage of that situation to be more assertive buyers of energy and natural resources abroad.

And so I think right now there is sort of a gap between China's global economic interests and the ability of the foreign policy establishment to manage those interests and deal with the consequences of them.

HEARING CO-CHAIR BARTHOLOMEW: It's interesting that you talk about pulling talent into the Ministry of Foreign Affairs, if indeed it's talent that's being pulled in there, but as I think about all of this, the PLA has power and the ability to project that power. The oil companies have power through money and the ability to exercise that power. The Ministry of Foreign Affairs has what?

MS. LAWRENCE: They have a certain authority, but, they are a weaker player compared to some of these agencies. This is why it's very difficult for the Ministry of Foreign Affairs to get the PLA to talk to it, because the PLA is a much more powerful institution.

The Ministry of Foreign Affairs, as Julie's testimony noted, is an implementer. It implements foreign policy; it doesn't actually develop foreign policy. That happens higher up. Dai Bingguo at the State Council level is the one who makes the policy, and so they are a weak player, and yet they are out there representing China around the world and at the Foreign Ministry press conferences that sort of speak for China.

So you're putting a finger on one of the issues.

HEARING CO-CHAIR BARTHOLOMEW: Right. And yet I'm not sure that anything that the Foreign Ministry said during Secretary Gates' visit to China had anywhere near the power that the PLA's actions had. So--

Dr. Chen, did you have something you wanted to add?

DR. CHEN: Yes. I would like to add something about the netizens. The Chinese government, such as the Foreign Ministry, does have an online forum opening for netizens to discuss with the Foreign Minister certain foreign policy issues, and I think in March this year--I'm not so sure which date--the International Department also has opened some kind of online forum. So it just shows the willingness of the government to allow the netizens to discuss foreign policies.

HEARING CO-CHAIR BARTHOLOMEW: But there I would go back to Commissioner Wortzel's question at the beginning, which is when you have the Propaganda Department engaged in it, one doesn't even know that these netizens are independent citizens of China who are expressing their views. It very well could be programmed, and that the netizens, the voice of the netizens is actually the voice of people in the Propaganda Department who are interested in things going a certain way.

MS. LAWRENCE: Yes. I just might mention that there's a famous phenomenon, this "Wu Mao Dang." Supposedly there are people around China who are being paid 50 Chinese cents per post to try to turn around

debates on the Internet that seem to be going the "wrong way." There are paid people doing that.

On your point about Twitter, I guess I've been very intrigued at the ingenuity of dissidents in using these tools. I was kind of amazed to learn that Teng Biao, who is one of the dissidents--well, he's not a dissident--he's a legal scholar who has been disappeared--he's one of that list in the last few weeks--but the last time that he was detained just a few months ago, he was sending Twitter from the police station about what was happening to him.

You see this all the time. Dissidents, the way they get news out about the fact that bad things are happening to them is they send something quickly out on the Chinese Twitter feed and say, hey, I've just been grabbed, hey, they've just done this to me. Somehow they're able to do that, I guess because they're doing it on their cell phones, which are sometimes I think perceived to be kind of innocuous things to have on them, but they can link into a powerful global network.

HEARING CO-CHAIR BARTHOLOMEW: It's three o'clock. Commissioner Wortzel, did you have another question you wanted to ask?

COMMISSIONER WORTZEL: If you would permit.

HEARING CO-CHAIR BARTHOLOMEW: If our witnesses can spare a few more minutes or do you need to leave? Spare a few more minutes.

DR. DOWNS: Yes.

HEARING CO-CHAIR BARTHOLOMEW: And I think Commissioner Cleveland has another question, too.

COMMISSIONER WORTZEL: I want to go back to my favorite Ministry of State Security analyst Da Wei. In an article in China Security in June 2010, Da Wei argues that China's core interests refer to national security, sovereignty, territorial integrity and the development interests, and he then states that if China's territorial integrity is a core interest, that includes the South China Sea, and this does not constitute a change in policy.

Yet, oh, I guess a month later in Global Times of July 2010, Da Wei argued against the arbitrary expansion of China's core interests.

So did that change respond to a change by the Central Government? Da Wei seems really to have flip-flopped on this issue within about a 45-day period and really softened his position. Do you attribute that switch to any policy change in Beijing?

MS. LAWRENCE: Sure. The core interests debate is a fascinating sort of case study, and Michael Swaine at Carnegie has done a really nice study of the whole core interests debacle in the China Leadership Monitor, which I'd recommend reading if you haven't.

But that's an example again of the 24-hour news cycle and the powers of technology. The whole core interest thing kind of happened because of an article in The New York Times, which said that Jeff Bader and Jim

Steinberg in a meeting with Dai Bingguo in March 2010 had been told that the South China Sea was a core interest for China.

Since then, various people have denied that, in fact, that statement was ever made. However, there was a New York Times article that said it, and as soon as the New York Times article said it, immediately there was a reaction internationally to the idea that China was now claiming the South China Sea as a core interest.

And it had all sorts of negative ramifications for China's foreign policy, that China was seen to be aggressively asserting itself on this issue.

The Chinese media picked up the New York Times article, the Global Times, in particular, and started writing about how China had now said that the South China Sea was a core interest, and then it seemed to become very difficult for anybody to stand up and say that, no, actually China didn't say that because it would look as if China was being weak.

And so the whole thing spun out of control extraordinarily quickly, and it ended up, one could say, with Hillary Clinton at the ASEAN Regional Forum in July pushing back against China's perceived assertiveness on this, and saying that the U.S. considered it a national interest of the United States to have freedom of navigation in the South China Sea and so on, which China then took as an attack on China.

But it really spun out of control, and it was all because of this global media culture, immediate global media culture, which feeds into things in ways that I don't think people in Beijing ever anticipated.

HEARING CO-CHAIR BARTHOLOMEW: Okay. Commissioner Cleveland.

COMMISSIONER CLEVELAND: You may have just answered my question. I'm interested in whether when you say that the decision-making process, or Commissioner Shea said it was "informal, disjointed and uncoordinated," and Beijing recognizes that they have a problem, I wonder if that's true.

Is it possible that much like how Washington works, that there is a deliberateness to the process that allows the PLA fairly wide berth, keeps the MFA in a, I don't know, I think it's fair to say that the MFA is there to protect and promote China's prestige in the world, but is there, in fact, a calibration or a balance of power within these bureaucracies rather than a disjointed, spinning out of control dynamic?

I guess, Ms. Lawrence, I'm asking you what's the evidence that Beijing recognizes, as you said, that they have a problem?

MS. LAWRENCE: The evidence is the fact that they keep trying to create new groups to somehow to try coordinate policy even though these groups are not necessarily always that successful.

It's certainly a situation that does play to Beijing's advantage at times because there is a certain ambiguity about whether decisions aren't being implemented because Beijing doesn't want them to be implemented or because Beijing can't implement them, and that can be helpful to Beijing.

But I think it's at a bigger level. I think the government does recognize it has a problem in trying to coordinate policy on any number of issues. It's not just foreign policy.

And I think the statement I'd make is that on issues that really matter, Beijing can certainly step forward and really make something stick if they want it to stick. But there's just an awful lot that doesn't rise to that level, and that's where it gets messy.

DR. DOWNS: Yes, I think I would largely echo what Susan was saying. Certainly we see this again, with the work I've done domestically on energy. You see the same thing as in foreign policy with new bodies at the apex of the system being created or re-created every few years, when crises in the sectors arise.

I do think that there are certain cases where the lack of coordination can work to benefit Beijing, and that they can-- the Chinese government can say to outside players, hey, don't get mad at us, you know, Company X does their own thing. We weren't aware that they were doing this. I think this has come up with arms sales in the past where the government has sort of distanced itself from the actor that's been identified as selling arms in certain cases.

COMMISSIONER CLEVELAND: Thanks.

HEARING CO-CHAIR BARTHOLOMEW: Great. All right. Thank you to all of our witnesses.

This has been terrific. We really appreciate your time. Look forward to having further discussions with you, and I just want to take a moment to thank the Commission staff who did the able work to pull this together. Lee Levkowitz and Dan Hartnett, thank you.

With that, we will close this hearing. Our next hearing is May 4. Thanks. Thanks very much.

[Whereupon, at 3:06 p.m., the hearing was adjourned.]

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ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STATEMENT FOR THE RECORD from BILL JOHNSON, U.S. REPRESENTATIVE FROM THE SATE OF OHIO

I would like to thank the U.S.-China Commission for allowing me to share some thoughts on China's foreign policy, in particular China's economic foreign policy. When discussing our national interests in the Asia-Pacific region, it is impossible to not address the strong economic and financial ties the U.S. has with China and other Asian nations.

The Asia-Pacific region accounts for 50 percent of world trade and 60 percent of the world's gross domestic

product. The staggering growth of this region has shown no sign of stopping and has weathered the recent economic crisis well. Over the next few years, increased exports will continue to play a pivotal role in the United State's economic recovery and drawing down unemployment numbers. The Administration's stated goal of doubling U.S. exports to $3.14 trillion by 2015 will support two million new jobs in the United States. Our commercial and economic success in reaching this goal relies heavily on American relations with Asia, in particular with China.

As Asian economies continue to experience dynamic growth, the United States needs to maintain a constant regional awareness as we engage on multiple fronts with China and other nations in the Asia-Pacific region. Our relationship with China is complicated. This is precisely why the U.S.-China Commission has such an important mission in monitoring this relationship. Yet the U.S. government needs to do a more thorough job of oversight. I believe we need to have an overarching policy governing our relations with one of our largest trading pm1ners and one of the greatest potential threats to our national security. Simply put, our lack of a coherent China policy addressing political, military, and economic issues has resulted in empty factories, shuttered businesses and high unemployment in eastern and southeastern Ohio.

When we think of trade with China, we tend to think in terms of cheap Chinese imports in America. But this is only one side of the coin. China is the third largest and fastest growing market for U.S. exp011s, totaling $92 billion in 2010. Even in the year following the global financial crisis, U.S. exp011s to China were down far less than U.S. exports to other major trading partners.

In most of my district in southern and eastern Ohio, unemployment rates linger well above Ohio's overall 9.8 percent rate - an average of 11 percent or above. In 2000, exports from my district totaled $11 million. China's entry into the WTO in 2001 increased these exports, promising greater potential for strong bilateral trade relations. By 2009, southern and eastern Ohio exported $56 million worth of exports to China. These exports are very important to Ohio's economy. Unfortunately, this trade potential is weighed down with deep mistrust for China and its rampant unfair trade practices, which threaten the survival of American companies. China has announced its intent to transition its economy to a worldwide source of innovation within 15 years. It has subsidized high tech industries such as aerospace, renewable energy, computer science, and life sciences. It has placed limits on competition from foreign firms, and denied access to China's markets unless foreign firms operate in China and share their technology with Chinese films. As a former CIO of a technology company, these practices are very troubling to me. We must be vigilant as we move to take advantage of the massive Chinese market for U.S. exports and cautious when weighing the costs and benefits of doing business in China.

U.S. businesses have taken great risks to develop new technologies. Because of American leadership in technology, protecting U.S. intellectual property is more important than ever, especially when it comes to China. The American people have always expressed a strong desire to achieve and move our Nation forward. We must protect the investments that American businesses have made in innovation, as other nations attempt to imitate our ingenuity and surpass us. We must have safeguards in place to ensure our continued position as a global leader in the high-tech sectors of the world economy. And we must encourage the Obama Administration to aggressively pursue China in the WTO when they do not live up to their trade commitments.

In 2010, our trade deficit with China was $273 billion. While this may not be the direct result of anyone policy, the fact that China manipulates its currency is a strong contributing factor. China's deliberate efforts to keep its currency from appreciating against the U.S. dollar leave U.S. companies at a severe competitive disadvantage. As America tries to compete with cheap imports from China, business owners face tough choices - particularly job layoffs.

These lopsided trade practices threaten American exports, businesses, and jobs. China's dumping of goods in the U.S. and use of tariffs to curb U.S. business in China should be issues resolved by China's membership in the WTO. All too often, American businesses experience a lack of enforcement of existing trade laws, or absence of trade

laws all together. While the WTO should serve to resolve these trade imbalances, it provides little recourse. Often, lengthy and costly court battles are American businesses' only option, sometimes causing greater harm than good.

In addition, over the past decade, China has become the largest holder of U.S. debt. As our national debt continues to mount; I cannot stress enough the importance of tackling our Nation's financial situation as a way to strengthen our national security in light of China's involvement. China's holdings are not only a matter of national security, but also of U.S. financial stability and economic vitality.

There is general agreement that Chinese trade practices leave our economy at a severe disadvantage. But I would also like to point out that these concerns are not one-sided. As much as China does everything it can to circumvent the rules, it also strives to secure its position as an integral player in the world economy.

Unsustainable trade practices will not allow China to work towards economic stability. Chinese economic growth is hindered by undervaluation, causing the Chinese government to battle with inflation. China has allowed its currency to appreciate, albeit slightly, as it works to control the effects of undervaluation. While the U.S. is still experiencing a significant trade deficit with China, other nations are not. This year, China experienced its first quarterly trade shortfall since 2004.

The importance of this region to America's economic, political, and military interests continues to grow. We must begin to enter serious discussions about what American policy toward China should consist of. The further we go down the road without a comprehensive strategy that addresses economic, political, and military issues, the worse our situation will become and the greater our concerns will be. The absence of a defined U.S. policy towards China puts America at risk on many levels. As China partners with other Asia-Pacific nations, we need to stay actively involved. Our trade in the region needs to be the result of cooperation that leads to regional stability, both economically and politically. Efforts to that end will work to ensure the safeguarding of our national interests at home and abroad.

There have always been bad apples when it comes to our trading partners, and we must work to ensure that trade is about shared values and using those values to optimize U.S. exports.

I am a supporter of fair trade, but rather than simply pursuing trade agreements, America should be pursuing Export Optimization Agreements. Because, when it comes down to it, U.S. exports mean U.S. jobs. However, if China wants to be a major player in the world market, it must stop trying to grow as a small one. Many of its practices will not only harm trade relations with major trading partners, but will also hurt China in the long run.

Again, I thank the Commission for allowing me to provide my perspective on U.S.-China foreign policy. I firmly believe that we must create a clear policy towards China in order to ensure our participation in the region for future generations of Americans.

ADDITIONAL COMMENTS FOR THE RECORD from DAVID HELVEY (PANEL II)

Responses to Questions from Commissioners Submitted by Mr. Helvey subsequent to the hearing:

QUESTION: **What role did the PLA, PAP, and other security forces play in the recent riots in Xinjiang and Tibet?**

The People's Armed Policy (PAP) and local Public Security Bureau (PSB) forces played the primary role in suppressing large-scale riots in Xinjiang and Tibet since 2009. The PSB and PAP used forceful but non-lethal means, including water cannons, tear gas, and riot batons, to attempt to control escalating protests on both occasions. By

most accounts, the PLA did not play a leading role in suppressing either riot, although it is possible that the PLA supported the PSB and PAP missions.

Statements from PRC government leaders and official publications indicate that Beijing views the PSB forces and PAP as important tools to address what it perceives as acts that create instability.

PRC spending on internal police forces further demonstrates the high priority the leadership places on internal stability. Although official figures do not give an accurate portrayal of actual spending, they do provide a general picture of the direction of spending trends. According to China's Ministry of Finance figures, China spent more on its internal police force than on its armed forces in 2010. In 2010, China said it spent $83.5 billion on internal security, a 15.6 percent increase over 2009. In contrast, China claims it spent $81.2 billion on national defense during that period. In 2011, the PRC government plans to spend $95.0 billion on internal security and $91.5 billion on the armed forces.

QUESTION: What arms and munitions has China sold to Venezuela in the past 5 years?

Since the 2006 implementation of a U.S. arms embargo against Venezuela, Russia and China have emerged as Venezuela's primary suppliers of military equipment. Although Russian contracts with and deliveries to Venezuela far exceed those of China, during this period Beijing has provided Venezuela with trainer aircraft and air surveillance radars, and is negotiating a contract for transport aircraft.

In 2010, China delivered 18 K-8 Karakoram light attack/trainer aircraft to Venezuela under a 2008 agreement. Delivery of the first six aircraft to the Venezuela Bolivarian Military Aviation (AMB) force occurred in March 2010, and Venezuela received the final 12 aircraft later that year. According to *Jane's*, Venezuela may purchase an additional six aircraft under a follow-on contract.

Venezuela purchased 10 JYL-1 3D air surveillance radars from China and received the first three in 2006. According to Open Source Center analysis, the contract includes the radars, command and control centers, leasing of a satellite communications service, spare parts, technical assistance, and personnel qualification and training.

According to *Jane's*, the AMB received two JY-11B high-mobility, solid-state 3D low-level air-surveillance radars from China no later than November 2010.

According to the website of the official Venezuelan News Agency, the Venezuelan Government is negotiating to purchase as many as 12 Y-8 medium-transport aircraft. The aircraft would reportedly perform the same functions as Venezuela's aging C-130 Hercules aircraft.

QUESTION: Does DOD ever raise human rights in its dialogues with the PLA?

The Defense Department holds a number of official discussions with the People's Liberation Army and with other officials of the PRC government each year. These include the Defense Consultative Talks, led by the Under Secretary of Defense; the Defense Policy Coordination Talks, led by the Deputy Assistant Secretary of Defense for East Asia; and the Military Maritime Coordination Agreement talks, chaired by representatives of the U.S. Pacific Command. Human rights are not the focus of these discussions; however, when we have specific human-rights related issues, we do raise them.

ADDITIONAL COMMENTS FOR THE RECORD from ALAN WACHMAN (PANEL III)

Responses to Questions from Commissioners Submitted by Dr. Wachman subsequent to the hearing:

I believe it was Commissioner Fielder (or someone sitting near him) who posed a question about the relative influence of the PLA and the PRC's Ministry of Foreign Affairs. I began my reply by saying that we really just do not know how the relative influence of the two institutions, even though there are persistent rumors in press that the Foreign Ministry is "down" and the PLA is "up." I wish to add that for us to conclude that this is a permanent (or, at

least, durable) feature of the PRC's foreign policy making structure, we will need to be able to chart this relationship over time.

Beyond that, there are issues of resources. We all recognize about our own system that there are plenty of moments when the Department of State seems to be "down" and the Pentagon seems to be "up." Some of this flows from the way in which resources are apportioned to the military, as opposed to the diplomatic side of the house. In addition, though, there is also a matter of personalities. Some Secretaries (of Defense or of State) "click" better with the President and White House than do others. It may also flow from their relationship to each other.

Is it reasonable to assume that something akin to these dynamics may affect foreign policy making in the PRC?

Commissioner Malloy posed a question about the view he detected in a recent trip to the PRC that there is a pervasive sense that the U.S. is in decline. I responded by suggesting that this is a "trope" in PRC assessments of the U.S. that seems a persistent element of some portion of the Beijing's analytical community and the commentariat there. I overemphasized, in my remarks to him,that Chinese seem to "need" this as a way of justifying the possibility of their own emergence to greater stature. On reflection, what I might have said—but did not say—is that this may also reflect Chinese hopes, more than careful weighing of actualities. In that way, it is the analogue to a very persistent thread in the analysis by American scholars and pundits about the imminent collapse or division of the CCP, and its influence over the Chinese state. I recognize that I am as vulnerable to this tendency as the next academic, as I have a great concern about the leadership transition about to unfold in the PRC. Beyond my own biases, though, there does seem a rather hardy stream of commentators in the U.S. who overemphasize the fragility of the CCP, the Chinese system and, at moments, the PRC, itself.

So, as with Americans who are quick to express skepticism about the capacity of the CCP to endure, Chinese who speak and write about the decline of the U.S. may be allowing hope to overcome reason.

If any member of the commission has an interest in extending or elaborating these conversations, I would certainly welcome the possibility of doing so.