

CHINA'S PROLIFERATION PRACTICES AND ROLE IN THE NORTH KOREA CRISIS

HEARING BEFORE THE U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION ONE HUNDRED NINTH CONGRESS FIRST SESSION

MARCH 10, 2005

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The Commission's Statutory Mandate begins on page 178.

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

MAY 12, 2005

The Honorable TED STEVENS,
President Pro Tempore of the U.S. Senate, Washington, D.C. 20510
The Honorable J. DENNIS HASTERT,
Speaker of the House of Representatives, Washington, D.C. 20515

DEAR SENATOR STEVENS AND SPEAKER HASTERT:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit the record of our March 10, 2005 public hearing in Washington, D.C. The hearing on “*China’s Proliferation Practices and Role in the North Korea Crisis*” gave the Commission revealing insights into proliferation transfers emanating from China and China’s role in addressing the North Korea nuclear problem.

As you know, the Commission is mandated by Congress to analyze and assess the Chinese role in the proliferation of weapons of mass destruction (WMD) and other weapons (including dual-use technologies) to terrorist-sponsoring states and to suggest possible steps which the United States might take, including economic sanctions, to encourage the Chinese to stop such practices. (P.L. 108–7, Division P, Sec. 2(c)(2)(A)). In a post 9/11 world, the issues addressed are of dire importance, not only to the United States but to all countries. Based on testimony received at its hearing on these issues in July 2003, this Commission concluded that China was a substantial source of WMD and missile-related proliferation. Regrettably, based on the testimony presented at its March 10 hearing, we must advise that Chinese entities continue to proliferate WMD and missile-related technologies to countries of concern such as Iran. We also note that the situation in North Korea has not improved since 2003 and, if anything, has become more worrisome. Earlier this week (May 11), a North Korean Foreign Ministry spokesman announced his country is taking measures to increase its nuclear arsenal. The stakes associated with these issues could not be higher and the potential consequences could not be more global in scope.

In order to address these problems, the Commission heard testimony from U.S. Representatives Edward Markey and Curt Weldon and received a written statement from Representative Solomon Ortiz. The Commission also heard from executive branch officials and leading non-governmental experts. The hearing was timely since a number of Chinese entities had been sanctioned by the executive branch for transferring missile-related technology to Iran in December 2004 and because of North Korea’s February 2005 announcement that it possesses nuclear weapons and was withdrawing from the Six-Party Talks aimed at denuclearizing the Korean Peninsula.

China’s Proliferation Practices

As we have indicated in our previous reports, China’s role in the proliferation of weapons of mass destruction and their delivery sys-

tems remains a serious concern. At the hearing, one Department of Defense official stressed his concern that, as China modernizes its nuclear and ballistic capabilities, such improved technology and know-how could be proliferated to problematic countries. Over the past few years China has increased its public nonproliferation posture through its involvement in a number of multilateral nonproliferation commitments. For example, China was accepted into the Nuclear Suppliers Group in May 2004. Its promulgation of some export control laws is also a positive step. However, China needs to acknowledge the frightening prospects of proliferation and do much more to fully implement its export control policies and stop its companies and people from engaging in WMD-related proliferation.

Despite Beijing's assertions that it is addressing the problem, the reality is that Chinese entities, many of which have very close ties to the government, continue to provide nuclear, chemical, and missile-related technologies to countries of concern. In his testimony to us, a Department of State official noted that "there is no doubt that we feel China can do and should be doing more to prevent the spread of WMD, missiles, and conventional weapons. . . . Their [Beijing's] inability to take action against serial proliferations calls into question China's commitment to truly curb proliferation to certain states."

Currently the Administration has a parallel strategy to address Chinese proliferation: conveying U.S. concern to Beijing about Chinese proliferation activities and imposing sanctions against proliferating Chinese entities. Despite the Administration's complaints and aggressive use of penalties, Chinese entities, such as the North China Industries Corporation (NORINCO) which has been sanctioned numerous times, continue to sell WMD and missile-related technologies abroad. We have serious questions about both China's commitment to policing its serial proliferators and the effectiveness of current U.S. sanctions, which in some instances have been waived by the executive branch.

A reevaluation of the effectiveness of our sanctions is in order. One non-governmental expert witness complained, "[Current sanctions] are not strong enough to affect the profitability of the offending companies. Put simply, our sanctions do not have any real teeth." In some cases sanctions do not punish parent companies for the proliferation activities of their subsidiaries unless the parent companies "knowingly assisted" in the prohibited transactions—a burden of proof that is very difficult to meet. The penalties aimed at the actual proliferating entities often restrict them from conducting business with the U.S. Government, and occasionally restrict their exports from entering U.S. markets, but have little financial effect as few of the proliferating subsidiaries have direct business connections with the U.S. Government or American companies.

Currently it is possible for a Chinese parent company to engage in joint ventures with American companies and raise money on the New York Stock Exchange while its subsidiaries are under U.S. proliferation sanctions, and this is not a hypothetical situation. One witness explained how the Chinese oil giant Sinopec benefited from joint ventures with American companies and raised roughly

\$3 billion in American capital markets while several Sinopec subsidiaries were subject to U.S. proliferation sanctions. During the same period, another Sinopec subsidiary was aided by a \$429,000 management feasibility study funded by the U.S. Trade and Development Agency. If the U.S. wants its antiproliferation efforts to have significant impact, it must punish the parents of proliferating entities by limiting their access to American markets, including our capital markets. Further, if Chinese entities continue to be involved in proliferating activities, demonstrating that the government of China is not taking effective steps to curtail such activities, the U.S. should consider sanctioning the government in an effort to gain its attention and spur it to meaningful action in halting proliferation.

China's Role in the North Korea Nuclear Crisis

On February 10, 2005 North Korea abruptly announced that it possesses nuclear weapons and was withdrawing from the Six-Party Talks aimed at denuclearizing the Korean Peninsula. This was a serious setback to efforts seeking to attain peace and stability in the East Asia region and beyond. China plays a key role as the host of the Six-Party Talks and also, with its aid program to North Korea, prevents that country's economy and regime from collapsing. As one witness noted, "extreme pressure must be applied to North Korea, and Pyongyang must understand that diplomatic, political, and economic pressure will only increase if it continues its nuclear programs. China's active participation in such an effort is necessary to achieve any success." China can and should be doing more to bring Pyongyang back to the Talks as soon as possible and without pre-conditions. Failure to do so could lead to a regional arms race, or worse.

It is possible that China wants to maintain the status quo, perhaps seeing that as desirable for its own security interests. Regardless, China can muster and apply much greater leadership and leverage than it has chosen to deploy to date. Recently China has sought a heightened global status, but until it brings North Korea back to the Six-Party Talks, it is demonstrating failure as a diplomatic leader. As Congressman Curt Weldon noted "[regional and global] leadership requires action." According to the Administration's special envoy to the Six-Party Talks, "we are at a critical juncture in the Talks" and it is all the more imperative that China bring North Korea back to the table. The time for Chinese action is now.

Secretary of State Condoleezza Rice, in her March 20, 2005 meetings with China's President Hu Jintao in Beijing, called on China to do more to help obtain an acceptable outcome to the North Korea problem. China should be given a chance to press North Korea again, but countries seeking peace and stability on the Peninsula cannot wait on China indefinitely.

Preliminary Recommendations

Based on these findings and the Commission's other work on these issues to date, we present the following preliminary recommendations to the Congress for consideration:

- (1) Current sanctions against Chinese entities that proliferate technology related to WMD and their delivery systems

should be broadened and harmonized for increased effectiveness. We recommend that Congress pass legislation that increases the penalties for parent companies of subsidiaries that engage in proliferation activities. The access of the parent firms, and the access of all entities under their control, to U.S. markets (including capital markets), technology transfers, and U.S. grants and loans should be linked to the proliferation records of their subsidiaries.¹

- (2) In cases where diplomatic efforts are unsuccessful in spurring the government of a country such as China to take effective actions to halt proliferating activity, the U.S. should use its economic leverage to make it costly for those in positions of control to continue to permit proliferation activities. In connection with the recommendation above that Congress broaden and harmonize proliferation sanctions, and in consonance with recommendations contained in our 2002 and 2004 Annual Reports, we recommend that Congress amend all current statutes pertaining to proliferation to—
- increase the array of sanctions the President is authorized to invoke against foreign governments that directly proliferate WMD, their delivery systems, and associated technologies to include import and export limitations; restrictions on access to U.S. capital markets; restrictions on U.S. direct investment; U.S. opposition to loans from international financial institutions; prohibition of loans from U.S. banks; reduction or elimination of foreign assistance; prohibition of arms sales and military financing; elimination of U.S. Government credit or credit guarantees; prohibition of U.S. Government procurement from any entity based in the offending country; and restrictions on science and technology cooperation with or transfers to the offending country. The new authority should require the President to report to Congress the rationale for and proposed duration of the sanctions within 72 hours of imposing them and, in any case where the President waives imposition of such a sanction, the authority should require the President to notify Congress of the justification for that waiver.
 - authorize the President to impose the same sanctions listed above against a country or the government of a country where commercial entities are persistently engaged in proliferation of WMD, their delivery systems, and associated technologies and where the government does not take effective steps to curtail those activities.²
- (3) In an attempt to better monitor the financial and fundraising activities of proliferating companies in this country, we recommend that Congress reenact Section 827 of the FY 2003 Intelligence Authorization Act which required an annual report to Congress by the Director of Central Intelligence on foreign companies that raise money in U.S. capital markets while also proliferating technology related to WMD and their delivery systems.

¹ Commissioner Reinsch dissents from recommendation number 1.

² Commissioner Reinsch dissents from recommendation number 2.

- (4) Congress should call on the Administration to continue to press China forcefully to use its leverage to get North Korea to halt its nuclear activities and return to the Six-Party Talks without preconditions. China also should be encouraged to offer its own proposal to resolve the Korean nuclear crisis in the context of the Six-Party Talks.
- (5) If positive action is not forthcoming in the near future, Congress should encourage the Administration to devise and pursue alternative methods to address this problem, including working with our allies to increase pressure on China and North Korea. Congress also should encourage and support the Administration to propose a United Nations Security Council resolution which at least condemns North Korea's February 10 statement and calls on it to return to the Six-Party Talks. Placing such a resolution before China's U.N. delegation will reveal Beijing's sincerity in pressuring Pyongyang.

Thank you for your consideration of our preliminary recommendations. In addition to the above findings and recommendations, we reiterate those related findings and recommendations contained in our earlier Annual Reports. We hope you will find the hearing record, our findings, and our preliminary recommendations helpful as the Congress continues its assessment of the implications of Chinese proliferation, China's role in the North Korea crisis, and the consequent steps the United States should take.

Sincerely,



C. Richard D'Amato
Chairman



Roger W. Robinson, Jr.
Vice Chairman

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CHINA'S PROLIFERATION PRACTICES AND ROLE IN THE NORTH KOREA CRISIS

THURSDAY, MARCH 10, 2005

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

The Commission met in Room 562, Dirksen Senate Office Building, Washington, D.C. at 9:05 a.m., Chairman C. Richard D'Amato, Vice Chairman Roger W. Robinson, Jr., and Commissioners Carolyn Bartholomew, Fred D. Thompson and Larry M. Wortzel (Hearing Cochairs), presiding.

OPENING STATEMENT OF CHAIRMAN C. RICHARD D'AMATO

Chairman D'AMATO. Good morning and welcome to the U.S.-China Economic and Security Review Commission's hearing on China's Proliferation Practices and Role in the North Korea Crisis. Our hearing is being co-chaired today by Commissioners Carolyn Bartholomew, Fred Thompson and Larry Wortzel. These issues are important to the Congress, which has directed that this Commission review them in our governing statute.

Our mandate calls on us to assess China's role in the proliferation of weapons of mass destruction to terrorist-sponsoring states. As we have stressed in our reports to the Congress, proliferation stemming from China remains a serious concern. Have the Chinese taken decisive actions to reign in the various companies engaging in this behavior, some of which have been repeatedly sanctioned by the United States? We believe China must face this issue more frankly and effectively.

Washington also must act to impose consequences on Beijing should it not cooperate on this vital matter. Currently, the United States employs sanctions in hopes of curbing the proliferating habits of some of China's largest companies. That's the subject we're going to be exploring today.

But U.S. sanctions laws have failed to stem this behavior and do not penalize the Chinese government for its lack of action to end it. Ultimately, the Chinese government itself must be accountable for a WMD-related attack that involves either directly or indirectly materials or technologies originating in China.

In addition to proliferation, we will examine China's role in the North Korea nuclear crisis. North Korea is also guilty of repeated acts of proliferation of WMD and their delivery systems, behavior that should be well within the capacity of China to mitigate or end.

Last month, the North Koreans withdrew abruptly from the Six-Party Talks and announced that they possessed nuclear weapons. Earlier this week, the New York Times reported that the Chinese

Foreign Minister challenged the fundamental American assumptions about the dangers of the North Korean program, challenged the quality of United States' intelligence, and essentially walked away from any other role to pressure the North Koreans into reaching a real agreement.

This statement has since been clarified by the Chinese government, basically denied by the Chinese government, which said that it is committed to maintaining and strengthening the Six-Party Talks.

Given this confusion, it is important the Chinese leaders understand that Beijing's cooperation and leadership in solving the North Korea nuclear issue is the single-most important aspect and litmus test of a so-called U.S.-China, "strategic" relationship.

A recent national poll of Americans last week indicated that 81 percent thought North Korea had nuclear weapons and 70 percent believe North Korea is a threat to the United States.

Americans cannot afford to wait indefinitely for Chinese action on this issue. The moment for action is now. China currently is seeking a larger role as a global leader. Whether it grows into such a global role will depend to a large degree on whether it takes positive and effective actions in the Six-Party Talks and uses its full leverage to moderate North Korea's behavior.

I will now turn over the proceedings to our Vice Chairman, Commissioner Roger Robinson.

[The statement follows:]

Prepared Statement of Chairman C. Richard D'Amato

Good morning and welcome to the U.S.-China Economic and Security Review Commission's hearing on *China's Proliferation Practices and Role in the North Korea Crisis*. Our hearing is being co-chaired by Commissioners Carolyn Bartholomew, Fred Thompson, and Larry Wortzel. These issues are important to the Congress, which has directed that we review them in our governing statute.

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Washington also must act to impose consequences on Beijing, should it not cooperate on this vital matter. Currently the U.S. employs sanctions in hopes of curbing the proliferating habits of some of China's largest companies, but U.S. sanctions laws have failed to stem this behavior, and do not penalize the Chinese government for its lack of action to end it. Ultimately, the Chinese government itself must be held accountable for a WMD-related attack which involves, either directly or indirectly, materials or technologies originating in China.

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I will now turn over the proceedings to our Vice Chairman, Roger Robinson.

OPENING STATEMENT OF VICE CHAIRMAN ROGER W. ROBINSON, JR.

Vice Chairman ROBINSON. Thank you, Mr. Chairman. Good morning, ladies and gentlemen. As Vice Chairman of the Commission, I join Chairman D'Amato in welcoming our many esteemed witnesses today. I also share his urgent concern about the issues at hand today. The foreign policy of the United States currently confronts numerous pressing challenges.

One is WMD and ballistic missile-related proliferation and the legitimate fear that the ability to manufacture and deliver WMD eventually could arrive in the hands of terrorist groups. China's role in putting a stop to such proliferation is vital, especially given that Chinese entities continue to transfer such equipment and technology to terrorist sponsoring states such as Iran.

Indeed, on balance, China continues to be a sizable part of the problem, not the solution. Today's hearing is on both Chinese proliferation practices and China's role in the North Korean crisis. This was intentional. Though separate policy issues, they are directly linked. For example, the threat of ballistic missile strikes against U.S. interests in the Middle East in large part exist because of Chinese and North Korean transfers and programmatic support.

Each amplifies and exacerbates the other. We do not know what the future holds in terms of Chinese and North Korean government support for these and other programs, and this is a very disquieting reality. Chinese involvement in WMD and ballistic missile programs around the world has undergone some changes in recent years. Chinese government officials now publicly state that China does not support the development of weapons of mass destruction by any country and is becoming more active in select nonproliferation regimes, notably concerning nuclear materials.

It's important to remember, however, that because of past Chinese patronage of WMD and ballistic missile programs, the ability of several countries of concern to develop weapons that can have devastating results have been enhanced and accelerated.

Because of that direct involvement, we remain concerned about the ability of the central government to effectively control the illicit transfers of WMD and ballistic missile-related technology and technologies by Chinese firms. It's well known that China was instrumental in the development of some of Iran's WMD and missile programs from the provision of chemical weapons precursors to ballistic missile components and associated production facilities.

China has also directly assisted Iran in the development of its nuclear weapons infrastructure. China's hand is also particularly visible in both Pakistan's missile and nuclear program. It has been widely reported that China provided actual nuclear warhead designs to Pakistan. China's ongoing support of Pakistan's nuclear weapons program continues to have unfortunate but predictable

consequences. We've learned since Libya's denunciation of nuclear weapons that Pakistani designs have been provided to Libya.

Beyond unilateral U.S. sanctions against Chinese firms that proliferate, what can the United States or its allies do to effectively encourage China to take decisive action against Chinese proliferators and to strengthen further export controls?

Additionally, the continued missile modernization programs of both China and Iran raise deep concerns. Recent press reports indicate that Ukraine has supplied China and Iran with long-range cruise missiles. The long-term impact of such transfers still needs to be assessed. However, these transfers illustrate the global repercussions when irresponsible governments take action for political or economic reasons that run counter to the nonproliferation standards of the international community.

North Korea continues to be a central foreign policy and national security concern. Its withdrawal from the Six-Party Talks, its declaration that it possesses nuclear weapons and its direct involvement in the missile programs of seemingly every country of concern continues to alarm policymakers here and abroad.

There is now little question that China's role in arresting and irreversibly dismantling North Korea's nuclear weapons and ballistic missile programs will serve as the litmus test for improved U.S.-China relations and probably Beijing's relations with Japan.

China's continued sale of proscribed items to Iran, particularly those destined for its missile programs, should likewise implicate our entire bilateral relationship in light of the growing dangers posed by Iran's nuclear weapons and ballistic missile programs.

Today's discussions are serious, the issues urgent, and the likely consequences global. We are fortunate to have both executive and legislative branch witnesses providing their views as well as experts from academia and the private sector to convey to the Commission the insights derived from their studies of these major security concerns.

Thank you, Mr. Chairman.

[The statement follows:]

Prepared Statement of Vice Chairman Roger W. Robinson, Jr.

Good morning ladies and gentlemen.

As Vice Chairman of the Commission, I join Chairman D'Amato in welcoming our many esteemed witnesses today. I also share his urgent concern about the issues at hand today. The foreign policy of the United States currently confronts numerous pressing issues. One is WMD and ballistic missile-related proliferation and the fear that the ability to manufacture and deliver WMD eventually could arrive in the hands of terrorist groups. China's role in stopping such proliferation is vital, especially given that Chinese entities continue to transfer such equipment and technology to terrorist-sponsoring states such as Iran. Indeed, on balance, China continues to be a sizeable part of the problem, not the solution.

The coverage of today's hearing on both Chinese proliferation practices and China's role in the North Korea crisis was intentional. Though separate policy issues, they are directly linked. The threat of ballistic missile strikes against U.S. interests in the Middle East exists because of Chinese and North Korean transfers and programmatic support. Each amplifies and exacerbates the effect of the other. We do not know what the future holds in terms of Chinese and North Korean governmental support for these and other programs—and that is a very disquieting reality.

Chinese involvement in WMD and ballistic missile programs around the world has undergone some change in recent years. Chinese government officials now publicly state that China does not support the development of weapons of mass destruction by any country and is becoming more active in select nonproliferation regimes,

notably concerning nuclear materials. It is important to remember, however, that because of past Chinese patronage of WMD and ballistic missile programs, the ability of several countries of concern to develop weapons that can have devastating results has been enhanced and accelerated. Because of that direct involvement we remain concerned about the ability of the central government to effectively control the illicit transfers of WMD and ballistic missile-related technologies by Chinese firms.

It is well known that China was instrumental in the development of some of Iran's WMD and missile programs from the provision of chemical weapons precursors to ballistic missiles and associated production facilities. China also directly assisted Iran in the development of its nuclear weapons infrastructure. China's hand is also clearly visible in both Pakistan's missile and nuclear programs—it has been widely reported that China provided actual nuclear warhead designs to Pakistan. China's ongoing support of Pakistan's nuclear weapons program continues to have unfortunate but predictable consequences. We have learned since Libya's renunciation of its nuclear program that Pakistani designs had been provided to Libya. Beyond unilateral U.S. sanctions against Chinese firms that proliferate, what can the United States or its allies do to effectively encourage China to take decisive action against Chinese proliferators and to strengthen further export controls?

Additionally, the continued missile modernization programs of both China and Iran raise concerns. Recent press reports indicate that Ukraine has supplied China and Iran with long-range cruise missiles. The long-term impact of these transfers still needs to be assessed; however, these transfers illustrate the global repercussions when irresponsible governments take steps for political or economic reasons that run counter to the nonproliferation standards of the international community.

North Korea continues to be a central foreign policy and national security concern. Its withdrawal from the Six-Party Talks, its declaration that it possesses nuclear weapons and its direct involvement in the missile programs of seemingly every major country of concern continues to alarm policymakers here and abroad. There is now little question that China's role in arresting and irreversibly dismantling North Korean nuclear weapons and ballistic missile programs will serve as the litmus test for improved U.S.-China relations, and probably Beijing's relations with Japan. China's continued sale of problematic items to Iran, particularly those destined for its missile programs, shall likewise implicate our entire bilateral relationship in light of the growing dangers posed by Iran's nuclear weapon and ballistic missile programs.

Today's discussions are serious, the issues urgent, and the likely consequences global. We are fortunate to have both Executive and Legislative branch witnesses providing their views as well as experts from academia and the private sector to convey to the Commission the insights derived from their study of these major security challenges. Thank you.

Chairman D'AMATO. Thank you very much, Vice Chairman Robinson, and I'd like to ask Commission Cochairman Wortzel if he has some comments that he would want to make at this point.

**OPENING STATEMENT OF COMMISSIONER LARRY M. WORTZEL
HEARING COCHAIR**

Cochair WORTZEL. Thank you, Mr. Chairman. Good morning. This Commission has the responsibility to analyze and assess the Chinese role in the proliferation of weapons of mass destruction and other weapons to terrorist-sponsoring states. The Commission is also given the responsibility in its legislation to suggest steps that the United States can take to encourage the Chinese government to stop such practices.

Later today the hearing will look at China's role in North Korea, both as a major economic and political supporter of Kim Jong-Il's regime and as a partner in the Six-Party Talks trying to achieve some resolution to North Korea's nuclear program.

I want to thank all of you for being here and participating in the hearing. These events are important ways to focus public attention on critical security matters. The views that we receive from the witnesses help the Commissioners form recommendations on these issues.

A basic question on proliferation is whether the government of China supports weapons proliferation to terrorist-sponsoring states as a matter of policy even if that policy is never stated. The Chinese government might do so to get access to resources, to open markets, or to thwart the foreign policies of other nations including the United States.

When U.S. economic sanctions have been imposed because of proliferation by China, the sanctions have been against individuals or companies. Now, I would argue that after a certain point, if the Chinese government doesn't act to stop such proliferation, one must conclude that permitting this proliferation to occur is Chinese government policy.

After all, China has extensive police resources to devote to enforcing government policy. The Chinese government can devote 50,000 police to the task of preventing citizens from communicating on the Internet. In a ten-month period last year, China closed 47,000 Internet cafes for what was called "disseminating harmful cultural information."

China seems to find the police resources to suppress religious practices. In one recent case, Jiang Zongxice, a 34-year-old Chinese citizen, was arrested and beaten to death by public security officials for passing out Bibles. Now, Americans must ask why China can find the necessary police to shut down Internet communications or to arrest practicing Christians, but the Chinese government can't seem to find enough security agents to find and stop companies from proliferating weapons to terrorist-sponsoring states.

Our goal in these hearings is to form some recommendations to Congress and the executive branch to help the Chinese government change its priorities.

Thank you, Mr. Chairman.

[The statement follows:]

**Prepared Statement of Commissioner Larry M. Wortzel
Hearing Cochair**

Good morning. This Commission has the responsibility to analyze and assess the Chinese role in the proliferation of weapons of mass destruction, and other weapons, to terrorist-sponsoring states. The Commission is also given the responsibility in legislation to suggest steps that the United States can take to encourage the Chinese government to stop such practices. Later today the hearing will look at China's role in North Korea, both as a major economic and political supporter of Kim Jong Il's regime, and as a partner in the Six-Party Talks trying to achieve some resolution to North Korea's nuclear program.

Thank you for your participation in this hearing. These events are important ways to focus public attention on critical security matters. Your views help the Commissioners form recommendations on these issues.

A *basic* question on proliferation is whether the government of China supports weapons proliferation to terrorist-sponsoring states as a matter of policy, even if that policy is never stated. The Chinese government might do so to get access to resources, to open markets, or to thwart the foreign policies of other nations, including the United States. When U.S. economic sanctions have been imposed because of proliferation by China, the sanctions have been against individuals or companies. I would argue that after a certain point, if the Chinese government doesn't act to stop such proliferation, one must conclude that permitting this proliferation is Chinese government policy.

After all, China has extensive police resources to devote to enforcing government policy. The Chinese government can devote some 50,000 police to the task of preventing citizens from communicating on the Internet. In a 10-month period last year, China closed 47,000 Internet cafes for what was called "disseminating harmful

cultural information.” And China seems to find the resources to suppress religious practices. In one recent case, Jiang Zongxice, a 34-year-old Chinese citizen, was arrested and beaten to death by public security officials for passing out bibles and Christian literature.

Americans *must* ask why China can find the necessary police to shut down Internet communications or arrest Christians, but the Chinese government can’t seem to find enough security agents to find and stop companies from proliferating weapons to terrorist-sponsoring states.

Our goal in these hearings is to form recommendations to Congress and the Executive Branch to help change the Chinese government’s priorities.

Chairman D’AMATO. Thank you very much, Commissioner Wortzel.

PANEL II: ADMINISTRATION PERSPECTIVES

Cochair WORTZEL. Thank you, Mr. Chairman and Senator Thompson. Secretary Rodman, Secretary Rademaker, thank you very much for being here. We appreciate your time. It helps us get an idea about the Administration’s views on China and its proliferation practices and the important role it plays in North Korea.

You have seven minutes each for your statements, and then we’ll turn to you for questions from the rest of the Commission. Thank you.

Mr. RADEMAKER. Which witness would you prefer to go first?

Cochair WORTZEL. Secretary Rodman.

STATEMENT OF PETER W. RODMAN ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS

Mr. RODMAN. I have a prepared statement which we’ve delivered to the Commission and it goes over some of the same ground that Mr. Rademaker’s statement does. I thought I’d submit that for the record and make a few general remarks, with the Chair’s permission.

Chairman D’AMATO. Yes, it will be in the record as you’ve delivered it to us.

Mr. RODMAN. Thank you. Now, my office in the Pentagon doesn’t deal with proliferation policy as such. It deals more broadly with security policies toward China, the issue of how to deal with China and China’s rise, in the security field. I thought I’d just make a brief remark which may help set the context for this discussion.

The President has said he wants a candid, constructive and cooperative relationship with China. Clearly, we want China to take its rightful place in the international system as a constructive participant in that international system, and so the President has the task of constructing a policy that combines incentives for China’s constructive conduct and disincentives for unconstructive conduct.

This is really true across the whole spectrum of relations with China—military issues in general, economic issues, policy toward North Korea, Taiwan, counterterrorism and, of course, proliferation. And so the President has the task of shaping an overall policy.

Chairman D’AMATO. We’d like to welcome Congressman Markey. Please come on up to the dais, if you would, Congressman. We’re delighted to have you today.

Congressman MARKEY. Thank you, sir.

Mr. RODMAN. Shall we stop?

Chairman D'AMATO. Yes, why don't you stop and we'll go ahead. Commissioner Thompson.

PANEL I: CONGRESSIONAL PERSPECTIVES

**OPENING STATEMENT OF COMMISSIONER FRED D. THOMPSON
HEARING COCHAIR**

Cochair THOMPSON. Congressman, welcome. Thank you for coming.

Congressman MARKEY. Thank you, Senator.

Cochair THOMPSON. Congressman Markey has been a leader in many areas of telecommunications policy and others, but more appropriately today, he chairs a bipartisan task force on nonproliferation policy and was recently awarded the Pathfinders Award by a coalition of national organizations for his lifetime of fighting to reverse the spread of nuclear weapons and other weapons of mass destruction.

Congressman, you're aware of our interest here today. We would appreciate hearing anything that you might offer.

[The statement follows:]

**Prepared Statement of Commissioner Fred D. Thompson
Hearing Cochair**

I am very pleased to be participating in this hearing and that the Commission is addressing the continuing and critical questions of China's proliferation practices and how they may relate to the gathering nuclear crisis in North Korea.

As many of you know, the proliferation issue, especially with regard to China, is one that I worked very diligently on during my tenure in the Senate, particularly when I introduced the China Non-Proliferation Act. As a matter of fact, I spoke before the Commission in 2003 on this very issue.

I have always believed that we need to stop the flow of WMD-related technology at its source, and in many cases that source is China. Earlier this year, the Bush Administration sanctioned a number of Chinese firms. Similar sanctions were applied to Chinese companies in 2004, 2003, and so on. But the same companies, NORINCO and China Great Wall Industry Corporation for example, are continually cited and sanctioned for selling WMD-related technology to problematic countries such as Iran. This is horrific for our national security and we need to take measures to ensure that this behavior stops.

I believe that the Chinese need to be brought more firmly into a viable global non-proliferation regime and be convinced to actively partner with the United States on this issue. Without such cooperation, the critical goal of stopping the proliferation of WMD and their delivery systems is in great jeopardy. There are two specific areas of concern. First, it appears that China may be bargaining WMD for access to oil and commodities, as is the case with Iran. We need to find ways to convince the Chinese that these are extremely bad bargains for all concerned in the long run. Second, we need to adjust and improve our sanctions laws, now clearly ineffective against the companies in China which are proliferating. We must ensure the Chinese government is made accountable for those actions. That is, we somehow need to make it painful to the Chinese government if it continues to stand aside in the face of these actions.

The North Korea situation is another dire issue and we must ask: is China using all of its leverage? Is it doing all that it can to ensure that there is a denuclearized North Korea? If not, then what can Congress do to change that? These are important questions which must be addressed, and, in my opinion, addressed quickly.

Again, I'm very pleased to be here today. But at the same time I am very concerned about the problem of WMD-related proliferation and the situation on the Korean Peninsula. I look forward to hearing today's panels and addressing these important issues. Thank you.

**STATEMENT OF EDWARD J. MARKEY
A U.S. REPRESENTATIVE FROM THE STATE OF MASSACHUSETTS**

Congressman MARKEY. Thank you so much. Thank you, Senator. Thank you, Mr. Chairman, and thank you, Members of the Commission.

What we know about China's record on nonproliferation is deeply troubling. During the 1990s, it is reported to have transferred 5,000 ring-magnets that could be used in uranium, gas centrifuges along with a special industrial furnace, high tech diagnostic equipment that was reportedly used by the Pakistanis in developing their nuclear weapons capability.

The Chinese also assisted Pakistan in building a nuclear reactor at Chasma and reportedly an unsafeguarded plutonium-producing reactor at another location. These efforts led the CIA during the 1990s to conclude that the People's Republic of China was the principal supplier of the Pakistani nuclear weapons program.

More recently, China has continued to assist Pakistan's nuclear program including signing a contract to build a second nuclear power plant at Chasma right before finally signing on to the Nuclear Suppliers Group in May of 2004. In other words, signing this agreement to send the new nuclear system to Pakistan and then signing the Nuclear Suppliers Group Agreement ensuring that that plant would not come under the safeguards agreement. How cynical and how typical, in terms of their historic pattern.

Also, in 2004, the Bush Administration imposed sanctions on the Chinese because of a transfer of prohibited materials to Iran, and so what we had here is a clear pattern where China continues to turn a blind eye to the transfer of materials that are being used by countries to which we are now deploying a huge part of our military in order to protect against the spread of nuclear weapons.

According to the Congressional Research Service, on 14 occasions, the Bush Administration has imposed sanctions on various Chinese entities for transfers relating to ballistic missiles, chemical weapons and cruise missiles to Pakistan and to Iran.

The sale of arms and nuclear equipment and technology is at the top of China's list of imports and we see that Europe is increasingly willing to accommodate China's need with the EU moving to lift the embargo on arms exports to China.

At the same time, the Bush Administration appears to be assisting nuclear exporters who do not want to miss out on their piece of the nuclear power market in China.

Westinghouse Electric Corporation reportedly wants to sell China four of its most advanced nuclear reactors. The total value of this deal is estimated at \$10 billion. The American people are being asked to cover half of the risk of this venture, and the Export-Import Bank approved a \$5 billion loan for the Westinghouse deal.

I question whether U.S. taxpayers should be supporting this deal when Westinghouse Electric is owned by British Nuclear Fuels. I also think we need to consider just who these reactors are being sold to. The proposed recipient of it is none other than the China National Nuclear Corporation. The same entity that supplied the A.Q. Khan Research Laboratories in Pakistan with the 5,000 ring magnets, the same company that sold Pakistan a special industrial furnace, and the same company that reportedly sold other high

tech diagnostic equipment to unsafeguarded nuclear facilities in Pakistan.

The bottom line is that China has been a serial proliferator. Imposing sanctions against Chinese companies while at the same time rewarding China with U.S. Government subsidies for new nuclear reactor construction inside of China does not make sense.

How can we be sure that these technologies don't also end up in Pakistan or with some other would-be proliferators such as Iran? The Administration needs to step up its pressure on the People's Republic of China and not bow down to the domestic nuclear industry of our own country.

We should not be providing Export-Import Bank loans or other subsidies to construct these reactors to China. There is a deep-seated still unresolved pathology inside of the Chinese government with regard to nuclear technology as late as 2004. We saw a recurrence of this pathology. It is foolish for us to be encouraging that activity with these kinds of loan guarantees for American companies at this particular sensitive point in the history of nuclear non-proliferation in the world. I thank you, Mr. Chairman.

[The statement follows:]

**Prepared Statement of Edward J. Markey
A U.S. Representative from the State of Massachusetts**

Good morning. I would like to thank the U.S.-China Commission for the opportunity to discuss China's proliferation record.

What we know about China's record on nonproliferation is deeply troubling. During the 1990s, it is reported to have transferred 5,000 ring magnets that could be used in uranium gas centrifuges, along with a special industrial furnace, and high-tech diagnostic equipment that was reportedly used by the Pakistanis in developing their nuclear weapons capabilities. The Chinese also assisted Pakistan in building a nuclear reactor at Chashma and reportedly, an unsafeguarded plutonium-producing reactor at Khusab. These efforts led the CIA during the 1990s to conclude that the People's Republic of China was the "principal supplier" of the Pakistani nuclear weapons program.

More recently, China has continued to assist Pakistan's nuclear program, including signing a contract to build a second nuclear power plant at Chashma, right before becoming a member of the Nuclear Suppliers Group (NSG) in May 2004. The timing allowed China to continue to provide nuclear assistance to an unsafeguarded facility in Pakistan even though members of NSG are prohibited from taking part in such transactions because the deal to Pakistan was signed before China became an official member of NSG. Also in 2004, the Bush Administration imposed sanctions on Chinese entities for providing Iran with "unspecified prohibited items."

According to the Congressional Research Service, on 14 occasions, the Bush Administration has imposed sanctions on various Chinese entities for transfers relating to ballistic missiles, chemical weapons, and cruise missiles to Pakistan and Iran.

The sale of arms and nuclear equipment and technology is top on China's list of imports, and we see that Europe is increasingly willing to accommodate China's needs with the EU moving to lift the embargo on arms exports to China.

At the same time, the Bush Administration appears to be assisting nuclear exporters who do not want to miss out on their piece of the nuclear power market in China. Westinghouse Electric Corporation reportedly wants to sell China four of its most advanced nuclear reactors. The total value of this deal is estimated at \$10 billion. The American people are being asked to cover half of the risk of this venture, with the Export-Import Bank approving a \$5 billion loan for the Westinghouse deal.

I question why U.S. taxpayers should be supporting this deal when Westinghouse Electric is owned by the British Nuclear Fuels (BNFL). I also think we need to consider just who these reactors are being sold to. The proposed recipient is none other than China National Nuclear Corporation (CNNC)—the same entity that supplied the A.Q. Khan Research Laboratory in Pakistan with the 5,000 ring magnets; the same company that sold Pakistan a "special industrial furnace" and the same company that reportedly sold other "high-tech diagnostic equipment" to unsafeguarded nuclear facilities in Pakistan.

The bottom line is that China has been a serial proliferator.

Imposing sanctions against Chinese companies while at the same time rewarding China with U.S. Government subsidies for new nuclear reactor construction inside of China does not make sense. How can we be sure that these technologies don't also end up in Pakistan or some other would be proliferators, such as Iran? The Administration needs to step up its pressure on PRC and not bow down to the nuclear industry. We should not be providing Export-Import bank loans, or other subsidies to construct these reactors in China.

Thank you for the opportunity to discuss these important issues with you this morning.

Panel I: Discussion, Questions and Answers

Chairman D'AMATO. Thank you very much, Congressman Markey.

Congressman MARKEY. Peter, I apologize to you for interrupting. If I may, I'll just add one additional minute. Two years ago, there was a key meeting between President Putin and President Bush. At that meeting, President Bush said to President Putin that he wanted President Putin to stop the sale of reactors to Iran.

President Putin said, "you should stop the sale of nuclear reactors to North Korea." President Bush said, "well, our program is under IAEA safeguards." Mr. Putin said, "that's great, our program is under IAEA safeguards." So you reach a point where we have to get real. Either nuclear nonproliferation is the most important issue facing the world, which both Presidential candidates stated that it was or it is always going to be subordinated to the short-term diplomatic, political or economic interests of any particular Secretary of State or Defense or Commerce during that particular Presidential term of office.

At some point in time, we are actually going to have to stand up and take a principled stand, and that would be my only recommendation to you. And realpolitik aside, this is the time, this is the place. I thank you.

Chairman D'AMATO. Thank you very much, Congressman Markey, and for your leadership on this issue, as well. We appreciate that.

Cochair WORTZEL. Go ahead, Mr. Rodman. Thank you very much.

PANEL II: ADMINISTRATION PERSPECTIVES—Continued

Mr. RODMAN. I was making a general comment that the task of U.S. policy is to look at proliferation as one of a number of issues on which we have problems with China, and on which we want to influence China's conduct and give it incentives to be a constructive participant in the international system.

But I would add, finally, that China should be looking at its proliferation policy in the same way. It's a strategic decision that China has to make in a larger context, about whether it wants to be a constructive player in the international system and subscribe to international norms and define its own national interests in terms of being a supporter of international norms and international stability.

China seems to be on the edge of such a strategic decision. And our task, I think all of us here would agree, is to give China whatever incentives or disincentives to make that decision in the right way, which the evidence is it has not yet made.

Thank you.
[The statement follows:]

**Prepared Statement of Peter W. Rodman
Assistant Secretary of Defense for International Security Affairs**

Introduction

Mr. Chairman, distinguished Members of the Commission, I would like to thank you for the opportunity to speak about China's proliferation practices and its role in the North Korean nuclear problem. These issues are important to U.S. defense and security policy, with implications not only in the Asia-Pacific region but globally. I commend the Commission for its interest in this issue.

China's Proliferation Practices

Mr. Chairman, the proliferation of weapons of mass destruction (WMD) and their delivery systems is one of the foremost security concerns of the U.S. Government. We have long been concerned about the destabilizing effects of such proliferation, in classical geopolitical terms, especially if such weapons should fall in the hands of dangerous, hostile regimes. Today, one of our top priorities is also to ensure that such weapons do not fall into the hands of terrorist organizations or states that sponsor them and might transfer such weapons to them. Needless to say, such proliferation adds to the dangers that such weapons could be used against Americans.

Working with China to improve its nonproliferation record is an important dimension of our nonproliferation policy; it is also one of the most important features of our bilateral relationship with China. Over the past several years, Beijing has improved its nonproliferation posture through commitments to respect multilateral arms export control lists, promulgation of export controls, and strengthened oversight mechanisms. These commitments are steps in the right direction. We believe, however, that China needs to do more to curtail proliferation and to fully implement and enforce export controls to meet international standards. The President's goal is to see a prosperous and successful China that is a constructive participant in and contributor to a peaceful international order. The issues that we are discussing are a crucial element of that.

The fact remains, however, that Chinese entities today remain key sources of transfers of arms, WMD- and missile-related equipment and technologies, including dual-use technology and related military capabilities, to countries of concern. Despite Beijing's pledges, for example, Chinese entities remain involved with the nuclear and missile efforts of Iran and Pakistan, and remain involved with chemical efforts in Iran. We do not understand why Beijing has not halted proliferation by its companies. We hope that it will come to the calculation that its best strategic interest lies in enforcing international nonproliferation norms.

The U.S. Government has imposed sanctions on more Chinese entities, including quasi-governmental entities, for proliferation activities than on entities in other countries combined. The United States has imposed sanctions over sixty times on over a dozen different Chinese entities for the transfer of WMD, missile, advanced conventional weapons and related dual-use goods and technologies. These proliferators include quasi-governmental organizations such as North China Industries Corporation (NORINCO) and the China Precision Machinery Import/Export Corporation (CPMIEC), private businesses like Zibo Chemical, and individuals such as Q.C. Chen. Our sanctions prohibit U.S. entities from engaging in business activities with the sanctioned entities. However, many of the sanctioned entities have continued their proliferation activities.

Let me briefly review some of our specific concerns with China's policies as they relate to the transfer of sensitive nuclear and chemical materials and technologies, as well as ballistic-missile and conventional weapons proliferation, and their related dual-use goods and technologies.

Nuclear Weapons

In the nuclear area, China has for several years had in place comprehensive export controls in the nuclear area. While these controls are identical to the Nuclear Suppliers' Group trigger list and dual-use annex, we remain concerned that weak enforcement could allow continued sales of items useful to nuclear programs in countries of concern.

We welcome China's entry last May into the Nuclear Suppliers Group and we look forward to China's establishment of a good track record of participation. However, we have some concerns. When China joined the NSG, it "grandfathered" four nuclear activities with Pakistan. The number of "grandfathered" projects was more than we had anticipated. Pakistan, as a country, does not have full-scope safe-

guards. The “grandfathering” of these activities may still permit the possibility that peaceful nuclear technology could be illicitly transferred to Pakistan’s nuclear weapons program.

While Pakistan is a friend of the United States as well as of China, it is well known that we have always strongly opposed Pakistan’s nuclear weapons program.

Beijing has made two bilateral pledges to the United States. In May 1996, Beijing pledged not to provide assistance to unsafeguarded nuclear facilities. In October 1997, China pledged not to engage in any new nuclear cooperation with Iran and to complete work on two remaining nuclear projects—a small research reactor and a zirconium production facility—in a relatively short period of time. Despite these assurances, we remain concerned that nuclear-related interactions are continuing between Chinese and Iranian entities.

One of China’s top military priorities is to strengthen and modernize its strategic nuclear deterrent force by increasing its size, accuracy and survivability. Warhead improvements will complement China’s missile modernization effort. This is in itself a matter of concern to us. But as China improves its own nuclear weapons and missile programs, it could also proliferate technical improvements and know-how to third countries. We would like to be reassured that this will not happen.

Ballistic Missiles

China has made similar nonproliferation pledges with respect to ballistic missiles that could be used to deliver nuclear and chemical weapons. Enforcement is lacking, however, thereby allowing continued assistance to foreign programs.

China is not a member of the Missile Technology Control Regime (MTCR) but on several occasions has pledged not to sell MTCR Category I surface-to-surface systems. Despite this pledge, proliferation of ballistic missile-related items continues via Chinese entities including some entities affiliated with the Chinese government.

Chinese entities continued to work with Iran and Pakistan on ballistic missile-related projects as recently as 2003:

- Assistance from Chinese entities has helped Iran move toward its goal of becoming self-sufficient in the production of ballistic missiles.
- Firms in China have provided dual-use missile-related items, raw materials, and/or assistance to several other countries of proliferation concern, such as Libya and North Korea.
- Assistance from Chinese entities has helped Pakistan move toward domestic serial production of solid-propellant short-range ballistic missiles and supported Pakistan’s development of solid-propellant medium-range ballistic systems.

Chemical Weapons

Since 1997, the U.S. Government has also imposed numerous sanctions against Chinese entities for providing material support to the Iranian CW program. In October 2002, in part responding to international pressure, China updated chemical-related regulations to mirror the Australia Group-controlled chemicals not covered by the Chemical Weapons Convention (CWC). However, here too Chinese enforcement procedures have yielded mixed results.

Since that time, we have continued to find cause to sanction several Chinese entities for export of chemical weapons-related chemicals and equipment to CW programs in countries of concern, including Iran.

Conventional Weapons Transfers

In addition, we continue to have serious concerns over China’s track record as it pertains to the proliferation of conventional weapons technologies, small arms, and ammunition. China’s practices in this regard can contribute to a more lethal threat environment for U.S. and coalition forces deployed in zones of conflict. This is especially disconcerting in terms of Man-Portable Air Defense systems (MANPADS), which pose a unique threat to civilian and military aircraft. We must ensure that China is aware of our concerns and explore options to work bilaterally or multilaterally with China to ensure greater restraint in its arms export practices, including production licensing of Chinese systems.

Implications for Regional Security

Mr. Chairman, as I have noted, China is taking steps to improve its export controls. There are a variety of likely reasons for this, including China’s own desire to be seen as a responsible global actor, and also a growing recognition on the part of China’s leaders to the potential negative consequences of secondary proliferation. Undoubtedly, the pressure of the international community reinforces these motives.

Therefore, the U.S. Government, and our allies and friends in the region, will continue to press China to make further progress. Continuing proliferation assistance

to countries such as Iran, North Korea and Pakistan could contribute to destabilizing military capabilities, regional arms races, and/or increased risk of conflict. We doubt that it is China's intention, but the fact remains that continuation of proliferation could increase the risk of these types of weapons falling into the hands of terrorists.

China's Role in the North Korean Nuclear Issue

Mr. Chairman, I understand that this Commission is also interested in China's role in the North Korean nuclear issue. The United States, as you know, remains committed to the Six-Party Talks and is willing to discuss any issue within that framework. However, we will not "negotiate" the terms of the next round of the Talks, nor will we reward the DPRK for the bad behavior that has given rise to this diplomacy in the first place.

During the third round of the Six-Party Talks in June 2004, the United States put forward a proposal to secure the dismantling of all of the DPRK's nuclear programs. The DPRK has not responded to our proposal or even given us an opportunity to respond to any questions they may have about them.

We, as well as our partners—Japan, South Korea, China, and Russia—have called upon the DPRK to return to the Talks. If we are to take seriously the DPRK's assertions that it is truly interested in dismantling its nuclear programs, then the DPRK at a minimum should return to the Talks without preconditions and engage in a dialogue on the issues.

China has clearly played a key role in organizing the Talks, pressing the DPRK to participate, and in providing a venue. We appreciate that important contribution that Beijing has made. Nevertheless, we believe that China, as the country with the most leverage over the DPRK, can and must do more than simply secure the DPRK's attendance at another round of Talks. It bears a major responsibility to help secure meaningful concessions from the DPRK in order to achieve what is the stated common objective of all Parties: A nuclear weapons-free Korean Peninsula.

The most recent statement from Pyongyang that it has manufactured nuclear weapons should remove any doubt in Beijing's mind as to North Korea's nuclear ambitions and intent. China needs to recognize that allowing the DPRK to maintain its nuclear weapons program is bad for China, and bad for Northeast Asia; it will have a ripple effect throughout Asia as other nations attempt to adjust their military capabilities to defend against the dramatically increased North Korea threat. This cannot be China's desired outcome any more than it is ours.

Thank you, Mr. Chairman.

Cochair WORTZEL. Thank you, Mr. Rodman.

**STATEMENT OF STEPHEN G. RADEMAKER
ASSISTANT SECRETARY FOR ARMS CONTROL
U.S. DEPARTMENT OF STATE**

Mr. RADEMAKER. My turn. Thank you, Mr. Chairman. It's a great pleasure for me to be here this morning. It's a great pleasure to see so many former colleagues and friends on the panel. I'm the Assistant Secretary of State for Arms Control and have been in that position for the last two-and-a-half years. Four weeks ago Dr. Rice designated me to head, in addition to the Bureau of Arms Control, the Bureau of Nonproliferation at the State Department and it's in that new capacity that I'm appearing before you this morning.

If I seem a little bit rusty on some of the details of nonproliferation, it's because I've been supervising this area for all of four weeks. Mr. Chairman, your letter of February 10 noted that you wished to focus today's hearing on China's proliferation record and its role in the Six-Party Talks. I have a prepared statement, which is being submitted for the record. I will draw from it and then respond to questions and I do want to say at the outset that I agree with everything that Assistant Secretary Rodman said.

The President is working toward a relationship with China that enhances America's security and that of our friends and allies. We

are engaging China constructively and candidly and President Bush has led the way.

On December 9, 2003, on the occasion of the visit of Premier Wen, President Bush stated:

“America and China share many common interests. We are working together in the war on terror. We are fighting to defeat a ruthless enemy of order and civilization. We are partners in diplomacy working to meet the dangers of the 21st century.”

President Bush has also made it a top national priority to ensure the world’s most dangerous weapons do not fall into the hands of the world’s most dangerous regimes. It follows naturally that the nonproliferation of weapons of mass destruction, their means of delivery and related technology is a key element of our maturing relationship with China.

This does not mean, however, that we will shy away from frank discussions of issues where we have disagreements with China. While we are working cooperatively with China in the area of nonproliferation, there is no doubt that we feel China can do and should be doing more to prevent the spread of WMD, missiles and conventional weapons.

As a manifestation of our concerns regarding proliferation, President Bush and Jiang Zemin launched the U.S.-China Security dialogue at the Crawford Summit in October 2002. Under Secretary of State for Arms Control and International Security, John Bolton, leads this dialogue for the United States. I have been participating in this dialogue with my Chinese counterparts in my capacity as the Assistant Secretary for Arms Control.

Proliferation is a common threat to the United States and China and requires common efforts. Over the past several years, the United States and China have worked hard together to further these efforts. At the same time, however, challenges remain in our nonproliferation relationship, predominantly over significant proliferation activities by Chinese entities including some government-related entities.

The Bush Administration takes such activities very seriously and does not hesitate to make its views known to Beijing or to implement U.S. sanctions laws against Chinese entities that engage in such activities.

We have candidly urged China to strengthen its laws, commitments and export controls and to take more vigorous action to enforce its regulations against proliferation.

Our long-standing practice of imposing sanctions against Chinese entities demonstrates the seriousness with which this Administration confronts Chinese proliferation related activities. The Administration has aggressively imposed sanctions on Chinese entities under the CBW and missile sanctions laws, the Iran Nonproliferation Act, the Iran-Iraq Arms Nonproliferation Act, and Executive Order 12938.

In the first four years of the Bush Administration, we imposed such sanctions against Chinese entities on over 60 occasions in contrast to the eight times sanctions were imposed on Chinese entities during the eight years of the Clinton Administration.

As President Bush stated regarding sanctions we imposed earlier this year, and I’m quoting:

“The Chinese have heard us loud and clear. We will make sure to the best extent possible, they do cooperate. We’ll make it clear not only to China but elsewhere that we’ll hold you to account. We want to have friendly relations, but we do not tolerate proliferation.”

Our bottom line is this: while China has taken important steps to strengthen its nonproliferation laws and policies, more work remains to be done by Beijing towards effective and consistent implementation and enforcement of its laws and policies.

Unacceptable proliferant activity continues. Until China’s nonproliferation policies and practices fully meet international standards, the United States will continue to encourage China at high levels and through diplomatic channels to move its policies in the right direction, while using sanctions to deter further proliferant activities by Chinese entities.

Persistent problems include the following: continued interactions by Chinese entities with Iranian and Pakistani entities with ties to nuclear establishments; transfers by Chinese entities of items destined for Iran’s chemical weapons and missile programs; Chinese entity assistance to missile programs in Pakistan; and Chinese entity supply of conventional weapons to Iran, Sudan and other areas of instability.

Chinese entities have provided dual-use missile items, raw materials and assistance that have helped Iran become more self-sufficient in the production of ballistic missiles as well as dual-use CW-related production equipment and technology.

Much of this activity is associated with the so-called serial proliferators, that is Chinese entities that repeatedly proliferated missile and chemical-related items to programs of concern, as well as conventional weapons.

We are particularly concerned about continued transfers of CBW and missile-related technology by Chinese entities to Iran despite the imposition of sanctions.

We’ve approached the Chinese government at all levels with our concern about the activities of Chinese entities and have asked the Chinese government to closely scrutinize these entities. Their inability to take action against serial proliferators calls into question China’s commitment to truly curb proliferation to certain states.

One particular problematic serial proliferator, for example, is China North Industries Corporation, known as NORINCO. NORINCO has been particularly active in WMD-related transfers to Iran, resulting in the imposition of U.S. sanctions five times. Notwithstanding our numerous complaints to the Chinese government about the proliferation activities of NORINCO and other serial proliferators, such as China Precision Machinery Import and Export Corporation, the well known CPMIEC, and Zibo Chemical, we are not aware of any actions taken by the Chinese government to end these activities.

These continuing problems and the continued need to impose sanctions against Chinese entities clearly indicate that more work remains to be done to move China toward more effective and consistent implementation and enforcement of its nonproliferation laws and policies.

It is particularly mystifying as to why the Chinese authorities have been unable to halt the proliferation activities of Q.C. Chen, an individual under U.S. sanctions since 1997, who has repeatedly provided material support to the Iranian chemical weapons program.

Mr. Chairman, I see that I'm almost out of time, so I will stop here.

Chairman D'AMATO. You can proceed for a few more minutes.

Mr. RADEMAKER. Our policy of simultaneously engaging China in dialogue and pursuing the aggressive imposition of sanctions where required may be bearing some fruit. China has been willing to cooperate with the United States in investigating some proliferation-related transfers. In the fall of 2003, for example, Chinese authorities worked with us to interdict a shipment of chemicals bound for North Korea's nuclear program.

In the spring of 2004 China officially announced that it had imposed administrative penalties on two Chinese companies for violating China's missile and missile-related technology regulations. It was the first time that China had announced sanctions on a Chinese firm for violating Chinese export control laws.

While this step of increased transparency was welcome, it is worth noting that China did not publish neither the names of the punished companies nor the exact amounts fined.

This underscores the fact that China still needs to take strides in bringing its export control practices in line with international norms and we have communicated this to China.

Mr. Chairman, let me conclude by reiterating that nonproliferation has become an area of increasing cooperation between the United States and China, as exhibited by our cooperation on the North Korea nuclear issue. Indeed, proliferation is a common threat and requires common efforts, but while China's nonproliferation record is gradually developing in a positive direction, and the United States will continue to take proactive measures to encourage that development, I believe that I have made clear today that China still poses many proliferation challenges.

There are enforcement issues. There are implementation issues. China needs to do a consistently better job in identifying and denying risky exports, seeking out potential violators, and stopping problematic exports at the border.

These issues matter to us because China's success in ending proliferation by Chinese entities is critical to ensuring that weapons of mass destruction do not end up in the hands of terrorists or rogue states prepared to use them.

In the meantime, the Bush Administration will continue to pursue an aggressive sanctions policy and will utilize other nonproliferation tools as necessary to ensure U.S. national security and that of our friends and allies. We are making progress with China, but there is much more to do.

Thank you, Mr. Chairman.

[The statement follows:]

**Prepared Statement of Stephen G. Rademaker
Assistant Secretary for Arms Control, U.S. Department of State**

Thank you, Mr. Chairman and Members of the U.S.-China Commission, for the opportunity to appear before you today. Mr. Chairman, your letter of February 10

noted that you wish to focus today's hearing on China's proliferation record and its role in the Six-Party Talks. I am pleased to address these issues as well as other questions that you or Commission Members may have.

The President is committed to working toward a relationship with China that enhances America's security and that of our friends and allies. We are engaging China constructively and candidly, and President Bush has led the way. On December 9, 2003, on the occasion of the visit of Premier Wen, President Bush stated:

"America and China share many common interests. We are working together in the war on terror. We are fighting to defeat a ruthless enemy of order and civilization. We are partners in diplomacy working to meet the dangers of the 21st century."

President Bush has also made it a top national priority to ensure that the world's most dangerous weapons do not fall into the hands of the world's most dangerous regimes. It follows naturally that the nonproliferation of weapons of mass destruction (WMD), their means of delivery, and related technology is a key element of our maturing relationship with China.

This does not mean, however, that we will shy away from frank discussions of issues where we have disagreements with China. While we are working cooperatively with China in the area of nonproliferation, there is no doubt that we feel China can do and should be doing more to prevent the spread of WMD, missiles and conventional weapons.

As a manifestation of our concerns regarding proliferation, President Bush and Jiang Zemin launched the U.S.-China Security dialogue at the Crawford Summit in October 2002. Under Secretary of State for Arms Control and International Security John Bolton leads this dialogue for the United States. I have been participating in this dialogue with my Chinese counterparts in my capacity as the Assistant Secretary for Arms Control.

Proliferation is a common threat to the United States and China and requires common efforts. Over the past several years, the United States and China have worked hard together to further those efforts. At the same time, however, challenges remain in our nonproliferation relationship, predominantly over significant proliferation activities by Chinese entities, including some government-related entities. The Bush Administration takes such activities very seriously, and does not hesitate to make its views known to Beijing, or to implement U.S. sanctions laws against Chinese entities that engage in such activities. We have candidly urged China to strengthen its laws, commitments and export controls, and to take more vigorous action to enforce its regulations against proliferation.

Our longstanding practice of imposing sanctions against Chinese entities demonstrates the seriousness with which this Administration confronts Chinese proliferation-related activities. The Administration has aggressively imposed sanctions on Chinese entities under CBW and missile sanctions laws, the Iran Nonproliferation Act (INPA), the Iran-Iraq Arms Nonproliferation Act, and Executive Order 12938. In the first four years of the Bush Administration, we imposed such sanctions against Chinese entities on over sixty occasions, in contrast to the eight times sanctions were imposed on Chinese entities during the eight years of the Clinton Administration. As President Bush stated regarding sanctions we imposed earlier this year, "The (Chinese) have heard us loud and clear. We will make sure to the best extent possible they do cooperate. We'll make it clear not only to China but elsewhere that we'll hold you to account—we want to have friendly relations but do not proliferate."

Our bottom line is this: while Beijing has taken important steps to strengthen its nonproliferation laws and polices, more work remains to be done by Beijing towards effective and consistent implementation and enforcement of its laws and policies. Unacceptable proliferant activity continues. Until China's nonproliferation policies and practices fully meet international standards, the United States will continue to encourage China at high levels and through diplomatic channels to move its policies in the right direction, while using sanctions to deter further proliferant activities by Chinese entities.

While China's nonproliferation behavior remains problematic, China has taken some important steps within the past two years to improve its nonproliferation commitments. In December 2003, China issued its first White Paper on nonproliferation—the first authoritative and comprehensive articulation of China's international nonproliferation commitments and its nonproliferation policies. In doing so, China, for the first time, instituted a measure of transparency in its nonproliferation policies. The paper publicly acknowledged that China employs country specific considerations for export license approvals. Rather than basing an export license approval solely on the end-use or end-user, China also considers whether the importing coun-

try has a program for the development of WMD or missiles, whether it supports terrorism or has links to terrorist organizations, whether it has close ties to a country with a WMD program, whether it is subject to sanctions under a U.N. Security Council resolution, and whether it has the capability to exercise its export controls. This is in marked contrast to previous Chinese statements that country-specific considerations are inherently discriminatory.

China's progress on nuclear nonproliferation was recognized when China became one of four applicant states welcomed as new members of the Nuclear Suppliers Group (NSG) in May 2004. China has thus committed to applying the Nuclear Suppliers Guidelines to its own export control policies, including requirements for IAEA safeguards, physical protection, and retransfer consent rights. Most significantly, China has committed not to engage in nuclear supply to any state that does not have full-scope safeguards, that is, states that do not have IAEA safeguards on all nuclear material and facilities. By doing so, China effectively agreed to not enter into any new nuclear cooperation with Pakistan beyond those "grandfathered" projects that had started before its membership in the NSG: construction of the safeguarded Chasma II power reactor and supply of fuel and related services for the safeguarded reactors at Chasma, Karachi, and the research reactor at the Pakistan Institute of Nuclear Science and Technology (PINSTECH). This was a fundamental political shift for China, given the decades-long history of close Chinese-Pakistani nuclear cooperation.

Over the last year, China has also worked alongside the United States to support international nuclear nonproliferation efforts. It has supported nonproliferation initiatives at the ASEAN Regional Forum and endorsed the Asia Pacific Economic Cooperation's (APEC) efforts to introduce security issues, including nonproliferation, into APEC's work agenda. Furthermore, since joining the NSG, China has been generally supportive of proposals to enhance the effectiveness of the Group. In addition to its more recent NSG membership, for several years now China also has been a member of the NPT Exporter's Committee, or Zangger Committee, in which it has played a positive role. China has also played an important leadership role in improving the prospects for the adoption of an important amended Convention on the Physical Protection of Nuclear Material (CPPNM). China helped to end the three-year long deadlock over CPPNM negotiations by proposing a well-received bridging amendment, which mitigated some of the controversies surrounding the original CPPNM amendment proposal.

At the same time, persistent problems include the following: continued interactions by Chinese entities with Iranian and Pakistani entities with ties to nuclear establishments; transfers by Chinese entities of items destined for Iran's chemical weapons (CW) and missile programs; Chinese entity assistance to missile programs in Pakistan; and Chinese entity supply of conventional weapons to Iran, Sudan and other areas of instability. Chinese entities have provided dual-use missile items, raw materials, and assistance that have helped Iran become more self-sufficient in the production of ballistic missiles, as well as dual-use CW-related production equipment and technology. Much of this activity is associated with the so-called "serial proliferators," that is, Chinese entities that repeatedly proliferated missile- and chemical-related items to programs of concern, as well as conventional weapons. We are particularly concerned about continued transfers of CBW- and missile-related technology by Chinese entities to Iran, despite the imposition of sanctions.

We have approached the Chinese government at all levels with our concerns about the activities of Chinese entities and have asked the Chinese government to closely scrutinize these entities. Their inability to take action against serial proliferations calls into question China's commitment to truly curb proliferation to certain states. One particularly problematic "serial proliferator," for example, is China North Industries Corporation, known as NORINCO. NORINCO has been particularly active in WMD-related transfers to Iran, resulting in the imposition of U.S. sanctions five times. Notwithstanding our numerous complaints to the Chinese government about the proliferation activities of NORINCO and other "serial proliferators," such as China Precision Machinery Import and Export Corporation (CPMIEC) and Zibo Chemical, we are not aware of any actions taken by the Chinese government to end these activities. These continuing problems and the continued need to impose sanctions against Chinese entities clearly indicate that more work remains to be done to move China toward more effective and consistent implementation and enforcement of its nonproliferation laws and policies. It is particularly mystifying as to why the Chinese authorities have been unable to halt the proliferation activities of Q.C. Chen, an individual under U.S. sanctions since 1997 who has repeatedly provided material support to the Iranian chemical weapons program.

Our policy of simultaneously engaging China in dialogue and pursuing the aggressive imposition of sanctions where required may be bearing some fruit. China has

been willing to cooperate with the United States in investigating some proliferation-related transfers. In the fall of 2003, for example, Chinese authorities worked with us to interdict a shipment of chemicals bound for North Korea's nuclear program. And in the spring of 2004, China officially announced that it had imposed administrative penalties on two Chinese companies for violating China's missile and missile-related technology regulations. This was the first time that China had announced sanctions on a Chinese firm for violating Chinese export control laws. While this step of increased transparency was welcome, it is worth noting that China did not publish either the names of the punished companies nor the exact amounts fined. This underscores the fact that China still needs to take strides in bringing its export control practices in line with international norms, and we have communicated this to China.

Another encouraging indicator has been China's willingness to engage with the United States in an export control dialogue. From May 19–21, 2004, the United States and China engaged in the first comprehensive export control talks since the late 1990s. The talks focused on general export licensing, implementation, enforcement and industry outreach issues, and concluded with a nuclear-specific export control workshop. During that dialogue, the Chinese delegation admitted to some shortcomings and proposed to institutionalize regular consultations and exchanges between counterpart agencies. A follow-on Nuclear Technical Experts Export Control Workshop was subsequently held in Beijing from December 15–17, 2004. Plans to arrange a series of Nuclear Commodity Identification Workshops for Chinese enforcement personnel are ongoing.

This Administration attaches great value to further cooperation with China on export controls. In all of our meetings, the Chinese have asked thoughtful questions that demonstrated they were listening to and thinking carefully about the issues. We judge that further sustained dialogue between experts and practitioners on detailed export control issues will be particularly useful in encouraging China's movement in the right direction on export controls.

Mr. Chairman, although the North Korean nuclear issue is not the main subject of my testimony today, I am aware of the Commission's interest in the Six-Party Talks and China's role. Therefore, I would like to make a few remarks on this subject. This Administration is deeply concerned by North Korea's pursuit of nuclear weapons and the actions it has taken and the statements it has made on this issue. The North's recent public statement that it has manufactured nuclear weapons and has indefinitely suspended participation in the Six-Party Talks only serves to further isolate it from the international community and runs counter to the efforts of the other parties concerned. The recent North Korean statement also reflects a history of North Korean disregard for its international commitments and obligations. For these reasons, the United States continues to call for the permanent, thorough and transparent dismantlement of North Korea's nuclear program that would result in a complete, verifiable and irreversible end to the DPRK's nuclear program. Dismantlement would have to include the DPRK's uranium enrichment program—the existence of which the DPRK continues to deny, despite earlier admissions of such a program in October 2002 and evidence of assistance by A.Q. Khan to that program.

The Six-Party Talks are the best opportunity for North Korea to chart a new course with the international community. We have repeatedly expressed our readiness to return to the table without preconditions and hope North Korea will reconsider its recent statements and return as well.

The United States has insisted on the Six-Party format for discussing this problem in order to underscore to Pyongyang that its pursuit of nuclear weapons is not a bilateral issue between the United States and the DPRK, but a matter of great concern to its neighbors in East Asia and, indeed, to the entire world. China has made important contributions as host and coordinator of the Six-Party Talks, and has been an active participant in working groups and formal plenary discussions. Since North Korea's announcement to suspend its participation in the Talks indefinitely, China has been actively engaged with all Six-Party members to secure an early resumption of the Talks. Like the United States, China is publicly committed to ending the North's nuclear ambitions permanently and has said that it will continue to do its part to seek a peaceful settlement of the nuclear issue and a lasting peace on the Korean Peninsula.

We think it imperative, however, that China bring to bear the full weight of the significant influence it has with North Korea in order to secure the furtherance of our common goals: an end to all of North Korea's nuclear program in a permanent and verifiable way. China's constructive role as host and facilitator of the Six-Party Talks needs also to include a substantial leadership role in ending North Korea's nuclear program.

Mr. Chairman and Members of the Commission, let me conclude by reiterating that nonproliferation has become an area of increasing cooperation between the United States and China, as exhibited by our cooperation on the North Korea nuclear issue. Indeed, proliferation is a common threat and requires common efforts. But, while China's nonproliferation record is gradually developing in a positive direction and the United States will continue to take proactive measures to encourage that development, I believe that I have made clear today that China still poses many proliferation challenges. There are implementation issues. There are enforcement issues. China needs to do a consistently better job in identifying and denying risky exports, seeking out potential violators, and stopping problematic exports at the border.

These issues matter to us because China's success in ending proliferation by Chinese entities is critical to ensuring that weapons of mass destruction do not end up in the hands of terrorists or rogue states prepared to use them. In the meantime, the Bush Administration will continue to pursue an aggressive sanctions policy and will utilize other nonproliferation tools as necessary to ensure U.S. national security and that of our friends and allies. We are making progress with China, but there is much more to do.

Thank you.

Panel II: Discussion, Questions and Answers

Cochair WORTZEL. Thank you very much, Secretary Rodman and Secretary Rademaker. You made a very important point in my view that the Administration is pursuing what I would call a balanced foreign policy. It's not a single-issue foreign policy. If it were to be a single issue foreign policy, whether that issue be only human rights or only birth control policies or only proliferation policies, it's probably easier to pursue that narrow scope. You made a good case for why that's important.

I want to question a single assumption that seems to be built into both of your statements and hear your comments on that. And then seven of the Commissioners so far have questions for you and I'll yield the time to them to do that.

But that is the assumption, that proliferation is threat to China. I hear that consistently in academic circles and in policy circles. I would argue that if you read China's own security literature from the 1950s, 1958 forward, the argument has always been that proliferation is a good thing. Proliferation provides limited deterrence to weaker states and it reduces the hegemony, the dominance of the superpowers that have this control over all nuclear weapons or weapons of mass destruction.

Frankly, I think the Chinese have a very good read of the domestic political environment in Japan, and they understand quite well that despite the desire of some Japanese politicians to move forward with perhaps a more regular military and even a nuclear program, that's probably impermissible politically in the Japanese political environment.

So I would just ask you to comment on why you think this assumption that proliferation threatens China is correct? We know it threatens us, but I'm not sure that's built into the Chinese security thinking.

Mr. RODMAN. You're absolutely right that that has been China's traditional view, a kind of Gaullist view that the more the better and that proliferation weakened us. But I have to say, in the last decade or so we've seen some changes. China is starting to accept certain kinds of arms control regimes that it had always rejected. So we see a certain movement and we think we may have some ability to encourage it.

The case of Japan may be a good example of why. The Chinese ought to worry a little bit about Japanese public opinion because every once in awhile in the recent years I see some Diet members who start saying the unthinkable: “why is Japan accepting restraints when it confronts the North Korean threat and the China threat?” Japan’s restraint is partly a result of its confidence in us to provide a nuclear umbrella.

The Chinese ought to worry about it, ought to see in their own neighborhood precisely why international norms are of interest to them, and the collapse of these international norms, particularly in the North Korea case, ought to be seen as a threat to them.

I think you see some shift in Chinese policy—not enough to satisfy us; that’s why this hearing is being held—but it isn’t quite the same as this categorical Gaullism that we both remember from years ago.

Cochair WORTZEL. Steve?

Mr. RADEMAKER. Commissioner, I would not say that it’s necessarily a premise of China that proliferation is a threat to them. I think it is one of our premises that proliferation is a threat to us and that if the Chinese properly understood their interests, they would recognize that proliferation was a threat to them as well.

I think there is a growing number of people in China including government officials who are seeing it the same way we do, but I think the record speaks for itself. I would suggest that thinking about this issue in China is in transition, and it’s moving from the traditional non-aligned movement way of thinking about export controls to a way of thinking about it that’s much more similar to our own.

But the government is not entirely of one mind and its commitment to the enforcement of export controls in particular is somewhat problematic. So what I would say is the trend lines are good, and that’s encouraging, but there’s much more to be done.

I would just comment parenthetically, I’m also involved in our dialogue with India about these matters, and I think the situation with India is actually very similar. They are in a very similar transition in their way of thinking about these things.

Cochair WORTZEL. Thank you very much. Commissioner Mulloy.

Commissioner MULLOY. I want to thank you both for appearing here today and also for your service to our country over many years in different capacities. Mr. Rodman, in your prepared statement, page five, you say the United States remains committed to the Six-Party Talks, and is willing to discuss any issue within that framework.

Now, we have Congressman Curt Weldon and Congressman Ortiz who are going to come over here later. They have been in Korea, my understanding is quite recently, and if I looked at Congressman Ortiz’ prepared testimony and something that Congressman Weldon has on his web site, they say the Koreans are worried about giving up nuclear weapons because we have some policy of regime change with regard to North Korea.

That’s in their testimony. So I want to understand, is it our position that if the Koreans reengage in the Six-Party Talks, and were to give up their nuclear weaponry, that we have no further quarrel

and would not push for regime change in North Korea, or is there some truth to what they're saying there?

It would be very helpful for us to understand that because I'm not an expert in these issues, and I'm just learning about these. I read about them, but I've never quite understood why this is such a difficult process to get going. So I appreciate your testimony.

Mr. RODMAN. What the comments in my testimony refer to is that our President has made explicit public statements already, which address the North Korean complaint about hostile intent. Our President has said there is no plan to attack and so on; he said some things in public already.

In addition, we have made clear that we're willing to talk about security assurances, which is basically to elaborate on the same point. Now, we have our own view of what those security assurances should look like; we think they should be in a multilateral context, and we're prepared to talk about that subject in response to North Korea's demand. But we've never had an opportunity to get to that subject matter because the North Koreans obstruct the whole process of discussion periodically.

We're prepared to talk about all these things, and we've made clear we're ready to engage on this issue of security assurances as well as all the other issues—verification and so on, the whole set of issues on which we are the ones ready to engage and we have found it very hard to get these people to show up. So we don't think we are the obstacle or that we're holding out on any topic that ought to be discussed there. Steve knows the subject very well.

Mr. RADEMAKER. Commissioner, Special Envoy Joseph DeTrani of the State Department will be appearing later today, and I think on behalf of the State Department, he would be a better spokesman than I am on your question.

Commissioner MULLOY. There's another witness who is going to appear here today, a Mr. Milhollin. With regard to Chinese nuclear proliferation activities, what Mr. Milhollin says is that we sanctioned the subsidiary companies but not the parent companies of the proliferators, and he recommends that we change our law so that we could sanction not only the subs but the parents, and he says right now the law requires the parent to "knowingly" assist its subsidiary in an act of proliferation to be sanctioned. Mr. Milhollin may be hinting that that be changed so that the parent company maybe could be charged, if we know or have reason to know, which is the standard used under the Foreign Corrupt Practices Act.

Do you experts have any opinion on that recommendation?

Mr. RADEMAKER. Commissioner, I'm in an awkward position responding to that because I've spent most of my career as a lawyer working for the U.S. Congress, and so I spent a lot of time drafting these kinds of laws. I know that the executive branch traditionally resists mandatory legislation that would require the imposition of sanctions and so I would need to look at the precise proposal that Mr. Milhollin is putting forward.

But based on past experience, I would predict that the position of the Administration would be that if what he's proposing is something that is mandatory and increases the mandatory scope of the sanctions mechanism, it would be not favored by the Administra-

tion. And this is more as a matter of the philosophy of the Administration, of all Administrations frankly, that they prefer flexibility in these matters and they prefer not to have their hands tied.

Commissioner MULLOY. Thank you very much.

Cochair WORTZEL. Thank you very much. Commissioner Robinson.

Vice Chairman ROBINSON. Thank you, Mr. Chairman. We have been receiving some briefings of late on Chinese proliferation activities and the North Korean crisis. One of the issues that our chairman, Commissioner D'Amato, is going to get into with you involves our behavior and type of penalties that we're seeking to impose against serial proliferators like NORINCO.

This was the one case for many of us who have been looking at this issue for a long time, where a serious penalty was imposed. Across-the-board import controls is a very important point of leverage and it genuinely gets people's attention, unlike denying U.S. Government contracts which virtually no Chinese proliferators have to begin with.

It's, as you know, a rather ineffectual penalty versus something genuinely potent. Now we find in the small print, so to speak, that it appears that some of those NORINCO import controls have been waived. I think we're going to want to learn more about that in the question and answer period with our chairman. I'd ask a question on a slightly different subject, namely, do you believe that it would be useful to know if Chinese and other foreign proliferators are raising funds in the U.S. capital markets and even listed on the New York Stock Exchange or other U.S. exchanges? Is that something you would have an interest in knowing, both you and Mr. Rodman?

Mr. RADEMAKER. You're asking whether entities that we have judged under our sanctions laws to be involved in proliferation, if they're raising money in U.S. financial markets, would we be interested in knowing that?

Vice Chairman ROBINSON. Yes.

Mr. RADEMAKER. I think that would be something that we should know about, yes.

Vice Chairman ROBINSON. Would you agree, Mr. Rodman?

Mr. RODMAN. Sure.

Vice Chairman ROBINSON. During the 107th Congress, our colleague Senator Thompson was responsible for enacting a section in the Intelligence Authorization Act that required the Director of Central Intelligence to submit annual reports on the PRC and other foreign firms that are involved in WMD proliferation while at the same time raising funds in U.S. capital markets.

As you may know, that section or provision was rather mysteriously repealed in the 108th Congress in the context of the FY2004 Intelligence Authorization Act.

As you can probably tell, in my view, this was a major mistake and I'll certainly be urging my Commission colleagues to offer a recommendation to the Congress that this disclosure measure, be reinstated. I think the real question here from a policy perspective is should Chinese and other proliferators be permitted to list on the New York Stock Exchange or otherwise raise funds from largely unwitting American investors? I would submit to you, from

a corporate governance perspective, that these Chinese entities and their investment banks are not particularly keen on highlighting a history of proliferation in the risk section of their prospectuses or other filings and you have to judge if this is a material risk that investors should be made aware of?

This may be, in part, an SEC question, but I was wondering if either of you had a view on this question, because it gets to the heart of whether we are serious about our counter proliferation activities.

Thank you.

Mr. RODMAN. I am not familiar with this issue, but I have to agree that having information is indispensable.

Mr. RADEMAKER. I don't know if any reports were submitted pursuant to Senator Thompson's legislation. I would personally be interested in reading one had it been submitted.

Cochair THOMPSON. I would have too.

Mr. RADEMAKER. In response to your observation, though, let me say I think the objective of all these sanctions laws is to make sure we hurt the other guy and we want to make sure that we hurt the other guy more than we hurt ourselves. I do know that with regard to proposals to deny listing on U.S. capital markets or otherwise restricting access to the U.S. economy, when these proposals have surfaced in the past when I was a congressional staffer, I often heard screams from the New York delegation about how we were jeopardizing—you know—Wall Street is the world financial center. I haven't been in a position to carefully evaluate the validity of those claims, but I do think that would be a question that would need to be looked at with regard to the proposal you're making.

We would need to make sure that should your suggestion be adopted—

Vice Chairman ROBINSON. It wouldn't have a chilling effect.

Mr. RADEMAKER. —that we were hurting the proliferators more than we were hurting an important segment of the U.S. economy.

Vice Chairman ROBINSON. Thank you.

Cochair WORTZEL. Commissioner D'Amato.

Chairman D'AMATO. Thank you, Mr. Chairman. I also want to thank both of you for coming and testifying today. This is a matter of great interest to the Commission and to the Congress. This is one of the nine mandated areas Congress has asked us to look into annually.

I was interested to hear, and I believe that you all do think that the Administration is more serious about sanctions, 60 sanctions on various companies. The objective of the sanctions is to hurt the other guy. In other words, to deter him by hurting him. I think the problem that we've tried to wrestle with is that most of these companies that have been sanctioned don't do much business in the United States, so you can't reach them to hurt them, so they continue on.

You talked about NORINCO. NORINCO and other companies can be hurt badly because they have very big, wide-ranging businesses in the United States. So we've put sanctions on NORINCO and others for missile proliferation on September 19, 2003, and then waived some of them. What I would like to know, and there are Members of the Administration that have discussed with us the

question of waiving sanctions against some of these companies because there you can really hurt them. It's a matter of billions of dollars.

I understand NORINCO companies have substantial connections, for example, with Wal-Mart. What I would like to know is, if you have this or you can get it for the record, why were the sanctions waived for two years and then the waivers were extended on September 18, 2004 for six more months? Why were they waived? Anybody?

Mr. RADEMAKER. Speaking for myself, I would have to inquire about this and provide you an answer for the record. As I noted in my testimony, we have imposed sanctions on NORINCO five times, and I see from the information that I have been provided about this, in one of those instances, there was the waiver that you're talking about.

Chairman D'AMATO. Yes.

Mr. RADEMAKER. In the other four instances, there was no waiver, but I suspect the answer has to do with the fact that the instance in which there was a waiver, the sanctions had been imposed under our MTCR sanctions legislation.

Chairman D'AMATO. Right.

Mr. RADEMAKER. Whereas, in the other cases, they were under the Iran Nonproliferation Act or under the Executive Order.

Chairman D'AMATO. Yes. These are missile proliferation sanctions, a very important area. So I would be very interested if you could get us some more detailed information for the record on this matter. In addition, we would be interested in trying to estimate what the impact has been economically on Chinese companies. Now, of course, you have to estimate the lost revenue, and that's not always easy to estimate, but we would be interested in the list of sanctions that have been imposed and see to what extent each one of those sanctions had a negative economic impact on a Chinese company. We need to try and assess whether or not we should review our sanctions laws and that might get directly at the Chinese government.

If the Chinese government is allowing Mr. Chen, for whatever reason—you say we're mystified at it—Mr. Chen continues to violate all these laws and stays in business, the question, of course, arises, "are the sanctions aimed at the wrong place?" Do we need to take action knowing that the Chinese government is aware of this behavior, and could take action, but doesn't take action? Is it then necessary for us to consider putting some kind of penalty or sanctions on the Chinese government in some way?

Thank you very much.

Mr. RADEMAKER. Mr. Chairman, I'd be pleased to get an answer for you on that as well.

Chairman D'AMATO. Thank you. We appreciate that.

Cochair WORTZEL. Commissioner Wessel.

Commissioner WESSEL. I thank you, as my colleagues have, for being here today. I appreciate it. I'd like to follow up briefly on Commissioner Wortzel's comment of recognizing as we all do, and as our mandate stipulates, that there are broad issues that we have with China in the relationship. It's just not one issue, and we understand that.

But if you look at the record, and we've had a series of field and Washington-based hearings in the last weeks, and the State Department released its human rights report I believe a week or two ago, which does not indicate any substantial progress.

We heard from the intellectual property rights community that we have IPR violations that are in the 90 percent plus range. We have seen no progress on currency to speak of. We have a \$160 billion trade deficit, 30 percent higher than the previous year. We have continuing serial proliferation. We have limited, by my estimation, support from the Chinese for the Six-Party Talks. We'd like to see them doing much more.

We have CIA Director Goss and his open testimony before the Intelligence Committee last month talking about the China threat, as it relates to the Taiwan Straits, to our direct interests and our forces in the region. When are we going to say enough is enough? When we are going to say that this proliferation, we're going to get very serious about, as Chairman D'Amato just talked about in terms of sanctions policy that gets waived.

As Commissioner Wortzel pointed out, 50,000 Chinese governmental officials or those associated with it are looking at Internet usage, Bible handouts, et cetera; when China knows that we're serious about something, it seems to me that they'll get serious. When are we going to really get serious?

Mr. RODMAN. Let me say that one thing that this Commission is accomplishing for the nation is precisely to help our nation come to terms with the rise of China. Maybe it's time once again to have a national debate or a national discussion about China, about all these aspects of China policy. From my parochial perspective in the Department of Defense, I would add to your list China's military modernization, the rapid rise of its military, not only quantitatively, but also qualitatively. You mentioned its policy toward Taiwan. There have been recent developments that I think are not constructive.

As a nation, maybe our policy is in transition as well. I don't prejudge the answer—what is China's ultimate intention? We shouldn't prejudge it because I think it is within the power of the United States to help influence China's decisions and China's evolution.

So, again, it's bigger than proliferation. When I said that originally I didn't mean that as an excuse to downgrade the importance of the proliferation issue. On the contrary, it's part of our disturbing picture. Maybe there are positive trends.

As I said to Commissioner Wortzel, China has begun to accept certain arms control agreements and norms. This is something positive, to some degree, and maybe it can be enhanced and improved. We have to certainly seize the opportunity to move things in a constructive direction if that's open to us.

And not prejudge that they're hostile or they're hopeless or that they need to be treated as an adversary. The Administration certainly has not come to any such conclusion. In fact, we're trying to deal with it constructively, not because we're not realistic, but that's really the best option for our government at this stage.

Commissioner WESSEL. Mr. Rademaker.

Mr. RADEMAKER. There is certainly no shortage of problems in the area of proliferation with China. That said, if we survey the last decade, I think it's indisputable that there has been considerable progress. China's behavior today is much better than it was five or ten years ago.

In response to your question when are we going to say enough is enough if we were not seeing progress, it would be tempting perhaps to say enough is enough. But the movement on balance has been favorable and we continue to engage China and try to encourage additional progress, and it's our judgment that now would be the wrong time to despair.

We are making progress and we hope to continue making progress. So I think we're not prepared to give the answer that you're inviting us to give which is to give up on this effort and declare China a lost case.

Commissioner WESSEL. No one is arguing to disengage or to give up. The question is when does the frustration that we've heard, not only from Members of Congress but the public as we've gone out at China's unwillingness to take dramatic steps on a whole host of issues that threaten our interest, as Director Goss identified, and many others have said?

China needs to understand that frustration is reaching a boiling point, and on the two most important issues, North Korea, and on the proliferation issue in the post-9/11 world, we see our direct threats—life and death—and China appears to be slow-walking it. They need to understand that it has serious repercussions and we both, as Congress and also as the Administration, need to grapple with that frustration.

Thank you.

Cochair WORTZEL. Thank you very much. Commissioner Bryen.

Commissioner BRYEN. I have two questions. Let's use NORINCO as an example. When you put a sanction on a NORINCO for violating proliferation rules, is there a way for them to get off if they improve their behavior or does it just sit there?

Mr. RADEMAKER. Once sanctions are imposed, typically under most of the laws are in effect for a period of two years.

Commissioner BRYEN. So NORINCO has racked up five sanctions for a period of ten years, some of which you may have waived for obscure reasons.

Mr. RADEMAKER. Their sentence is imposed simultaneously rather than consecutively.

Commissioner BRYEN. I see. So it could be multiple offenses at one time? If you get Sanction A, Sanction B, Sanction C, but you got two years. Correct?

Mr. RADEMAKER. That's the way those laws work.

Commissioner BRYEN. So there's no process, though, associated with trying to cure the problem. It seems like it's just sort of punishment, but there is no process. Is that a fair way to put it?

Mr. RADEMAKER. No process?

Commissioner BRYEN. In other words, once you've put a sanction on a company, NORINCO, for example? Nothing happens other than you won't do business with them for two years; is that right?

Mr. RADEMAKER. Correct.

Commissioner BRYEN. You dialogue with them.

Mr. RADEMAKER. The sanctions vary law to law, but we impose the penalty that's required under the legislation.

Commissioner BRYEN. And beyond the two-year penalty, there is no other resource that you have in hand? In other words, you can't do anything else to them? Can't seize their assets, kick them out of the country, or do other nice things that will get their attention?

Mr. RADEMAKER. I think you're asking a legal question. Ultimately, under the International Emergency Economic Powers Act and other legislative authorities, I suppose there would be discretion to take more dramatic action.

All I can say is there is and always has been great resistance to doing this. I think the record of the Bush Administration compares very favorably in this area to that of past Administrations, and—

Commissioner BRYEN. I'm not interested in the record here. I'm interested in whether we can make these work?

Mr. RADEMAKER. That has not been without controversy. I do know, and I'm sensitive to the criticism that the sanctions that are imposed under these laws are often not particularly well adapted to the target, and they may not impose much pain on the particular entity.

On the other hand, every time sanctions are imposed, there are screams. So I think it would be wrong to conclude that China is indifferent to the imposition of these sanctions, or that Chinese entities are indifferent to the imposition of these sanctions.

They may not have as much bite as you would like to see, but there is some bite.

Commissioner BRYEN. I take that point, but I think the problem here is that if you sanction a company five times, whether it's the same time, a few times or subsequent times it doesn't really matter. The fact is that they are fairly comfortable in violating the rules if they're making money on these violations, and where the penalty is not very great.

It's that simple. They are multiple offenders. Yes? And we don't have a way to deal with that right now. So I think what has to be given some serious thought, either by the Administration or if the Administration doesn't want to, then maybe the Congress will, is to find a way to toughen up these sanctions and to escalate them in an appropriate way when you have a violator like NORINCO.

When I was in the Administration, in the Reagan Administration, NORINCO was a problem; it's still a problem. Hasn't changed. Something is wrong here. We ought to try to fix it. Thank you, Mr. Chairman.

Mr. RADEMAKER. I would respond, Commissioner, than obviously when an entity is sanctioned four or five or six times, we can infer that that entity has decided that it's prepared to tolerate the imposition of sanctions. It's decided it's, for whatever reason in terms of their own calculus, they're prepared to continue doing what they've been doing and take the penalty.

Commissioner BRYEN. And that's the problem, isn't it?

Mr. RADEMAKER. My response though, is that I think at that point we have to conclude that whatever we're doing vis-à-vis that entity is not working and what we are doing then is escalating this into a bilateral political issue between the two governments and

with regard to the serial proliferators, that's precisely what we're doing.

Commissioner BRYEN. I think the Commission would like to dialogue with you about how to toughen up the sanctions and make them work so that you have more tools in your arsenal to deal with a very frightening problem. I think we all could agree that would be a very good direction to go.

Cochair WORTZEL. Thank you very much. I'll go to Commissioner Donnelly.

Commissioner DONNELLY. Thank you, Mr. Chairman. This is my maiden voyage as a Commissioner, so I want to take the opportunity to thank my fellow Commissioners for making me most welcome. Also, the staff for helping me through the joining process and the support process. It's also a pleasure to share this moment with two long-time friends and particularly delicious to share it with a former congressional staff colleague. Thank you all very much and thank you both, Mr. Secretaries, for coming here today.

I have two quick questions, one about North Korea. We heard a bit earlier about the question of security assurances and particularly I'd be interested in your views on this because our next panel will deal with this.

Isn't it true that the North Korean definition of security assurances is a full-blown non-aggression pact? I would ask you as a matter of American policy whether there is any nonproliferation or arms control deal that's worth that kind of an exchange? It seems to me we need to have some clarity on that before we start talking vaguely about security assurances in the abstract.

Secondly, as to China's proliferation practices, I'm a little concerned about the idea of even describing it as a serial problem. It makes it sound more like a disease rather than an act of policy. It seems also pretty clear to me that except perhaps at the extreme margins that this is a strategic decision made by the government. The People's Republic has a pretty good track record of proliferating to its would-be client states and in particular, given its current position in the world, its rise, that it's in the market for strategic partners or client states, whatever term of art you want to use. We're going to focus a lot on North Korea, but I'd be interested to hear from the witnesses about China's other proliferation practices including conventional weapons in cases like Sudan?

China has a long record of selling conventional arms. I'd be interested to know if we have any information about Chinese involvement with the infamous Shifa pharmaceutical plant, but just generally speaking about proliferation as a tool in China's larger strategy, and whether we can expect to see continued proliferation of one kind or another as China seeks to acquire strategic partners around the globe?

Mr. RODMAN. As Mr. Rademaker did, I would encourage you to save a lot of these questions for Mr. DeTrani who will speak for the U.S. Government more authoritatively on the North Korea issue, but you're absolutely right. On the security assurances, the North Koreans want a non-aggression pact and they want something bilateral.

Their premise is that the aggressive intent of the United States is the problem, and they want us to somehow commit to end that.

But of course our position rejects both the premise and the form that they're interested in. We are willing to give assurances. We signed up to the U.N. Charter a long time ago, so we're already committed to peaceful intent and we're willing to discuss some kind of multilateral framework.

We know what they want, and obviously it's not the same as what we're willing to discuss. You mentioned conventional weapons transfers. In my statement, I have a reference to the MANPADS issue, which is just one of those cases where if they want to be consistent with international stability, they ought to accept some degree of restraint.

Now, on the MANPADS issue, it's obvious what the threat is. There is already beginning to be some international consensus on this. The ICAO has pronounced on it, but even if there were not international agreements on it, a country that is supporting international stability ought to accept restraint and responsibility. So this will become a bigger part of our dialogue with China, I'm sure.

Mr. RADEMAKER. Commissioner Donnelly, welcome to the Commission. Like Secretary Rodman, I would prefer to defer the Administration's response on North Korea to Special Envoy DeTrani later today. But I will comment briefly on the security assurance issue. Obviously the DPRK claims that the reason they're pursuing nuclear weapons is because our hostile policy has left them no alternative, and as I know you're aware, the Bush Administration has made clear that we are prepared to provide an appropriate security assurance in a multilateral framework.

That does not seem to have given the North Koreans much additional enthusiasm for negotiations on this issue, so I think one does have to wonder whether this issue is fundamentally about the alleged hostile policy or whether it's about something else.

On the question of conventional arms transfers, we've had some discussion today about improvement in Chinese export control practices and changes, evolutions in Chinese thinking about proliferation.

I think that is most true in the area of weapons of mass destruction, particularly nuclear, chemical and biological. It's largely true in the missile area. It's much less true in the area of conventional weapons. As you know, unlike nuclear, chemical, biological where we have multilateral conventions prohibiting these weapons or in the case of NPT prohibiting them to all but a few, there is no similar international convention about conventional arms transfers and so in a lot of ways the Chinese reject the way we think about this.

I think they would reject the notion that there is such a thing as proliferation of conventional arms to a country such as Sudan, and we of course see it differently, and we continue to exchange views with the Chinese on this, but I would not point to that as an area where we've had as much success as some of the others.

Commissioner DONNELLY. Thank you, Mr. Chairman, for indulging me. Just to try one more time, is there any nonproliferation or arms control deal that's worth a non-aggression pact? That's not specifically a North Korea question, that's a broader strategic question in my mind?

Mr. RADEMAKER. It's hard to answer a hypothetical question like that. I think in the North Korea case, we know what our policy is, and I would leave it at that.

Cochair WORTZEL. Commissioner Dreyer.

Commissioner TEUFEL-DREYER. Mr. Rademaker, please tell me I didn't hear this properly. You said that when we sanction a Chinese company more than once, the sanctions run simultaneously rather than consecutively?

Mr. RADEMAKER. The way the sanctions laws typically work is the sanction is imposed for a period of two years, beginning on the date that the sanction is imposed. So in the case of NORINCO, the Iran Nonproliferation Act reports are submitted to Congress roughly every six months, and NORINCO is coming up in a lot of these reports for transfers and so every six months over the last few years they've been sanctioned. So sanctions would kick in on the date of their imposition and run for a two-year period. They don't pile up so that, as I said, the sentence is not served consecutively.

Commissioner TEUFEL-DREYER. Would you not think that if you put yourself in the position of a company, which is in business to make money, that if you are going to be sanctioned once for something, you might as well transgress again and again and again? And is this not something that someone could think about in the vein of putting in sanctions that companies truly are deterred by?

Mr. RADEMAKER. We are applying the sanctions laws as Congress wrote them. And I think you're making—

Commissioner TEUFEL-DREYER. So a possible suggestion might be to rewrite them?

Mr. RADEMAKER. If you see this aspect of them as a problem, then I think that might be your recommendation.

Commissioner TEUFEL-DREYER. Thank you. I listened to your prepared statement, I had to contrast it with Congressman Markey's in that I would describe your statement as sounding cautiously optimistic—is that fair?—about the progress that's been made?

Mr. RADEMAKER. Yes, that's correct.

Commissioner TEUFEL-DREYER. And his as much more pessimistic? He used the word "cynical" a couple of times, and as I look back on the proliferation record—I'm definitely not an expert on it, but I noticed that while it has been possible to cajole the Chinese into signing agreements, they have been much less meticulous about observing those agreements. Others have said to us that China, again they are being very cautious, China lacks, quote, "the political will" to enforce these.

In other words, there is always the "my heavens, we didn't know that missile was being moved from China to Iran" sort of thing. Do you not get discouraged in the course of your work, after you have finally gotten an agreement on the part of the Chinese, and then find out it's not being enforced?

Mr. RADEMAKER. Commissioner, you've raised a whole bunch of questions. Let me try to respond to your points individually, and if I fail to respond to one of your points, please come back at me.

With regard to Congressman Markey's comments, I did hear him use the word "cynical." I think he used that in connection with the decision to bring or China's decision to join the Nuclear Suppliers

Group, and if I understood what the congressman was saying, he was complaining about the fact that at least one nuclear reactor project was grandfathered under China's decision to join the NSG.

I was not in this position when that decision was reached with regard to China, but I do know that it was a tough choice whether to bring China into the NSG or not. It was an on-the-one-hand, on-the-other-hand kind of deliberation.

By joining the NSG, China undertook the obligation not to provide nuclear cooperation with any country that does not have full scope safeguards going into the future. Pakistan does not have full scope safeguards, but this one project that the congressman referred to was ongoing and therefore it could be grandfathered.

So the on-the-one-hand is the decision to bring them into the NSG did not require them to terminate the one project already underway that would be inconsistent with the obligation they're undertaking for the future.

The on-the-other-hand is that if they adhere to their NSG obligations, they will never do such a thing again, and so is that a good deal for us or not? The decision reached by the Bush Administration was that on balance, that was a deal worth taking.

Congressmen can call that cynical, but we intend to hold China to its commitment not to provide further nuclear cooperation to any country that does not have full scope nuclear safeguards.

You raised the question of compliance with export control laws. Compliance is a problem everywhere. There are prosecutions that take place in the United States because we have firms that violate our export control laws, and this is not shocking. There are businesses that want to make money and sometimes they can make more money if they skirt or evade the law and that's true of some American businesses unfortunately and it's true in other countries.

I think the bigger question is are the governmental authorities committed to the enforcement of the laws, and in the United States, we're confident that our authorities are committed to the enforcement of our export control laws. Our judgment is that in China, the commitment is not as strong as in the United States. We would like to encourage them to become more strongly committed to the enforcement. So do we despair? No, we don't despair. But there is certainly frustration.

Commissioner TEUFEL-DREYER. How do we persuade them to become more committed?

Cochair WORTZEL. We've about run out of time. I'm going to move on if I may.

Mr. RADEMAKER. The route we're pursuing is by using the full range of tools that we have, sanctions against entities, diplomatic efforts. You'll see in my testimony I did not read the portion where I commented on the export control dialogue that we're having, but we provide assistance in the area of export controls.

Commissioner TEUFEL-DREYER. Thank you.

Cochair WORTZEL. Commissioner Bartholomew.

Cochair BARTHOLOMEW. Thank you very much, Mr. Chairman, Mr. Vice Chairman. Thank you to our witnesses, not only for testifying today, but also for your service to our nation. It's an exquisite irony to see a former fellow congressional staffer put in the position of not really wanting to say that the Executive Branch doesn't

want Congress to do something, so I can see this struggle going on of your former soul and your current soul.

Mr. RADEMAKER. I've got to say it's a little bit ironic to see a former congressional staffer sitting behind the microphone.

Cochair BARTHOLOMEW. Yes, it's strange. It's something we're all still adjusting to. But thanks very much, and Steve, we have worked together on a lot of things, so I'm very pleased to see you are where you are.

I think what we're hearing, and I'll express some of it again, is frustration. In the 15 or 16 years that I've been working on U.S.-China policy, I sometimes think that the Chinese government either must think that we're foolishly naive or that we're idiots, because what happens in one issue after another, whether it's trade, whether it's proliferation, whether it's human rights, we give them an enormous amount of credit for signing an agreement which by now we're all recognizing, whether it's multilateral, whether it's bilateral, doesn't necessarily mean that anything is going to be happening on the ground.

I'm really struck listening to all of this that essentially it isn't a surprise that Beijing hasn't made progress on some of these things. Sanctions have basically become a cost of doing business.

Now, I think it's good that the Administration is putting the sanctions on, but it doesn't seem to be getting to the heart of where the problems are. I don't know what the answer is, but I think you can see this frustration that we have. We had essentially this hearing last year; we heard the same thing. I imagine we could have the hearing next year and we'll hear the same thing. How many times can we go through this—we're making progress, but we have all these problems? It really makes me question what is progress and are we doing a disservice to the issue and to our interests by characterizing talk as progress when the action doesn't follow?

Comment? Question?

Mr. RADEMAKER. I think that's a good question. I do think that there is more than just talk taking place. I do think there is some listening taking place and not everyone in China is persuaded that they need to act, but I think we have gotten through to a good extent with some people that we need to persuade and because of that there has been progress, and I referred to some of that progress in my testimony.

Mr. RODMAN. Let me add to that. This area of proliferation is particularly frustrating. But to respond to Commissioner Wessel, there's a long list of actions and policies by the United States that the Chinese are not very happy with. I can describe some of them. I don't want to paint a picture of hostile intent, but just a couple weeks ago, we had the Japanese foreign minister and defense minister in town and we signed a joint statement with Japan that for the first time referred to Taiwan as within the common sphere of interest.

Again, I don't want to list everything, but there are a lot of things the United States is doing that indicate that we take very seriously the challenge of a rising China and a growing power of China including in the military field. I have a dialogue with the Taiwanese. We are carrying out our duty under the Taiwan Relations Act to help the Taiwanese defend themselves.

So there are a lot of things we're doing that should reassure the Commission that we have a very sober view of China and are acting to strengthen deterrence of the use of force, and strengthen our alliances and friendships in the region—to add incentives and disincentives to China's conduct more broadly. But this is a complicated field, and we have a set of tools that we use.

They're obviously imperfect, but all of these tools and all aspects of our policy are designed with the objective I mentioned at the beginning, to encourage China to make a strategic decision that it's a responsible part of the international system or not. All the instruments of our national policy are part of this, and again this Administration can't be faulted in my view for neglecting other duties that we have. In that same spirit, we look at this proliferation issue very seriously and are doing what we think is the best, given the tools that we have.

Cochair BARTHOLOMEW. I'm going to take one minute as my prerogative as Cochair of the hearing. Secretary Rodman, what are we to make of reports that the Chinese government has pressured the Australians to try to revisit the ANZUS alliance?

Mr. RODMAN. The Chinese made a public statement, I think it was in the context of the Japanese statement, and the Australians answered back saying, I forget the wording, but the thrust of it was that Australia takes seriously its alliance with the United States and is very pleased with it and is not going to be dictated to by anyone.

Cochair BARTHOLOMEW. Something to watch I think. Thank you.

Cochair WORTZEL. Thank you very much. Commissioner Reinsch.

Commissioner REINSCH. In contrast to Commissioner Bartholomew, I want to compliment Mr. Rademaker for his thoughtful and restrained comments on sanctions. I remember many times when he was on the Hill and I was there, and I wish he'd said the same thing.

We all are learning where you stand depends a little bit on where you sit. Let me ask a question to him, in particular. With respect to those situations where the Chinese have made commitments, either bilaterally or by joining a multilateral organization, it's not quite clear to me which circumstances make us unhappy. Are we unhappy because we believe they're violating the commitments they've accepted, or are we unhappy because we believe the commitments do not cover all the behavior that we find unacceptable?

Mr. RADEMAKER. Your question reminds me of one additional point I wanted to make in response to a point made by Commissioner Dreyer. One of the things that we've learned over time dealing with the Chinese in the area of nonproliferation, and frankly the Clinton Administration learned this to its great distress, is that in any agreement, any understanding reached with the Chinese in the area of proliferation, the fine print really matters. Their approach is really a work to the rules approach, and if there's a footnote, if there's an exception, if there's an ambiguity, we now know we need to assume that they will exploit that exception, that ambiguity and claim that they're not bound to do what we think or we would like them to be bound to do.

Now that we understand that, I think that puts a premium on the drafting in these sorts of agreements. So that is one area where there have been problems in the past where, and I think it was a much bigger problem during the previous Administration where commitments were made and there was an understanding on our side of what it meant, and there was some fine print that the Chinese thought was very important, that they then relied upon in implementation, and that created great frustration on the U.S. side.

I don't think that's as big of a problem today because we now understand what the Chinese approach is when it enters these sorts of commitments with us.

There is, though, beyond that the question of commitment to enforcement, and that I'd say is the bigger problem today.

Commissioner REINSCH. I think in the interest of time, I'll stop.

Cochair WORTZEL. Thank you very much. Commissioner Becker.

Commissioner BECKER. Thank you, Mr. Chairman. In essence, I agree with all of the questions that have been asked here. We've explored this and I don't think there is any doubt in anybody's mind in this room that China is a serial proliferator and that they are part of the problem directly or indirectly that we're having with North Korea.

Picking up on what Mr. Wessel said about when is enough is enough, I would ask it just a little bit differently. What do you see are the dangers in allowing the problem we're having with China on proliferation and the problem with North Korea continuing unchanged to fester, to simmer, with nothing being done? What do you see as the dangers that we're facing as a result of that?

Mr. RADEMAKER. Commissioner, the reason this matters so much to us is because of the lessons that we as a nation have drawn from the events of 9/11. There are terrorists out there who mean to do us harm, and they'll do as much harm as they can. They'll do it with commercial aircraft if that's the best weapon they can find. They'll do it with a weapon of mass destruction if they can get their hands on one, and that's why this is such a high priority to keep weapons of mass destruction, nuclear weapons, chemical weapons, biological weapons, out of the hands of those kinds of people and those kinds of organizations.

The risk, of course, is not that China is going to give bin Laden a nuclear weapon. The risk is that China or Chinese entities could cooperate with a nuclear weapons program or chemical or biological weapons program in a country such as Iran that has a history of providing state support to terrorist groups, and that through that transfer, the acquisition by bin Laden or a similar actor will be facilitated, and that's what we're trying to stop. That's what we're most worried about.

Commissioner BECKER. Is there a sense of determination on the part of the Administration to stop this?

Mr. RADEMAKER. Absolutely. I think from the highest levels. If you look at the threat that I've just described, China's role in this is just one piece of it because it's not just China that's in a position to provide support to a nuclear weapons program in Iran. There are lots of other countries that might do so as well, and we're trying to deal with that everywhere that that risk exists, and what are the top foreign policy priorities of the Bush Administration? Be-

yond sorting out the situation in Iraq and Afghanistan, I think our top priorities are dealing with the weapons of mass destruction threats that we see in North Korea and in Iran.

Commissioner BECKER. Thank you.

Mr. RODMAN. Let me respond with a general point. As a government, we have a duty to approach problems in a certain way. To leap to the conclusion that this is hopeless, that confrontation is the only option, is a weighty decision for a government to come to. First of all, you have to be sure that the facts unambiguously take you there—that, in other words, there's no hope, that none of this evolution of Chinese policy is worth a damn.

Secondly, you have to be prepared for the consequences of coming to such a conclusion, because for the government it's not just an intellectual exercise. To reach such a conclusion, you better be prepared to follow through and think several steps ahead. I mean, what are we going to do? Governments tend therefore to treat problems usually as a work in progress, and only in rare cases do we come to a conclusion that confrontation is the only resort?

We have tools available. We use them. They seem to be imperfect tools. We have a broad set of concerns with China, and again, on the list that Commissioner Wessel made, China runs the risk that if on this whole list of topics we decide that things are moving in the wrong direction, then at some point the United States will come to the conclusion that our policy toward China is wrong. But we're not there yet.

Speaking for this Administration, we're engaged with China, trying to find some constructive ways of dealing with China on a bunch of things, and so it's complicated. Obviously a lot of things are not being done the way we would like them to be. But as I say, it's a bigger question. It's not just proliferation policy. It's a lot of things that China is doing. But I think we're doing the best we can given where we think we are.

Commissioner BECKER. Recognizing the fact that North Korea is going hell bent for election to produce more nuclear weapons.

Mr. RODMAN. North Korea, obviously, is a problem, and we've made clear publicly we want China to exert itself more. Again, Mr. DeTrani can address it. But we, as a government, are dealing with that in a diplomatic framework. There are a lot of diplomatic and political and other instruments of policy that we haven't exhausted yet, and the President is committed to address that in that framework, at least at this stage.

Cochair WORTZEL. Thank you very much. Commissioner Thompson.

Cochair THOMPSON. Thank you very much. Gentlemen, I don't think it's a matter of our seeking confrontation as much as it is having a disagreement as to how you best avoid confrontation. And whether or not traveling along the same road that we have for over a decade now is really the best way to ultimately avoid confrontation. I don't think it is.

As I sit here and listen to the witnesses today, it occurs to me that the same things were being said that were being said ten years ago. The players have changed, but you're saying many of the same things that others that preceded you in your seats were saying.

Perhaps that's an indication that it is the right approach, but I think certain things are clear for someone who's been watching and dealing with this thing, and attending these hearings for over a decade. And that is that we have seen a familiar litany over that period of time, and that is that the Chinese do make commitments, and then, yes, it's true, once they get caught, they say, oh, we agreed to the commitment but not the annex to the provision, and then you have those inside our government who say the Chinese have a pretty good point there, they didn't really, we didn't talk about the annex.

So promises with regard to proliferation issues, violations of those promises, U.S. imposing sanctions, U.S. lifting those sanctions, or waiving those sanctions in return for new promises, which in turn are broken and violated, such as on the Pakistani case, which we watched under our government's view really when China outfitted Pakistan from soup to nuts, ring magnets, M-11 missiles, missile plants, and we were saying things like, well, the burden of proof is so high, we really can't impose sanctions there, we're not really sure or we have satellite shots of missile canisters, but we're not sure missiles are inside those canisters. Those were criteria we placed on ourselves during that period of time, and we see the results. When brother Khan's outfit furnished Libya with a Chinese-designed nuclear warhead, then we see the results of all that.

During all that period of time, the world has become a much more dangerous place. All the time those people following this, having to deal with all these complex problems, are saying, we're making progress, we're moving in the right direction, things are better than they were, they've done a little better, they've still got a long way to go, but all of that, while at the same time they're continually caught in these various activities, and now it's of even more concern to many of us because our attention is even less directed on this problem.

It has to do with our focus on another part of the world, and it has to do with issues of terrorism, which many people see as unrelated to the proliferation of weapons of mass destruction issues. We know it's not unrelated, but a lot of people don't see that.

So it's kind of a depressing situation. I see it in broad view. I don't know what's happened lately. I'm sure that you're approaching this in an appropriate way. I'm impressed by the fact that you picked up the rate of sanctions with regard to some of these companies.

I'd be interested to know are there still these subsidiaries of subsidiaries that don't do business with us anyway, and sanctioning them has no effect whatsoever? I'd be interested in knowing that, but it occurs to me that the real issue here that we're not making much progress, and we can all take a lot of credit for that I think over the last decade.

We're not making much progress, and the real issue is in light of all these interests that we've got, legitimate interests—you mentioned them—with regard to our relationships with other countries that displease the Chinese—with regard to our trading relationship, with regard to our increased investments over there. I just spent some time with Wal-Mart executives. All these things are legitimate concerns. We've got proliferation in there somewhere, and

I'm afraid that for a long, long time we've treated proliferation as another one of those issues which has to be balanced out.

The concern for me is that proliferation has stuck out as something much, much more important than any of the rest of this stuff. And until we, as a nation, begin to look at it that way, we're not going to make much progress. They're going to continue to do what they want to do. They've got us down in North Korea now, wrapped around our own axle, and all these other things going on. They're not going to do any better, and I'm not sure I've got any solution. It might be that we can't do anything because of these other interests.

I think it's important for those on the front lines, and I know, Mr. Rademaker that you've just started in your position, and Mr. Rodman, this is not your primary field of interest, but I think for those on the front line, it's important to do what you can where you can. But we should not to deceive ourselves into thinking that we're really making progress because—just one person's view—I don't think we are. And until we start elevating the issue to the place where I think it should be—it dwarfs all these other things that we have to consider—that I don't think we will.

You can respond to any of that if you want to. Just to show you I haven't lost my knack for not asking a question, but making a speech.

That's just a little speech I needed to make.

Cochair WORTZEL. Thank you for making it. Gentlemen.

Mr. RODMAN. The Senator is correct. It's our obligation to press China to live up to commitments that it's made. It's a serious matter when they make commitments that they don't live up to, and they have to understand that it does damage to other interests that they have with us. We're trying to engage them into making more commitments and living up to them, and they're not.

The testimony of both of us today is a litany of things they're not doing and not doing well enough, or commitments where we don't think their compliance is adequate.

Mr. RADEMAKER. Senator, this is not a very compelling defense, but I think it is actually correct. Chinese behavior today is better than in the past. Now, that's not really because their behavior today is all that great. That's because their behavior in the past was all that bad. We have the A.Q. Khan problem because Pakistan has nuclear weapons. And that's what led to the problems we discovered with Gaddafi in Libya and the Iranian nuclear program obviously got most of what it needed from A.Q. Khan.

A.Q. Khan was involved with the North Korean nuclear program. All that was a result of a fact that Pakistan successfully developed nuclear weapons, and we know of China's instrumental role in facilitating that program. So that's how bad it was, and it's not that bad today. So I wouldn't agree with your assertion that there's been no improvement. Now, that doesn't mean that there isn't a lot of room left for improvement, but today we don't see China doing what it did with Pakistan in the nuclear area in the past, for example.

Cochair THOMPSON. We didn't see China doing what they were doing in Pakistan when they were doing it either.

Cochair WORTZEL. Gentlemen, thank you very much for your testimony. I appreciate it a lot. I thank the Commissioners, and I'll ask the next panel to take its seat, if we could.

[Whereupon, a short break was taken.]

PANEL III: RECENT DEVELOPMENTS AND IMPLICATIONS

Cochair WORTZEL. Could I ask everyone to take their seats and we'll move on with the hearing?

The next panel will be Dr. Ash Carter, Professor of International Affairs at the John F. Kennedy School of Government at Harvard University; Mr. Gary Milhollin, the Director, the Wisconsin Project on Nuclear Arms Control; and Dr. Daniel Pinkston, the Director of the East Asia Nonproliferation Program at the Center for Nonproliferation Studies at the Monterey Institute of International Studies—three very qualified and sought after experts on the topic. I'm going to ask Dr. Carter to lead with testimony, followed by Mr. Milhollin and then by Dr. Pinkston, and then Commissioners, if you have a question when we get to questions, specifically for Dr. Carter, let me know and ask it first because he's going to leave earlier and then we can have questions for the other two.

So with that, I appreciate all three of you being here. Dr. Carter.

**STATEMENT OF ASHTON B. CARTER
PROFESSOR OF SCIENCE AND INTERNATIONAL AFFAIRS
JOHN F. KENNEDY SCHOOL OF GOVERNMENT
HARVARD UNIVERSITY, CAMBRIDGE, MASSACHUSETTS**

Mr. CARTER. Thank you, Commissioner Wortzel, Mr. Chairman, other Commissioners, for this opportunity to appear before you. I'm going to try to be very brief here because I know you're running behind. I'm going to focus on the North Korea issue if I may. I hope that's not out of order. That issue is going to rise in the public's awareness with a vengeance, I believe, this year.

I say that because I believe and certainly hope that the Iraq issue subsides, that things go well there, that the loss of life of Americans there is a lot less in coming months than it has been in the past. When that happens, which I fervently hope happens, the public eye is going to pivot, and they're going to say what is out there is serious and less attended to, and North Korea certainly stands out in that category.

I'm going to address principally China's role in that. Just to tell you where I'm coming from on China in general, I'm not a pessimist. I'm not a fatalist on the strategic destiny of China. There is some chance that 20 years from now China will be a prosperous democratic fellow creator and enforcer of the security order of the world.

There is also some chance that its past history—its internal evolution in the future and its future external relations will conspire to cause the Chinese to want to challenge that order and us. Both of those possibilities and various in-betweens are out there. We can't control the outcome of this. We have some influence over it. I do believe it's true that if we treat China as an enemy, it will become an enemy, but the converse of that is not true. That is if we don't, they won't. I wish it were so, but it isn't so.

Therefore, I believe that China's destiny is a serious strategic issue. I know it underlies the work of this panel. I don't think that to say so makes one a China basher. I think it makes one a realist.

In that connection, before I turn to North Korea: I've been talking about the future, the ten, 20, 30 years from now. There's one near-term issue, near-term strategic dynamic that I think is underappreciated, not necessarily by the Members of this Commission who probably appreciate it quite well, but underappreciated more broadly, and that is the galvanizing, focusing power of the Taiwan scenario in the evolution of the PLA.

This is what they wake up every morning thinking about. Now, nobody has, including myself, come up with a better approach to the Taiwan situation than the approach that we all more or less have now, which is keeping on with the current arrangements, sometimes called the status quo. But built into that status quo, it's in the logic of that status quo that the Chinese military plans everyday for the Taiwan scenario, and that planning has two ingredients: first, to intimidate Taiwan; and second, to repel or deter American intervention. It's just in the logic of the situation.

That means that China's military figures are among the four in the world that are actually planning against us. The others I think are North Korea, Syria and Iran, for which we are the modal threat. Of course, that's not the case in our larger relationship. We don't regard ourselves, we don't wish to regard ourselves as potential enemies, but because of this Taiwan situation, at the level that I live and particularly that I lived in the Department of Defense, that is the reality.

I make that point now in particular because a lot of my European friends are wondering why I'm so exercised about the relaxation of sanctions issue. And they say, well, isn't there a discrepancy between what you say about what your policy as a nation towards China is in general and this strict adherence to the idea that not building up Chinese military is important, and I just say, we live everyday with the Taiwan scenario. And the reality of that compels us to be concerned about modernization in the Chinese military that would make scaring us away or chasing us away from the Taiwan Strait more likely or more possible for them. We have to be worried about it.

Let me turn to North Korea. I think we've done a lot in the last few years. The President has rightly said that keeping the worst weapons out of the hands of the worst people is the highest national priority. He's absolutely right.

The only thing I'd say about that is I think we've done a lot more about the worst people than about the worst weapons. We have a new Department of Homeland Security. We have busted up the Afghan sanctuary. We're after al-Qaeda and its offshoots and tentacles and franchises everywhere around the world. A lot about the worst people. I think the record when it comes to the worst weapons is a lot more questionable.

That's the hole in our grand strategy today, this nation's grand strategy, is not the worst people; it's the worst weapons. That's the hole. Nowhere is that better illustrated than in the case of North Korea. I think you, Commissioner Becker, used the word "fes-

tering,” and I’d say that’s a kind characterization of what’s happening.

I don’t see the North Korea situation festering. I see the North Koreans completely out of the box and doing, for all we know whatever they want, unconstrained for three-and-a-half years, and to the best of our understanding that includes reprocessing the 8,000 fuel rods that had previously been at Yongbyon, enriching uranium or preparing to enrich uranium, somewhere in the process of exploring or creating or conducting that activity. It’s hard to know exactly where they are. And building bombs and making bombastic statements about what they’re doing, open, naked, boasting statements about what they’re doing. So that isn’t festering.

That has to be the principal topic that one deals with under the heading of China’s nonproliferation behavior.

I’m not an expert on North Korea. I got involved in this in 1994 when I was Assistant Secretary of Defense and I spent about half the year working on planning for, first of all, the possibility of war on the Korean Peninsula, something we’ve done for 50 years, but also very specifically an attack plan on Yongbyon, which at that time would have been very successful in stopping had we conducted it, which we did not do.

The reason for considering a strike was that the reactor was operating and the fuel rods were in the reactor. We could have entombed those fuel rods in that plutonium. And made it a very difficult matter to extract them. We knew how to do that. I was confident we could do that without creating a radiological danger, which is always a problem if you’re attacking an operating nuclear reactor.

I’m a physicist. This is something that I worry about a lot. We did worry about it. We were confident we could do it, that it would succeed, and that there would not be a radiological disaster. That was my first association with the North Korea issue.

My second association with this issue was I served as William Perry’s deputy in the North Korea Policy Review that he conducted up until early 2000. Then there was, of course, the last year of the Clinton Administration’s activities in that area I was not a part of, but I then have followed the issue through this first Bush Administration. I’ve testified a number of times before the Senate Foreign Relations Committee, and since I didn’t prepare a written statement for you today, if you’d like, I’ll insert into your record the statements I’ve made before the Senate Foreign Relations Committee. Let me just say in brief where we are and what China’s roles are.

I don’t think I need to tell you the stakes here. The stakes are huge. Even if the nuclear weapons that North Korea has remain in their hands, they weaken deterrence, they may cause a domino effect of proliferation in East Asia, and they make a mockery of the nonproliferation regime if—how to say this is—as strange a place as North Korea goes nuclear and nobody does anything about it.

Of course we have to remember that the half-life of Plutonium 239 is 24,400 years, and I don’t know how long the North Korean regime is going to last, but it’s not going to last 24,400 years, and therefore you’ve got to worry about who gets it next.

We've experienced that problem already with the Soviet Union and its collapse. Through sale, through collapse, through diversion, through some sort of dry rot that may be going on in the bottom of a kleptocratic system, that could happen in North Korea as well. So for both those reasons, the issues both of if they retain them or don't retain them, this is as big as it gets in terms of security risks to us.

The President is committed to attempting a diplomatic resolution of this problem. Three years ago, I would have given better than even odds that that would succeed. I'm not so sure anymore. I don't know whether the North Koreans have crossed the Rubicon. I agree with the President; we need to give it a try. There's a debate in this town, particularly in the Administration, between those who want to give it a try and those who prefer a more coercive approach.

My advice to those conducting that debate is that one had better think of those two as a sequence than as a choice. You do coercion after you've attempted the diplomatic path and it's failed. And so those who are pessimistic or skeptical will get their turn, but it's a door one needs to go through.

In particular, one needs to go through it because in order to be effective on the coercive path, you need some level of cooperation of both China and South Korea, and you're not going to get that unless and until you have tried and failed on the diplomatic path. It's just a matter of effectiveness, and so I think we need to put this debate to rest and think of it as a sequence rather than a choice and get on with it.

That said, the Six-Party Talks are a failure so far, total, abject failure. I was in China a few weeks ago and talked with all the senior leadership there, and I think kind of took their breath away when I said you guys are congratulating yourselves on conducting the Six-Party Talks, but I observed the results and the results are terrible. How is that not failure? That's abject failure.

We all say, all the countries involved, that it's unacceptable for North Korea to go nuclear, but when North Korea goes nuclear, everybody accepts it. So figure that out.

There is plenty of blame to go around there. The government of the Republic of Korea, I was there last week, I would say is confused or at least confuses me about its approach to this problem. I already adverted to the fact that the U.S. Government has been divided and therefore essentially hasn't, in my judgment, had a coherent approach to this problem over the last three-and-a-half years, so there's plenty of blame to go around. I want to focus on the Chinese, if I may, in the remainder of my comments.

I think we've seen a reversion in the Chinese statements, public and private, in the last six months that is truly alarming to me. That is a reversion to a position of three years ago, the position that said this is an issue between the United States and North Korea, a position that says we only rent the room, you guys hold the talks, and a reversion to the position that China has no leverage in this matter. That's very alarming to me, and I think the Six-Party Talks cannot succeed with China in that posture, and I'll explain why.

The logic of the Six-Party Talks is that the Chinese are stakeholders, participants at the table, not conference-holders, who rent the room and let us and North Korea have at it. The logic of the Six-Party Talks is that by having more people participate, you have more diplomatic instruments at your disposal, more carrot and sticks, if you like, inducements and penalties.

The United States does not have rich inducements and penalties in this situation in my judgment. We have one very big stick that no one wants to use. We have to be prepared to use it, but no one wants to use it because if you haven't studied war on the Korean Peninsula, you should. It's not war in the Arabian Desert.

On the carrot side, I don't see this country giving the North Koreans much of anything. It just doesn't seem in the cards—anything tangible. The only thing that is on the table to give them, which is intangible, is the promise not to go after them, which I'm concerned can be immediately discounted as merely a promise once proffered.

So if you look at that and you say, well, what are our tools in this system, I don't think they're so good. The big stick is wielded by China. Interestingly, the big carrot is wielded by Japan. And the point of having them at the table is to bring their instruments to bear. Now, for their own reasons, each of those is disinclined to bring their tool to the table, but that's why they're there, and we need to remind the Chinese, in particular, who could strangle North Korea overnight, that nobody wants them to have to do that, and we understand why they don't want to—but if they're not willing to suggest that under any circumstances they're willing to apply pressure to North Korea, then why the heck are they there? That's the reason for their presence there.

It's an unavoidable logic of the situation, and no one wants to get in a situation where they have to do that. No one wants to get in a situation where they topple the North Korean government and refugees, people are dying and swarming over the border—I understand all that.

So I think we need to get the Chinese back into that situation and they're very far from that situation. It's key to making the Six-Party Talks succeed. Thank you.

Cochair WORTZEL. Thank you very much. Mr. Milhollin.

**STATEMENT OF GARY MILHOLLIN, DIRECTOR
WISCONSIN PROJECT ON NUCLEAR ARMS CONTROL
PROFESSOR EMERITUS, UNIVERSITY OF WISCONSIN LAW SCHOOL**

Mr. MILHOLLIN. Thank you. I did listen to the previous panel so I notice that you have discussed sanctions quite a bit today, which I'm planning to discuss, so I'll make a promise not to go too long.

I think I'll just try to make a couple of points about sanctions. The first is that the main reason, in my judgment, that sanctions aren't working is because we're sanctioning the wrong entities. We're sanctioning subsidiaries that don't do any business with the United States. We're not sanctioning parents. And as my colleague Matthew Godsey, who is here, and I wrote recently in *The New York Times*, I think that we should be realistic about who actually makes the decisions when proliferation happens.

Those decisions are made by parents, and so far our policy is not to include parents in sanctions. Now my judgment is that until we

do, our policy is never going to really be serious. An example is the case that I described in my testimony and which Mr. Godsey, which I also I described in a New York Times article, the case of Sinopec. I don't know whether the Commission includes publications such as our article in its record. If it does, I'd like to request that it be included.

Chairman D'AMATO. Yes, it will be included.

Mr. MILHOLLIN. Good. Briefly, the situation is that Sinopec is a big Chinese conglomerate. Two of its subsidiaries have been sanctioned a total of four times since 1997 for selling chemical equipment and technology to Iran.

It's also true that the Sinopec Group which, controls these subsidiaries, has never been sanctioned, never even been mentioned by sanctions findings, and has been doing quite well since the sanctions were imposed.

As my written statement points out, in 1997 when the sanctions were first imposed on a Sinopec subsidiary, Iran agreed to increase its oil exports to China by 40 percent. The next year, in 1998, Sinopec beat out bids by a lot of European companies for the renovation of oil refineries and the construction of an oil terminal.

In 2001, when the Sinopec subsidiaries were sanctioned again, Sinopec won the right to explore an Iranian oil field. Last year, Sinopec signed a \$70 billion natural gas contract with Iran. Now, are these things connected? I don't have any direct evidence that they're connected, but it just stands to reason that a government like the Iranian government would be grateful to a company that's helping it with its chemical weapon program.

It stands to reason that gratitude might translate into an economic advantage for the company that's providing the help. During the time when Sinopec's subsidiaries were under sanctions, it also managed to sell its stock on the New York Stock Exchange. It raised about \$3.5 billion doing that.

It also launched a number of joint ventures with big U.S. corporations in which it presumably received fair amount of American technology and assistance. But as my statement points out, the most astonishing benefit that Sinopec received while its subsidiaries were under sanctions was American foreign aid.

In 2002, while one of its subsidiaries was still under State Department sanctions, the U.S. Trade and Development Agency gave Sinopec a \$429,000 foreign aid grant to help it market its products better, to boost its marketing potential. Sinopec is, according to Fortune magazine, one of the 50 richest companies in the world. I think it comes in about 50th on the list of 500.

But still this very rich company managed to get foreign aid from Uncle Sam, which brings us to the root of the problem, and that's already been adverted to here today, and that is the weakness of our sanctions laws.

They don't reach parents. Unless in some cases, and this is only a few cases, one can prove that the parent knowingly assisted in the proliferation activities. That burden of proof is too high for our intelligence agencies to meet.

Other laws like the Iran Nonproliferation Act of 2000 don't mention parents at all. So we have a situation where parents aren't or cannot be sanctioned under our laws, and I think Sinopec was cor-

rect to conclude that it could continue to do business with Iran and continue to do business with the United States without suffering any harm.

We spoke of NORINCO today. NORINCO is a serial proliferator. NORINCO has a parent, the China North Industries Group Corporation. That parent has never been sanctioned. That parent owns eight other trading companies in addition to NORINCO, some of which export to the United States, and those other trading companies have lots of subsidiaries.

Now, if we're serious about this, why don't we sanction the group? That would mean that lots and lots of additional Chinese companies would fall under sanctions. But we don't. We've never sanctioned the parent.

So I think that this answers another one of the Commission's questions which is whether the Chinese government really controls its companies or can control its companies. In the case of Sinopec and NORINCO, these companies are entirely owned by the Chinese government. It owns all of these companies' stock and it directs their activities.

So obviously the Chinese government could stop these activities if it wanted to. The fact that it hasn't indicates to me that it doesn't want to. So, we come to the end of my statement, which is that I recommend that we begin to sanction parents if we want our sanctions to have anything more than simply a symbolic value.

We have to get serious, and we have to go after the companies that actually profit from the sales. The parents are getting the money, and the parents have the power to decide what the subsidiary does. So they should be reached by the sanctions.

Second, the penalties should be severe. The penalties now include a ban on sales to the U.S. Government. They ban the import by the offending company of controlled commodities, munitions items or dual use items, and they prohibit foreign aid.

The subsidiaries we're talking about that are getting sanctioned are immune to all these punishments. They don't do business with the United States. They don't sell things to the government. They don't import controlled commodities and except in some circumstances, they don't get foreign aid. I think if we changed our laws to effectively ban these companies, put them in the same category as the Iranians, just embargo them, no joint ventures, no tech transfers, no sales to the United States, no use of our capital markets, if we did that, we might get them to change their ways.

But if we don't, then I think we're just wasting our time.

[The statement follows:]

**Prepared Statement of Gary Milhollin
Director, Wisconsin Project on Nuclear Arms Control
Professor Emeritus, University of Wisconsin Law School**

I am pleased to appear today before the U.S.-China Commission. The Commission has asked me to comment on U.S. policy towards China, especially concerning the proliferation of weapons of mass destruction. The Commission has asked me to discuss the effectiveness of U.S. sanctions against Chinese entities, and Beijing's ability to police the exports of those entities.

As the Commission well knows, China's exports continue to be a serious proliferation threat. Since 1980, China has supplied billions of dollars' worth of nuclear weapon, chemical weapon, and missile technology to South Asia and the Middle East. It has done so in the face of U.S. protests, and despite repeated promises to

stop. The exports are still going on, and while they do, they make it impossible for the United States and its allies to halt the spread of mass destruction weapons.

China's official stance on proliferation has improved over the past few decades. China has ratified the Chemical Weapons Convention, the Biological and Toxic Weapons Convention, the Nuclear Nonproliferation Treaty, and is a member of the treaty's Zangger Committee. Last year, China was accepted into the Nuclear Suppliers Group, and is moving toward joining the Missile Technology Control Regime.

Nevertheless, the U.S. State Department continues to announce sanctions against Chinese companies for their dangerous exports, usually because the exports are found to be contributing to the spread of mass destruction weapons. Over the past four years, the State Department has sanctioned more than twenty Chinese organizations, some of them more than once. Given the fact that these sales continue, and that some of these Chinese organizations are "serial proliferators," it appears that our sanctions policy is not working very well. Or at least, it is not stopping these organizations from doing as they wish.

Today, I would like to discuss some of the reasons why I think that our sanctions policy must be improved. The reasons are, first, that parent companies are not punished for proliferating through their subsidiaries. This is a giant loophole, through which virtually any company can pass without touching the edges. The second reason is that the penalties imposed under U.S. sanctions laws are not strong enough to affect the profitability of the offending companies. Put simply, our sanctions do not have any real teeth.

To elaborate on the first reason, I'd like to draw the Commission's attention to an article that my colleague Matthew Godsey and I wrote recently for the New York Times. Perhaps this article could be included in the record of this hearing. In the article, Mr. Godsey and I drew attention to the Sinopec Group, a large oil, gas, and chemical conglomerate owned by the Chinese government. The Commission has voiced its concern over this company in the past, both for its failure to disclose its operations in Sudan, and for its oil and natural gas projects in Iran.

Among Sinopec's many subsidiaries are two that have been sanctioned a total of four times since 1997 for selling chemical weapons equipment and technology to Iran. These companies, Nanjing Chemical Industries Group and Jiangsu Yongli Chemical Engineering and Technology Import/Export Corporation, are fully-owned subsidiaries of the Sinopec Group, which holds decisionmaking authority over them. However, the Sinopec Group has never been sanctioned or even mentioned in sanctions announcements.

In fact, Sinopec has been doing quite well while its subsidiaries have been under sanctions. Many of its most dramatic successes have been in Iran. In 1997, the same year that Nanjing Chemical and Jiangsu Yongli were first sanctioned, China and Iran signed an agreement whereby Iran promised to increase its oil exports to China by 40% by the year 2000. In October 1998, Sinopec beat out competing bids from a host of European companies for the renovation of oil refineries in Tehran and Tabriz and the construction of an oil terminal port near Neka on the Caspian Sea. In 2001, Jiangsu Yongli was sanctioned again, while Sinopec won the right to explore Iran's Zavareh-Kashan oilfield. And last year, Sinopec signed a \$70 billion natural gas deal with Iran.

I am not aware of any direct evidence connecting Sinopec's oil deals to the unsavory sales of its subsidiaries. However, it is not hard to imagine that Iran might be grateful for help with its chemical weapon effort—help it would have a hard time getting from Sinopec's competitors—and that such help could result in a competitive advantage for Sinopec.

Sinopec has also benefited from joint ventures with American companies and access to the U.S. economy and capital markets. In 2000, 15 percent of the company was sold on the New York stock exchange, raising about \$3.5 billion. Major U.S. companies such as Exxon Mobil, Dow Chemicals, Conoco-Phillips, Anderson Consulting, Halliburton and others have cooperated with Sinopec on a variety of projects.

Perhaps the most astonishing benefit conferred upon Sinopec has been by the United States Government. In 2002, while its subsidiary Jiangsu Yongli was under its third set of sanctions, the U.S. Trade and Development Agency came up with a \$429,000 grant to help another Sinopec subsidiary, Sinopec International Corp., establish an "e-procurement system." This latter subsidiary, which did \$10.8 billion in trade that year, is Sinopec's import-export body. Sinopec itself has been listed as one of the world's 100 richest companies by Fortune magazine. Even if its subsidiaries had not been involved in nefarious dealings, it is hard to explain why U.S. taxpayer dollars should be used to help this rich company get richer.

The root of this problem lies in the weakness of our sanctions laws. The few laws that include a provision for sanctioning parent companies, like the Arms Export

Control Act, stipulate that the parent must have “knowingly assisted in the activities which were the basis” of the sanctions. That burden of proof is simply too high for our intelligence agencies to meet. Other laws, like the Iran Nonproliferation Act of 2000, make no mention of parent companies. And to make matters worse, insufficient information is given when sanctions notices are posted. The notice names the offending company, but does not name its subsidiaries, although the sanctions notice clearly says that the subsidiaries are sanctioned as well. Investors, exporters, and potential partners in joint ventures should be told whom they are dealing with.

Sanctioning parent companies in China is particularly important because of the structure of most large Chinese corporations. These companies are usually composed of an over-arching “group company” which oversees dozens of manufacturing, research, and import-export subsidiaries, one or more of which may be publicly listed on a Chinese or foreign stock exchange. When one of these subsidiaries is sanctioned (usually an import-export firm), the group company and the rest of its offshoots are untouched. Before the sanctions, the management of the group company may or may not have been involved in or aware of what its subsidiary was doing. It is possible, for example, that Sinopec was unaware in 1997 that its subsidiaries were building a factory in Iran for making glass-lined equipment. But after the sanctions were announced, and after Jiangsu Yongli and Nanjing Chemical wrote a letter angrily denying the charges, Sinopec must have known what was going on. Yet, it appears to have done nothing in response.

As subsequent events have shown, Sinopec was correct to conclude that it had no reason to be concerned. It could keep doing business with the United States through its other import/export branches, and keep proliferating through its subsidiaries, without suffering any harm itself. This is the pattern that we see today with many of China’s serial proliferators.

The most notorious of China’s serial proliferators is probably Norinco (China North Industries Corporation), a state-owned company that was sanctioned three times last year alone. Although Norinco may have actually lost some money due to sanctions, Norinco officials must have decided years ago that the profits they would receive from continuing to sell missile and other technology to Iran would more than compensate for any American business they lost due to sanctions. This decision seems to be paying off. In addition to weapons sales, Norinco has just won a recent \$836 million deal to expand the Tehran subway.

While the United States has sanctioned Norinco repeatedly, its parent company, China North Industries Group Corporation (CNGC) has never been touched. CNGC owns eight other trading companies in addition to Norinco, some of which export to the United States. Sanctioning the parent would reach all of these firms, as well as many other research and manufacturing subsidiaries (there are more than 120 of these, according to company literature). If we want to change Norinco’s behavior, we should try reaching its parent.

From what I have said here, it is fairly clear what the answer is to the Commission’s question about China’s ability to police its companies. Sinopec and Norinco are both owned by the Chinese government. The government could police them if it wanted to. The fact that these companies are still proliferating after numerous sanctions citations tells us that the government doesn’t want to.

A second reason why sanctions aren’t working is that the penalties are too weak. The punishment meted out to an offending company is usually limited to barring it from selling goods to the U.S. Government, barring it from importing controlled American commodities (munitions and dual-use items), or receiving American foreign aid. This has virtually no effect, because sanctioned Chinese companies (which are always subsidiaries) do little or no business with the United States. Occasionally, the sanctions ban the importation into the United States of goods produced by the company, but this is more the exception than the rule.

We need to ask ourselves a simple question: What do we want sanctions to do? Do we want them to be anything more than symbolic? If so, we have to be prepared to restrict access to our economy in order to increase our security. China itself is good at this. It is deftly offering access to its civilian market as a lever to pry the Europeans loose from the present arms embargo. But we stubbornly refuse to use the American economy in this way, despite the fact that it is the most powerful tool we have to fight proliferation. Our sanctions laws have been written painstakingly to ensure that American companies never lose a dollar because of them. As a result, they are harmless to Chinese companies as well.

This is a great mistake, because the big Chinese conglomerates are rapidly becoming more vulnerable to economic pressure. Due to changes in the Chinese government and the Chinese economy, even state-owned firms in China are now motivated by profit. Like their peers elsewhere, companies that lose money face forcible restructuring, or are assigned new management. Thus, one can get the attention of

these firms by threatening their profitability. Unfortunately, our current sanctions system is incapable of doing that.

We need to amend our sanctions laws so they have some bite. The United States should sanction parent companies along with their subsidiaries, whether or not one can prove they "knowingly assisted" in the proliferation. The parent profits from the sale and is in a position to stop it. That is enough.

The penalties should also be severe. They should include a ban on imports to and exports from the United States, and should prohibit joint ventures or other forms of cooperation with American firms. They should also bar access to American capital markets. Such laws would provide a powerful financial incentive for companies like Sinopec to change their ways.

Cochair WORTZEL. Thank you very much. Dr. Pinkston.

**STATEMENT OF DANIEL A. PINKSTON, PH.D.
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Mr. PINKSTON. Thank you, Mr. Chairman, and I'd like to thank the Commission for inviting me today and as a citizen I'd like to thank you for the important work that you're doing. I've prepared a written statement that I submitted last week, and I'll make some brief comments drawn from that statement.

Overall, I'd like to say there's good news and bad news, and I'll come with the good news first. I think the record shows over the past ten years, and it's been mentioned earlier today, that China's joined a number of multilateral arms control and export control arrangements and regimes. That's the good news. There are weaknesses in some of these arrangements that are ruled by consensus and through international norms.

Over time, I've seen a lot of improvement with China's non-proliferation and export control activities. We've seen more of a convergence on some of these nonproliferation norms over time. They're not absolutely 100 percent congruent with the U.S. view, but I think through an engagement policy we should continue to work with the hope that those interests will converge across those norms.

In relation to that, China has implemented and constructed an export control system. That's also good news. However, there are a number of weaknesses in the Chinese system. As China's economy has grown, it has become increasingly more difficult to monitor all the types of transactions. It's a large country. However, we have seen improvement over time despite the fact that there are still some problems with capacity and implementation.

We can do some things with the Chinese to help them improve their system, possibly provide training for customs officials and so forth, and interact and engage with private industry.

Many Chinese are unaware of export controls and this is a new thing for most of them. A problem on implementation also lies in the microeconomic incentives that some of these firms face. I'd like to add to what Mr. Milhollin just said regarding the firms. As we've seen with China's reforms recently, particularly since about 1998, there were some changes in state-owned enterprises and these major firms that produce arms, and in some of these so-called serial proliferators.

In the past, these state-owned enterprises were subsidized, but with the reduction or elimination of state subsidies, this created an incentive for them to look to expand their markets, expand their sales. So on the one hand, they face this incentive when they're facing hard budget constraints so they are driven to increase their sales revenue.

On the other hand, there's a conflict of interest because the management of these firms is appointed by the State Council, and we have to look at their principals. They have the power to appoint the management. The managers of these firms have a high rank, a rank similar to or equivalent to a vice minister or a cabinet minister. So certainly, their ties with the State Council and the senior Chinese leadership is clear.

The State Council has the authority to punish or to penalize the management of these firms. So I would go one step further beyond just sanctioning the parents. We have to sanction or look at the principals. In this case, it would be the State Councils, or senior Chinese leadership. So, on the one hand, they have made non-proliferation commitments but in some cases they may have reneged on those commitments and we have to take appropriate action.

A couple of other issues. I'm surprised there was no mention of the Proliferation Security Initiative today, which I think is an important initiative, and the Chinese are very sensitive to this. I think it's very important in how we approach this initiative in relation with the Chinese.

In principle, they are not opposed to many of the objectives of the PSI. That is to interdict or to stop the shipment or delivery of dangerous materials. However, how we manage that in the region could be a problem. Sharing information with the Chinese and establishing a positive type of relationship, if possible, could make cooperation in this area possible in the future.

The last thing I'd like to mention is China's role in persuading North Korea to abandon its nuclear ambitions, and this is a problem I think about all the time, everyday in fact. A lot of smart people have been thinking about this, and if it were an easy problem, we'd have found a solution by now.

However, I think there are three roles or parts to this where the Chinese can play a role, and the first is dissuading North Korea, and that requires strict adherence to export controls and non-proliferation norms. We need that type of cooperation to stop North Korea from acquiring dangerous components or materials. There are problems with transshipment, which is a serious problem or the establishment of front companies by North Korean businessmen or entities in China.

You can't underestimate these people who are trying to acquire WMD-related materials and technology. They're very savvy. Some of these people in the Koreans People's Army working on these weapons programs hold high rank in the Korean Workers Party, and they are operating these North Korean enterprises abroad, and they are very deft in adapting to the international economy and the rules of the economy. So that's where we need Chinese cooperation.

As I view this nuclear issue, if we are to have a diplomatic solution, there are two parts to this. The first is applying a lot more

pressure than we are now, and we need to apply a lot more pressure and we need Chinese and South Korean cooperation on this issue, as Dr. Carter said earlier.

I think there are a lot of lessons to be learned from the South Korean nuclear program and how we persuaded them to abandon their program in the 1970s. The security dilemma is similar in many ways on both parts of the peninsula, and we exerted a lot of pressure against South Korea at that time. We have to do the same in the case of North Korea, but we don't have a lot of leverage and China's role is critical.

Next, a second necessary condition is the provision of security assurances. That was mentioned earlier. I think the U.S. is the only state that can really provide the type of security assurances if indeed North Korea is willing to abandon its nuclear weapons, and I think we underestimate the role of the U.S. on that dimension.

So to save time, I'll leave it there, Mr. Chairman.

[The statement follows:]

**Prepared Statement¹ of Daniel A. Pinkston, Ph.D.
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Thank you for the opportunity to testify before the Commission on these important issues. The U.S.-China bilateral relationship is critical for U.S. interests in much of the world. There are a number of indicators that can help us determine whether China is a status quo power or a revisionist state seeking to challenge the United States in the future. Among these indicators are China's nonproliferation and export control policies, which have the potential to help alleviate or to exacerbate security dynamics in several regions.

This written statement will review the evolution of China's arms control and nonproliferation policy since the 1990s, examine China's export control system, evaluate the motivations and micro-incentives for some Chinese proliferators, and conclude with an assessment of China's role in persuading North Korea to abandon its nuclear ambitions.

Evolution of Chinese Arms Control and Nonproliferation Policy Since the Early 1990s

Chinese arms control and nonproliferation policy underwent the most significant changes in the 1990s.² These include Beijing's accession to major international arms control and nonproliferation treaties and the introduction of domestic regulations governing exports of nuclear, chemical and dual-use materials and technologies. These developments were prompted by Beijing's growing recognition of proliferation threats; an acute concern over its international image; its assessment of how progress in nonproliferation could promote better U.S.-China bilateral relations; and by U.S. nonproliferation initiatives aimed at influencing Chinese behavior.³

An important indicator of China's acceptance of international nonproliferation norms can be found in its participation in major international treaties and conventions. Since the early 1990s, China has acceded to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) in 1992, signed (1993) and ratified (1997) the CWC, and signed the Comprehensive Test Ban Treaty (1996). Beijing has on various occasions enunciated in clear terms the three principles governing its nuclear exports: (1) IAEA safeguards; (2) peaceful use; and (3) no re-transfers to a third country

¹This statement was prepared by the East Asia Nonproliferation Program at the Center for Nonproliferation Studies.

²Wendy Frieman, *China, Arms Control, and Nonproliferation* (London and New York: Routledge, 2004); Evan S. Medeiros, "Integrating a Rising Power into Global Non-Proliferation Regimes: U.S.-China Negotiations and Interactions on Non-Proliferation, 1980-2001," Unpublished dissertation. Department of International Relations, London School of Economics and Political Science, 2000; Jing-dong Yuan, "China's Pragmatic Approach to Nonproliferation Policy in the Post-Cold War Era," In Suisheng Zhao, ed., *Chinese Foreign Policy: Pragmatism and Strategic Behavior* (Armonk, NY: M.E. Sharpe, Inc., 2003), pp. 151-176.

³Bates Gill and Evan S. Medeiros, "Foreign and Domestic Influences on China's Arms Control and Nonproliferation Policies," *The China Quarterly* 161 (March 2000), pp. 66-94.

without China's prior consent. In May 1996, the Chinese government further pledged not to provide assistance to un-safeguarded nuclear facilities. In October 1997, China formally joined the Zangger Committee. In May 2004, China joined the Nuclear Suppliers Group (NSG). Beijing is engaged in consultation with the other multilateral export control regimes—the Missile Technology Control Regime (MTCR), the Australia Group (AG), and the Wassenaar Arrangement (WA).⁴

Beijing has also reached a number of bilateral agreements and understandings with the United States pledging adherence to the original 1987 MTCR guidelines, including a commitment not to export missiles “inherently capable of reaching a range of at least 300 km with a payload of at least 500 kg.”⁵ In addition, China has promised that it would not assist states in developing “ballistic missiles that can be used to deliver nuclear weapons” and that it would issue “at an early date” a “comprehensive” list of missile-related and dual-use items that would require government licenses for export.⁶ In November 2000, the Chinese Foreign Ministry issued a policy statement on missile nonproliferation whereby Beijing promised to issue export control laws covering missile technologies and that the new laws would include such regulations as license application and review, end-user certifications, and a “catch-all” clause.⁷

Beijing thus has become more active and participatory in multilateral arms control and nonproliferation forums, ranging from the Conference on Disarmament (CD) to the U.N. First Committee (Disarmament and International Security) and the International Atomic Energy Agency. From the late 1990s to 2002, Chinese officials launched intense diplomatic offensives at various international forums to warn against the adverse consequences for global arms control and nonproliferation efforts should U.S. missile defense plans be implemented, and to emphasize the importance of preventing an arms race in outer space. At the United Nations, China, in collaboration with Russia and other countries opposing U.S. missile defense, pushed through a non-binding resolution on sustaining the 1972 Anti-Ballistic Missile Treaty and preventing weaponization in outer space. At the Conference on Disarmament, Beijing has been active in pushing for the negotiation of an international treaty to ban weaponization in outer space.

China's Export Control System

Beginning with the May 1994 Foreign Trade Law, the Chinese government has issued a series of regulations, decrees, and circulars that, taken together, constitute a nascent export control system.⁸ In April 1997, a new Department of Arms Control and Disarmament was established within the Ministry of Foreign Affairs (MFA). There has been increasing coordination among MFA, MOFCOM/MOFTEC (Ministry of Commerce/Ministry of Foreign Trade and Economic Cooperation), COSTIND/CAEA (Commission on Science and Technology, and Industry for National Defense/China Atomic Energy Agency), and the PLA's General Armament Department officials in implementing export control regulations.⁹ Non-governmental research and outreach organizations have also emerged as China's participation in global, multilateral, and regional arms control has increased.¹⁰

However, China's nonproliferation and export policies continue to be affected by political and economic factors that slow progress in establishing a strong, viable system. Recently, Beijing has begun to clarify the lines of authority, and create a stronger legal basis for its nonproliferation and export control policies. Chinese leaders are paying more attention to export controls as indicated by the State Council's

⁴Paul Kerr and Wade Boese, “China Seeks to Join Nuclear, Missile Control Groups,” *Arms Control Today*, Vol. 34, No. 2, March 2004, pp. 37, 39.

⁵“Joint United States-People's Republic of China Statement on Missile Proliferation,” October 4, 1994.

⁶Associated Press, “China Pledges It Will Not Aid Foreign Missile Development,” November 21, 2000.

⁷*ibid.*

⁸Richard T. Cupitt, “Nonproliferation Export Controls in the People's Republic of China,” in Michael D. Beck, Richard T. Cupitt, Seema Gahlaut, and Scott A. Jones, *To Supply or To Deny: Comparing Nonproliferation Export Controls in Five Key Countries* (The Hague: Kluwer Law International, 2003), pp. 117–142; Jennifer C. Bulkeley, “Making the System Work: Challenges for China's Export Control System,” *The Nonproliferation Review*, Vol. 11, No. 1, Spring 2004, pp. 145–169; Jing-dong Yuan, Phillip C. Saunders, and Stephanie Lieggi, “New Developments in China's Export Controls: New Regulations and New Challenges,” *The Nonproliferation Review*, Vol. 9, No. 3, Fall-Winter 2002, pp. 153–167.

⁹Gill and Evans, “Foreign and Domestic Influences”; Stephanie Lieggi's private correspondence with Chinese arms control officials, 2004.

¹⁰The China Arms Control and Disarmament Association (CACDA), established in 2001, has become a lead organization (although with strong government endorsement and partial funding) that coordinates China's emerging NGO arms control research programs.

White Paper on Nonproliferation published in December 2003. This publication highlighted the challenges facing China's export control system and showed that Beijing has become more serious about the issue.¹¹

Beijing's promulgation of new export control laws, beginning in the late 1990s, set a legal basis for strengthening China's export controls. Prior to these regulations, China's export control system was nebulous, and the true source of authority was difficult to assess.¹² The PLA and the defense industry held very powerful positions over export policy for sensitive items. Over the last few years, that predominance has weakened, and strictly civilian agencies, particularly the Ministry of Commerce, have become the key actors in export decisions, especially for dual-use items.

State Council and Central Military Commission

The State Council, China's cabinet, sets the overarching policy for the export control system. For larger military items or items that may affect national security, the Central Military Commission (CMC), along with the State Council, plays a leading role in the application process. The State Council and the CMC are also involved with the review process for the export of MTCR category 1 items, but these transactions are very rare. (China last transferred a category 1 system in the early 1990s.)¹³ In general, the State Council does not play a role in routine applications, but will intercede when there is a disagreement among agencies. Many analysts monitoring China's export control system have pointed out the prominence of State Council and Politburo member Wu Yi, who is rumored to have the portfolio of export controls and has played an important role in promoting the issue at the highest level of China's government and party apparatus.¹⁴

Ministry of Commerce

The Ministry of Commerce (MOFCOM) has the primary responsibility for implementing China's dual-use export controls. Since the mid-1990s, China's trade in large weapons systems, such as missiles, has ceased, but dual-use trade has increased, especially in the chemical and aerospace industries. Since that period, the U.S. Government has been concerned about the impact of this trade on the development of WMD programs in the Middle East and South Asia. U.S. sanctions on Chinese entities during the last few years have been aimed solely at the transfer of dual-use items. MOFCOM's role, from a nonproliferation perspective, is therefore vital. According to China's Foreign Trade Law, MOFCOM is tasked with issuing export permits for all exporting firms. MOFCOM's Department of Science and Technology (DST) grants export licenses on a case-by-case basis. On most dual-use items, DST receives the export application from the exporting entity. DST decides whether to grant an application, often after consultations with other relevant agencies and experts.

The Ministry of Commerce is increasingly involved with industry outreach and training. The MOFCOM website publishes China's export control regulations and control lists. In January 2004, MOFCOM's website posted the complete "Export Permit Management Catalog for Sensitive Materials and Technologies," which has specific details about items controlled by Chinese regulations. The Ministry has increased its focus on educating industrialists and export control officials. The Ministry, particularly DST, is cooperating with foreign export control authorities, including the U.S. Department of Commerce, to improve China's capacity to implement a viable export control system.

Commission of Science, Technology and Industry for National Defense

The Commission of Science, Technology and Industry for National Defense (COSTIND) is a commission whose head is nominated by the Premier and approved by the National People's Congress. COSTIND was reformed and placed under civilian control following reforms announced in March 1998, but ties to the defense industry are still evident. While still a player in missile and nuclear related exports, much of COSTIND's earlier licensing duties have been shifted to MOFCOM. According to the 2003 White Paper on Nonproliferation:

¹¹ Kathleen Walsh, "China White Paper Reflects Evolving PRC Views on Nonproliferation: Bodes Well for Future Progress," *NIS Export Control Observer*, February 2004, p. 17, <http://cns.miis.edu/pubs/nisexcon/pdfs/ob_0402e.pdf>.

¹² For an extensive analysis of China's arms exports prior to 2000, see Bates Gill and Evan Medeiros, *Chinese Arms Exports: Policy, Players and Process*, Monograph, Strategic Studies Institute, August 2000.

¹³ Stephanie C. Lieggi, "Overview of China's Export Control System," *Asian Export Control Observer*, June 2004, pg. 16, <http://cns.miis.edu/pubs/observer/asian/pdfs/aeco_0406.pdf>.

¹⁴ Jennifer C. Bulkeley, "Making the System Work: Challenges for China's Export Control System," *The Nonproliferation Review*, Vol. 11, No. 1, Spring 2004, p. 162.

China's nuclear export comes under the control of [COSTIND], jointly with other relevant government departments. Arms export, including the export of missiles, and facilities and key equipment used directly for the production of missiles, is under the control of COSTIND and the relevant department under the Ministry of National Defense, jointly with other government departments concerned.

Decisionmaking regarding nuclear exports falls under the China Atomic Energy Agency (CAEA), which is bureaucratically under COSTIND. According to information provided by MOFCOM and CAEA, items on China's nuclear export control list go first to CAEA for approval and then to MOFCOM for processing. These include all Nuclear Suppliers Group controlled items.

National Development and Reform Commission and the Chemical Weapons Convention Implementation Office

China has a large and dispersed chemical industry, with many small-scale facilities spread throughout the country, which makes regulating chemical exports one of the biggest challenges for the export control system. The licensing responsibilities for chemical exports are split between the MOFCOM and the Chemical Weapons Convention Implementation Office (CWCIO) under the National Development and Reform Commission (NDRC). The CWCIO is responsible for controlling all CWC scheduled chemicals, as well as ten items from the Australia Group list. The Ministry of Commerce controls all other dual-use chemicals, including the remaining AG-controlled items. The CWCIO is made up of chemical experts, and is often asked to advise MOFCOM regarding the transfer of dual-use items.

Ministry of Foreign Affairs

China's Ministry of Foreign Affairs (MFA) has played an increasingly important role in the export control process in the last few years. As China's nonproliferation policy has evolved, the influence of arms control officials within the Ministry has increased. The MFA now has a stronger veto power for transfers that would damage China's image internationally, affect China's relations with other nations (particularly the United States), or go against nonproliferation commitments. Within the Ministry, the Department of Arms Control and Disarmament (DACD) coordinates China's nonproliferation activities and advises export control officials. The MFA has been particularly concerned about avoiding U.S. sanctions, and has reportedly stopped transfers from occurring where no Chinese law would have been broken but where U.S. sanctions may have occurred. Officials from DACD have consequently complained both privately and publicly that U.S. sanctions have made their jobs more difficult, especially when the U.S. Government does not, in their opinion, provide adequate information for domestic investigations.¹⁵

General Administration of Customs

The General Administration of Customs (GAC) is the executing body for China's export control system. GAC has until recently seen collection of trade duties and tariffs as being its primary purpose. Nonproliferation and export controls are only now becoming a focus of China's custom officials, but they have a limited ability to investigate illegal transfers. As of December 2004, inter-governmental discussions were apparently underway regarding the creation of a police force that would be officially under the Public Security Bureau, but only for enforcing custom laws and investigating violations.¹⁶ The lack of capacity in China's custom agencies and the lack of control from the center have hampered Beijing's ability to stop questionable transfers.¹⁷ In January 2004, Customs and the Ministry of Commerce established an online administration system for sensitive items and technologies that allows the two agencies to exchange information quickly, thus increasing the likelihood of stopping suspect shipments.¹⁸

Changing Role of the Military and Defense Industry

China's military and its defense industry have historically held considerable power. Companies with strong military connections had little problem exporting items, no matter the nonproliferation implications. These companies make up the vast majority of entities that have been sanctioned by the U.S. Government in the last ten years. The influence of the People's Liberation Army (PLA) and the defense

¹⁵ Lora Saalman, Rapporteur, "Report of the Fifth U.S.-China Conference on Arms Control, Disarmament and Nonproliferation," <<http://cns.miis.edu/cns/projects/eamp/research/uschina5/5thconf.pdf>>.

¹⁶ Discussion between Stephanie Lieggi and Chinese export control official, December 2004.

¹⁷ Lieggi, p. 16.

¹⁸ Saalman, p. 28.

industry continues to slow the process of reform within the Chinese export control system. While political elites appear to be taking the issue of export controls more seriously, the PLA continues to have sufficient political clout to hamper progress.

Despite challenges, the control and oversight of China's export control system has been shifting from the military to civilians. This evolution has contributed to the strengthening of Beijing's domestic regulations and positive changes in policy-making. While the military's influence is still considerable, civilian agencies such as MOFCOM and MFA are playing the lead role in setting national export control policy. China's defense industry is now only a small part of the economy, one that is heavily based on international trade. More domestic actors want to avoid conflict with major trading partners, and China's leadership values its overall trade relations more than the small number of exports that bring U.S. sanctions.

Despite improvements in China's domestic export control regulations and increased participation in global nonproliferation regimes, the U.S. Government continues to sanction Chinese entities for proliferation activities. During the eight years of the Clinton Administration, Chinese entities were subject to sanctions 17 times. In just over four years since the Bush Administration came into office, Chinese entities have been sanctioned a total of 50 times. In 2004 alone, 14 Chinese entities were sanctioned a total of 23 times. While certainly demonstrating the Bush Administration's escalating reliance on sanctions to bring about further change in China's nonproliferation behavior, these rapidly increasing numbers are due in large part to changes in U.S. law, particularly the enactment of the Iran Nonproliferation Act of 2000. The Act authorizes the President to sanction entities making a material contribution to the development of WMD or missile systems in Iran.¹⁹ Thirty-eight of the 50 sanctions levied against Chinese entities by the Bush Administration have been for violations of the Iran Nonproliferation Act.

China's arms manufacturers are state-owned enterprises whose top management is appointed by the State Council. The directors of the major arms firms have the equivalent rank of minister or vice minister and often have close personal ties to the PLA. Over the last decade or two, the Chinese government has introduced microeconomic reforms to increase efficiency for its arms producers, most notably by reducing or eliminating state subsidies. However, hard budget constraints create an incentive to seek export markets in order to decrease costs in an industry characterized by large economies of scale. This generates a conflict of interest for the Chinese government and its defense industry—economic reforms and export control commitments create very different incentives for Chinese institutions that ultimately control the behavior of defense industry enterprises. The resolution of this conflict is opaque and has to be investigated on a case-by-case basis.

Five companies—China Great Wall Industry Corporation, China Precision Machinery Import/Export Corporation, China North Industries Corporation (NORINCO), Wha Cheong Tai Company, Ltd., and Zibo Chemical Equipment Plant—and one Chinese national, Q.C. Chen, have all been sanctioned at least four times by the United States and are often referred to as “serial proliferators” by U.S. officials.²⁰ For some entities, such as the China Great Wall Industry Corporation and China Precision Machinery Import/Export Corporation, the sanctions have been spread out over more than a decade. But for NORINCO and Zibo Chemical Equipment Plant, the sanctions have all occurred since 2003 and 2002, respectively.

The China Great Wall Industry Corporation (CGWIC) is the sole commercial organization authorized by the Chinese government to provide commercial satellite launch services and space technology to international clients. Therefore, CGWIC is one of the main foreign trade arms of the China Aerospace Science and Technology Corporation (CASC), of which CGWIC is now, after reorganization in December 2004, a wholly owned subsidiary.²¹

In 1993, China Great Wall Industry Corporation established the Great Wall Aerospace Group with 32 other entities, such as China Precision Machinery Import/Export Corporation. The Group is organized with CGWIC at its center and 100 other member enterprises situated in 20 provinces within China and in Europe, North America, and Southeast Asia. It is also a member of the New Era (Xinshidai) Group,

¹⁹“U.S. Missile Sanctions,” Arms Control Association Fact Sheet, March 2002, <<http://www.armscontrol.org/factsheets/missanc.asp>>.

²⁰John Bolton, “Coordinating Allied Approaches to China,” Remarks at co-sponsored event by Tokyo American Center and the Japan Institute for International Affairs, Tokyo, Japan, February 7, 2005, <<http://www.state.gov/t/us/rm/41938.htm>>.

²¹Official company website of the China Great Wall Industry Corporation, “About CGWIC,” <<http://www.cgwic.com/about/index.html>>.

which was sanctioned by the U.S. in September 2004 for missile technology proliferation.²²

CGWIC imports and exports missile technology, space technology and equipment, space launch services, precision machinery, electronics, instruments, and meters. Since the introduction of its Long March launch vehicles in 1985, CGWIC has launched 27 foreign satellites and completed five piggyback payload missions.²³ Recently, CGWIC reached an agreement with the government of Nigeria to build and launch a communication satellite for the West African country in 2006.²⁴

In total, CGWIC has been sanctioned four times by the United States, including twice in 2004 for violating the Iran Nonproliferation Act. Most recently, on December 27, 2004, CGWIC was sanctioned for alleged transfers to Iran between 1999 and mid-2004, and though the items in question were not made public, it was reported that they involved high-performance metals and components that could aid the ability of Iran to extend the range of its missile systems.²⁵

Like CGWIC, China Precision Machinery Import/Export Corporation (CPMIEC) operates under the China Aerospace Science and Technology Corporation (CASC), and is also a member of the New Era (Xinshidai) Group, which manages its import and export activities.²⁶ Those activities include the import and export of high technology equipment, defensive weapon systems, space equipment, satellite technologies and products, precision machinery, optical instruments, and electronic products. CPMIEC is involved in missile and missile technology production, imports and exports, and is the prime contractor and marketer for China's M-series of missiles, which includes the M-9/DF-15 and the M-11/DF-11.

According to a classified March 2000 National Security Agency (NSA) report, CPMIEC had been selling missile technology to Libya since March 1999. In 1991 and 1993, CPMIEC was sanctioned for its involvement in missile-related transfers to Pakistan.²⁷ In November 2004, CPMIEC unveiled its new generation, radar-guided C-701 anti-ship missile (ASM) for export. The missile closely corresponds to the Iranian Kosar ASM, though the company has publicly denied any link.²⁸

Though CPMIEC and NORINCO have each been sanctioned six times, the most among Chinese entities, NORINCO has accomplished this feat in just over a year and a half, dating from when it was first sanctioned in May 2003. NORINCO was founded in 1980 as the successor organization to China's Fifth Ministry of Machine Building, which administered the production of armored vehicles, munitions, small arms, and artillery. In 1988, NORINCO was reorganized and the China Ordnance Industry Corporation (COIC) was established during a defense industrial system restructuring that sought to "corporatize" China's five defense industries in an effort to make them more efficient.²⁹ After the ninth meeting of the National People's Congress in 1998, COIC (along with the majority of China's defense industry) was further reorganized in 1998 and 1999, and divided into two entities—the China Ordnance Industry Group Company and the China Ordnance Equipment Industry Group Company. However, NORINCO has remained as one of the main export arms of the two new companies.³⁰

The NORINCO Group is one of China's ten defense industrial enterprises that report to the State Council, and though it does not have any formal ties to the People's Liberation Army, it is an important military supplier. NORINCO develops, produces and markets various military equipment, systems, and components, including fire control systems, sighting and aiming systems, and NBC protection equipment.

²²"China Great Wall Industry Corporation," *China Profiles*, <<http://www.nti.org/db/china/cgwic.htm>>.

²³Official company website of China Great Wall Industry Corporation, "About CGWIC," <<http://www.cgwic.com/about/index.html>>.

²⁴"Nigeria to Launch Communication Satellite in 2006: Minister," Agence France Press, February 9, 2005, Lexis-Nexis.

²⁵U.S. Arms Control/Nonproliferation Sanctions Against China and/or Chinese Entities," <<http://www.nti.org/db/china/sanclist.htm>>.

²⁶"China Precision Machinery Import/Export Corporation," *China Profiles*, <<http://www.nti.org/db/china/cpmiec.htm>>.

²⁷Shirley Kan, "China's Proliferation of Weapons of Mass Destruction and Missiles: Current Policy Issues," CRS Issue Brief for Congress, July 2002, <<http://fpc.state.gov/documents/organization/11883.pdf>>; Bill Gertz, "Beijing Delivered Missile Technology to Libya, U.S. Says," *Washington Times*, April 13, 2000, p. A1, in Lexis-Nexis.

²⁸Douglas Barrie, "Guided Development; Beijing Reveals Domestic, Export-oriented Programs in Air- and Surface-launched Guided Weapons Arena," *Aviation Week and Space Technology*, November 8, 2004, in Lexis-Nexis.

²⁹R. Bates Gill and Evan S. Medeiros, "Chinese Arms Exports: Policy, Players and Process," Strategic Studies Institute, August 2000.

³⁰"China North Industries Group (NORINCO)," *China Profiles*, <<http://www.nti.org/db/china/norinco.htm>>.

The NORINCO Group posted a \$7.5 billion profit in 2004, an increase of 25 percent over 2003, with reported current assets of \$12 billion.³¹

The U.S. Government first imposed sanctions against NORINCO in May 2003 under Executive Orders 12938 and 13094, which allowed for the use of lower standards for triggering sanctions, provided for stricter penalties, and granted the Bush Administration more flexibility in determining the length of the sanctions. NORINCO reportedly was involved in a series of dual-use material transfers (possibly including maraging steel) that could aid Iran's ballistic missile program.³² The sanctions were expected to have a significant impact on NORINCO because, at the time, the firm was doing \$100 million a year in trade with the United States. Nevertheless, NORINCO's profits increased considerably in 2004 despite the U.S. embargo on its goods.

NORINCO was also sanctioned three times in 2004, all for violations of the Iran Nonproliferation Act of 2000. Most recently, in December 2004, NORINCO was sanctioned for transferring high-performance metals and components that could aid Iranian efforts to increase the range of its ballistic missiles.

The China Great Wall Industry Corporation, China Precision Machinery Import/Export Corporation, and NORINCO are all subordinate to a larger conglomerate, the New Era Group, or Xinshidai. The Beijing-based New Era Group is one of China's two primary organizations involved in the arms trade, and is jointly administered by the General Staff Department of the PLA and the Commission of Science, Technology, and Industry for National Defense (COSTIND). This type of relationship exemplifies the possibility of conflicting interests whereby the incentive for foreign arms sales could override export control commitments.

The New Era Group, also known as the China New Era Group, conducts trade for COSTIND, acts as an intermediate level supervisory body for missile sales, and has jurisdiction over a number of major Chinese defense industry trading companies, in addition to planning and coordinating the import-export activities of its members.³³ The New Era Group was sanctioned along with all of its (unnamed) subsidiaries for missile technology proliferation in September 2004, a charge which the firm called "outrageous and unjustified."³⁴

Three other Chinese entities have been subject to numerous U.S. sanctions, though there is very little open source information about any of them. Wha Cheong Tai Company, Ltd. has been sanctioned four times since May 2002, three times for violating the Iran Nonproliferation Act of 2000. Zibo Chemical Equipment Plant has been sanctioned five times since May 2002, each time under the Iran Nonproliferation Act of 2000.

The final entity is a private Chinese citizen, Chen Qingchang or Q.C. Chen, who has been sanctioned five times since 1997, three times for violations of the Iran Nonproliferation Act of 2000. However, there is very little public information about this individual.

China's Role in Persuading North Korea to Abandon Its Nuclear Ambitions

China's strict observance of its export control commitments is a critical part of international efforts to deny North Korea access to WMD-related materials or components. Chinese enterprises could supply North Korea with materials that would enhance Pyongyang's WMD and missile development programs, but Beijing's cooperation should be expected given China's national interests. For example, in the summer of 2003, China reportedly blocked a rail shipment of tributyl phosphate, a solvent that can be used in the extraction of weapons grade plutonium from spent fuel rods, after receiving a tip from U.S. intelligence.³⁵ This case shows the benefits of information sharing and that China is not completely opposed to the types of actions foreseen under the Proliferation Security Initiative (PSI). However, Beijing is very sensitive to the PSI and is concerned about the implications for international law and multilateral arms control and nonproliferation regimes.

China is also playing an active diplomatic role to defuse the North Korean nuclear issue. Beijing was instrumental in initiating the trilateral meeting between China,

³¹"China North Industries NNNN Revenue up 26.44 Pct," Xinhua Financial Network News, January 10, 2005, in Lexis-Nexis.

³²Phillip Saunders and Stephanie Lieggi, "What's Behind U.S. Nonproliferation Sanctions Against Norinco," CNS Research Story, May 30, 2003, <<http://cns.mii.edu/pubs/week/030530.htm>>.

³³"New Era (Xinshidai) Corporation," China Profiles, <<http://www.nti.org/db/china/newera.htm>>.

³⁴"Chinese Firm Xinshidai Condemns 'Outrageous' U.S. Sanctions," AFX News Limited, October 1, 2004, in Lexis-Nexis.

³⁵*Asahi Shimbun*, February 21, 2004, in "Japan Daily Reports China Intercepted Nuclear-Related Chemical Bound for DPRK," FBIS Document ID: JPP20040225000051.

North Korea, and the United States in April 2003, and later the Six-Party Talks that also include Japan, South Korea, and Russia. To a significant extent, Beijing's more proactive mediation in the North Korean nuclear crisis also reflects its recognition of the serious threat that WMD proliferation could pose to its security interests. The potential East Asian nuclear chain reactions as a result of Pyongyang's nuclear weapons program and the Khan network of international nuclear smuggling drive home the importance of strengthened international coordination in meeting the proliferation challenge.³⁶

The North Korean nuclear problem is complex and U.S. policymakers appear divided in how this issue should be approached. It is impossible to know the intentions of other human beings with 100 percent certainty, and the opacity of the North Korean government and policymaking process makes it difficult to assess whether Pyongyang would abandon its nuclear weapons program and under what conditions. However, I believe two conditions are necessary for North Korea to abandon its nuclear ambitions, and that we must continue our efforts to secure a non-nuclear Korean Peninsula.

First, extreme pressure must be applied to North Korea, and Pyongyang must understand that diplomatic, political and economic pressure will only increase if it continues its nuclear programs. China's active participation in such an effort is necessary to achieve any success. However, pressure alone is not sufficient to persuade North Korea to abandon its nuclear weapons program. Furthermore, China is very unlikely to take any punitive measures that would destabilize the North Korean government unless Pyongyang were to take extremely provocative actions, but Pyongyang is unlikely to cross Beijing's red line, which is probably large-scale military operations against South Korea or the export of nuclear weapons to terrorist groups. In general, U.S. policymakers overestimate China's influence over North Korea, as well as the likelihood that Beijing will employ coercive measures against Pyongyang.

Second, North Korea will only abandon its nuclear weapons programs if it feels secure enough to do so. As a weak nation facing acute security problems, Pyongyang's motivations for acquiring nuclear weapons should be no surprise. South Korea had an active nuclear weapons program in the 1970s and Seoul only abandoned its nuclear ambitions under extreme U.S. pressure combined with credible U.S. security assurances. In many ways, North Korea faces a similar situation today, but China cannot provide the type of credible security assurances to persuade North Korea to give up its "nuclear deterrent." Without credible security assurances, pressure will only drive Pyongyang to continue or accelerate its nuclear program, as the last two and a half years have shown us. Paradoxically, in Pyongyang's view, the U.S. is the only nation that can provide the type of security assurances that might persuade North Korea to commit to the "complete, verifiable, and irreversible dismantlement" of its nuclear weapons program.

³⁶Bates Gill, "China's New Security Multilateralism and Its Implications for the Asia-Pacific Region," *SIPRI Yearbook 2004: Armaments, Disarmament and International Security* (Oxford: Oxford University Press for SIPRI, 2004), pp. 216–218.

APPENDIX

Table 1
China and International/Multilateral Nonproliferation Treaties/Regimes

International Treaties and Negotiations	Multilateral Export Control Regimes
<ul style="list-style-type: none"> • Acceded to the Non-Proliferation Treaty (NPT), March 1992 • Supported the indefinite extension of the NPT, May 1995 • Signed the Comprehensive Test Ban Treaty (CTBT), September 1996 • Signed and ratified the IAEA Additional Protocol in 2002 (the only nuclear weapons state to do so) • Signed on to the Latin American Nuclear Weapons-Free Zone (1973); South Pacific Nuclear Weapons-Free Zone (1987); Africa Nuclear Weapons-Free Zone (1996); Southeast Asian Nuclear Weapons-Free Zone (1999) 	<ul style="list-style-type: none"> • Joined the International Atomic Energy Agency (IAEA) in 1984 • Joined the Zangger Committee in October 1997 • Applied for membership in the Nuclear Suppliers Group (NSG) in January 2004 and was accepted into the NSG in May 2004
<ul style="list-style-type: none"> • Signed the Geneva Protocols in 1952 • Signed the Biological Weapons Convention in 1984 • Signed the Chemical Weapons Convention (CWC), January 1993 • Ratified the CWC and joined the Organization for the Prohibition of Chemical Weapons (OPCW) as a founding member, April 1997 	<ul style="list-style-type: none"> • Issued domestic regulations on exports of chemical, biological and dual-use items with control list similar to that maintained by the Australia Group (1995–2002) • Consultation with the Australia Group
<ul style="list-style-type: none"> • Participated in but later withdrew from the P-5 talks on Middle East Arms control, 1991–92 • Participated in the United Nations Register of Conventional Arms from 1993 to 1997 • Signed the Inhumane Weapons Convention in 1981 	<ul style="list-style-type: none"> • Consultation with the Wassenaar Arrangement
<ul style="list-style-type: none"> • Signed the Outer Space Treaty in 1983 • Participated in the negotiation of but did not sign on to the Hague Code of Conduct against the Proliferation of Ballistic Missiles 	<ul style="list-style-type: none"> • Pledged to abide by the original 1987 Missile Technology Control Regime (MTCR) guidelines in February 1992 • Agreed in the October 1994 U.S.-China joint statement to adhere to the MTCR and agreed to apply the concept of “inherent capability” to its missile exports • U.S.-China official talks during 1997–1998 on China’s possible membership in the MTCR • Consultation with the MTCR on membership; bid not successful at the October 2004 plenary meeting

Sources: Adapted from Center for Nonproliferation Studies, Inventory of International Nonproliferation Organizations & Regimes (Monterey, CA: Center for Nonproliferation Studies, updated 2004). <<http://cns.miis.edu/pubs/inven/index.htm>>; database compiled by the East Asia Nonproliferation Program, Center for Nonproliferation Studies <<http://nti.org.db.china>>.

Table 2
Evolution of China's Export Control System since the 1990s

SECTORS	LAWS AND REGULATIONS
General	<ul style="list-style-type: none"> • Foreign Trade Law, 1994
Chemical, Biological & Dual-Use	<ul style="list-style-type: none"> • Regulations on Chemical Export Controls, December 1995 • Supplement to the December 1995 regulations, March 1997 • A ministerial circular (executive decree) on strengthening chemical export controls, August 1997 • Decree No. 1 of the State Petroleum and Chemical Industry Administration (regarding chemical export controls), June 1998 [Note: These regulations have expanded the coverage of China's chemical export controls to include dual-use chemicals covered by the Australia Group]. • Measures on Export Control of Certain Chemicals and Related Equipment and Technologies and Certain Chemicals and Related Equipment and Technologies Export Control List, October 2002 • Regulations of the People's Republic of China on Export Control of Dual-Use Biological Agents and Related Equipment and Technologies and Dual-Use Biological Agents and Related Equipment and Technologies Export Control List, October 2002
Nuclear & Dual-Use	<ul style="list-style-type: none"> • Circular on Strict Implementation of China's Nuclear Export Policy, May 1997 • Regulations on Nuclear Export Control, September 1997 (Note: The control list included in the 1997 regulations is identical to that used by the Nuclear Suppliers Group, to which China is not a member). • Regulations on Export Control of Dual-Use Nuclear Goods and Related Technologies, June 1998 • Amended Nuclear Export Control List, June 2001
Military & Dual-Use	<ul style="list-style-type: none"> • Regulations on Control of Military Products Export, October 1997 • The Procedures for the Management of Restricted Technology Export, November 1998 (Note: The new regulations cover 183 dual-use technologies, including some on the Wassenaar Arrangement's "core list" of dual-use technologies). • China's Ministry of Foreign Trade and Economics Cooperation (MOFTEC) released a Catalogue of Technologies which are Restricted or Banned in China, presumably also in late 1998 • Decision of the State Council and the Central Military Commission on amending the PRC Regulations on Control of Military Product Exports, October 2002
Ballistic Missiles	<ul style="list-style-type: none"> • Regulations of the People's Republic of China on Export Control of Missiles and Missile-related Items and Technologies and the Missiles and Missile-related Items and Technologies Export Control List, August 2002

Sources: Adapted from database compiled by the East Asia Nonproliferation Program, Center for Non-proliferation Studies <<http://www.nti.org/db/china>>.

Table 3
Sanctions on China Great Wall Industry Corporation

Company	Date	Description	Status
China Great Wall Industry Corporation	Dec. 27, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000; for the alleged transfer of high-performance metals and components that could aid Iran's efforts to extend the range of its missiles.	Duration of at least two years.
China Great Wall Industry Corporation	Sept. 23, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000 for the transfer to Iran of equipment and technology controlled by international export control lists or with the potential to aid in the development and production of missiles and weapons of mass destruction.	Duration of at least two years.
China Great Wall Industry Corporation	August 24, 1993	Imposed pursuant to the 1990 Missile Technology Control Act; Sanctioned as a subsidiary of the Chinese Ministry of Aerospace Industry for engaging in missile technology proliferation activities with Pakistan's Ministry of Defense.	Waived November 1, 1994; Subsequent to U.S.-China Joint Statement on Missile Proliferation, U.S. State Department waived sanctions against MIA and all of its entities in the interest of U.S. national security.
China Great Wall Industry Corporation	June 25, 1991	Imposed pursuant to the 1990 Missile Technology Control Act for involvement with the export of M-11 missiles to Pakistan.	Waived March 23, 1992 for national security reasons.

Source: East Asia Nonproliferation Program, Center for Nonproliferation Studies, Feb. 2005.

Table 4
Sanctions on China Precision Machinery Import/Export Corporation

Company	Date	Description	Status
China Precision Machinery Import/Export Corporation	April 4, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of at least two years.
China Precision Machinery Import/Export Corporation	July 24, 2003	Imposed pursuant to provisions of Executive Order 12938 for the transfer of missile technology to an undisclosed recipient.	Duration not specified; Until otherwise waived by the Secretary of State.
China Precision Machinery Import/Export Corporation	July 3, 2003	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of two years or until otherwise waived by the Secretary of State.
China Precision Machinery Import/Export Corporation	May 9, 2002	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of at least two years.
China Precision Machinery Import/Export Corporation	August 24, 1993	Imposed pursuant to the 1990 Missile Technology Control Act; Sanctioned as a subsidiary of the Chinese Ministry of Aerospace Industry for engaging in missile technology proliferation activities with Pakistan's Ministry of Defense.	Waived November 1, 1994; Subsequent to U.S.-China Joint Statement on Missile Proliferation, U.S. State Department waived sanctions against MIA and all of its entities in the interest of U.S. national security.
China Precision Machinery Import/Export Corporation	June 25, 1991	Imposed pursuant to the 1990 Missile Technology Control Act for involvement with the export of M-11 missiles to Pakistan.	Waived March 23, 1992 for national security reasons.

Source: East Asia Nonproliferation Program, Center for Nonproliferation Studies, Feb. 2005.

Table 5
Sanctions on China North Industries Corporation (NORINCO)

Company	Date	Description	Status
China North Industries Corporation (NORINCO)	December 27, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000; for the alleged transfer of high-performance metals and components that could aid Iran's efforts to extend the range of its missiles.	Duration of at least two years.
China North Industries Corporation (NORINCO)	September 23, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000 for the transfer to Iran of equipment and technology controlled by international export control lists or with the potential to aid in the development and production of missiles and weapons of mass destruction.	Duration of at least two years.
China North Industries Corporation (NORINCO)	April 1, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of at least two years.
China North Industries Corporation (NORINCO)	September 19, 2003	Imposed pursuant to Section 73(a)(2)(A) and (C) of the Arms Export Control Act, and Section 11B(b)(1)(B)(i) and (iii) of the Export Administration Act of 1979; For alleged "missile technology proliferation activities"; Ban on imports, new export licenses.	Duration of two years; Ban on missile technology-related imports waived for one year due to reasons "essential to the national security of the United States."
China North Industries Corporation (NORINCO)	July 3, 2003	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of two years or until otherwise waived by the Secretary of State.
China North Industries Corporation (NORINCO)	May 23, 2003	Imposed pursuant to provisions of Executive Order 12938; Includes ban on U.S. Government procurement and any imports of NORINCO goods into the United States.	Duration of two years or until otherwise waived by the Secretary of State.

Source: East Asia Nonproliferation Program, Center for Nonproliferation Studies, Feb. 2005.

Table 6
Sanctions on Wha Cheong Tai Company, Ltd.

Company	Date	Description	Status
Wha Cheong Tai Company Ltd.; Wah Cheong Tai Company; Hua Chang Tai Company	December 27, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000; for the alleged transfer of high-performance metals and components that could aid Iran's efforts to extend the range of its missiles.	Duration of at least two years.
Wha Cheong Tai Company Ltd.; Wah Cheong Tai Company; Hua Chang Tai Company	November 24, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000 for reportedly selling weapons or missile technology and equipment to Iran.	Duration of at least two years.
Wha Cheong Tai Company Ltd.; Wah Cheong Tai Company; Hua Chang Tai Company	July 9, 2002	Imposed pursuant to the Iran-Iraq Nonproliferation Act of 1992.	Duration of at least two years.
Wha Cheong Tai Company Ltd.; Wah Cheong Tai Company; Hua Chang Tai Company	May 9, 2002	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of at least two years.

Source: East Asia Nonproliferation Program, Center for Nonproliferation Studies, Feb. 2005.

Table 7
Sanctions on Zibo Chemical Equipment Plant

Company	Date	Description	Status
Zibo Chemical Equipment Plant; Chemet Global Ltd. of China; South Industries Science and Technology Trading Company, Ltd.	December 27, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000; for the alleged transfer of high-performance metals and components that could aid Iran's efforts to extend the range of its missiles.	Duration of at least two years.
Zibo Chemical Equipment Plant; Chemet Global Ltd. of China; South Industries Science and Technology Trading Company, Ltd.	Sept. 23, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of at least two years.
Zibo Chemical Equipment Plant; Chemet Global Ltd. of China; South Industries Science and Technology Trading Company, Ltd.	April 1, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of at least two years.
Zibo Chemical Equipment Plant; Chemet Global Ltd. of China; South Industries Science and Technology Trading Company, Ltd.	July 3, 2003	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of two years or until otherwise waived by the Secretary of State.
Zibo Chemical Equipment Plant; Chemet Global Ltd. of China; South Industries Science and Technology Trading Company, Ltd.	May 9, 2002	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of at least two years.

Source: East Asia Nonproliferation Program, Center for Nonproliferation Studies, Feb. 2005.

Table 8
Sanctions on Q.C. Chen

Company	Date	Description	Status
Q.C. Chen; Chen Qingchang	December 27, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of at least two years.
Q.C. Chen; Chen Qingchang	November 24, 2004	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000 for reportedly selling weapons or missile technology and equipment to Iran.	Duration of at least two years.
Q.C. Chen; Chen Qingchang	July 9, 2002	Imposed pursuant to the Iran-Iraq Nonproliferation Act of 1992.	Duration of at least two years.
Q.C. Chen; Chen Qingchang	May 9, 2002	Imposed pursuant to Section 3 of the Iran Nonproliferation Act of 2000.	Duration of at least two years.
Q.C. Chen; Chen Qingchang	May 21, 1997	Imposed pursuant to the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991; for involvement in the export of dual-use chemical precursors and/or chemical production equipment and technology.	Duration of at least one year.

Source: East Asia Nonproliferation Program, Center for Nonproliferation Studies, Feb. 2005.

Panel III: Discussion, Questions and Answers

Cochair WORTZEL. Thank you very much. I have a short question for Dr. Carter and then a couple other Commissioners do as well. You had an interview with Wolf Blitzer on January 13, 2003, and one of the things you said there was, I believe, that we should be willing to risk war now with North Korea over this nuclear program.

You said we were ready in '94 to risk it; we should be ready to risk it now. How do your South Korean interlocutors respond when you say that to them?

Mr. CARTER. Very good question, and I think it requires a very serious answer by the United States, because I think sometimes we act as though we are so averse to using force against North Korea that it is inconceivable to us. That's self-deterrence. And whereas I want to be very clear that I'm very sobered by the potential consequences of the use of force on the Korean Peninsula—I think that one might find oneself facing that circumstance, and you better think about it.

Now, the situation today is very different from 1994 in two respects. One respect is that there is not from a technical point of view as decisive a target set as Yongbyon presented itself to be in 1994. That's thing one.

Thing two is that our relationship with South Korea is sadly in a very different place, and the South Korean public and government is in a very different place. That's a whole other story and a lamentable one.

I think, therefore, the North Koreans need to consider today, even more than in 1994, whether it makes sense for them to invade South Korea if the United States does something to them. I think they ought to be made to think about that, in addition to us think-

ing about the grave consequences of military action on the Korean Peninsula, and shift the burden a little bit.

It doesn't make a lot of sense now. If we take action against North Korea unilaterally, the South Koreans are not going to be happy with it. That's reality in the current circumstance. I wish that would change. I have lots of ideas about how we need to get our alliance back with South Korea, but as we sit here today, they're not with us.

You need to jujitsu that into a statement to North Korea that it makes precious little sense were we to reach the decision that coercion or action was necessary, it makes very little sense for them to initiate a war against South Korea. They ought to think about that.

Cochair WORTZEL. I've got another question for you, Dan, but I'll wait and let Commissioners Wessel, D'Amato, Donnelly and Dreyer go ahead and Becker, specifically for Dr. Carter. Go ahead.

Commissioner WESSEL. Thank you. And thank you for all being here and Mr. Milhollin for your reappearance. I believe you were with us some time ago, and it's good to see you again. I'd make a brief just comment in terms of leverage and then ask a question. I believe the most recent trade numbers show that roughly a third, I believe it was 34 percent, of Chinese exports come to the U.S. Only four percent of our exports go to China, so the economic leverage we have is considerable. We just generally choose not to use it.

Wal-Mart itself received \$18 billion worth of Chinese exports last year alone according to their report. So leverage is there if we choose to use it.

Dr. Carter, you mentioned briefly the EU arms embargo, and I'd just like to ask a question to understand the implications of lifting that embargo which they seem to be hell bent on. As member countries in NATO, interoperability, et cetera, all the various sharing of technologies of arms, of munitions, et cetera, that we have with those countries, we're not talking about Berettas and Colt 45s that are going to be transferred if the embargo is lifted to China. We're going to be talking about products that potentially enhance China's capabilities as well as their countermeasures that can be used that may assist Taiwan if the need arises, but also with their proliferation, that could be given to Iran, could go to other countries, countries of concern, that therefore those capabilities and countermeasures would pose potentially a direct threat to our own forces.

Am I correct in that? Are we looking at the arms embargo not just enhancing China's capabilities vis-à-vis Taiwan, but also potentially creating a global threat against all countries, but certainly our own forces?

Mr. CARTER. Yes, I think that for all the reasons that have been discussed by the previous panel and then this panel, and the gentlemen to my left and right know more about this particular subject than I do. But because China's strategic trade is problematic in terms of the level of control, and because in the long run we don't know where we're going with the Chinese. Those in addition to the Taiwan rationale, which is here now, are all reasons why I think we take affront with what the Europeans are proposing to do.

I just want to make clear that they say, look, never mind, this doesn't matter, we're going to have a list, and we won't sell any-

thing that's on the list, and the list will be the same list as you and so forth I have a sense for how that works in the long run, and the list gets whittled and bypassed and once companies get in there, the pressure becomes relentless to do more and more and inch up and so forth. I think that that's just a slope I'd rather not be on.

So for that reason, I've said to my European friends, I don't expect that they'll change this policy, but I think that they need to understand that this is a matter of serious concern and sort of an affront as well as a threat.

Commissioner WESSEL. So I am correct that it potentially is a direct threat to our security interests not only in the Straits but also directly for our troops in other areas?

Mr. CARTER. Yes, I think that's fair to say.

Commissioner WESSEL. Okay. Thank you.

Cochair WORTZEL. Commissioner D'Amato.

Chairman D'AMATO. Thank you, Mr. Chairman, and I also want to add my thanks to the panel for coming. It's a very, very important issue for us. Dr. Carter, I believe your analysis is indisputable and also, unfortunately, draconian. I do disagree with it on one sense. I think American attention is already pivoting.

Last week, there was a CBS-New York Times poll that showed that 70 percent of the American people believe that North Korea was a threat to the United States and about 80 percent believe the North Koreans had nuclear weapons. They took Kim Jong-Il at his word. So I think that there is a level of attention already in that direction.

My question is in two parts. The first, is it true to think of an outside time limit to reach a diplomatic solution and to make progress, substantial progress here, would be the possibility and prospect of an arms race in Northeast Asia? If it becomes clear to the other powers there that the North Koreans are building an arsenal and going to keep it, that that would be an outside limit in terms of the timeframe that you would have the talks?

Secondly, I have always referred to the Chinese attitude here that they've opened up the restaurant of the Six-Party Talks, but they have no kitchen and no menu. So you have a restaurant with no menu. I don't think the Chinese have ever offered any kind of proposal in those talks at all. So we can offer a proposal and they've got their apron on, but there's no food, no food.

I'm wondering if there is another route, if in the Six-Party Talks, they continue to sabotage these talks, instead of moving in the direction of military action, if there is another route, if there's a Plan B leading to the Security Council? In the Security Council is North Korea still unfinished business? The Korean War is the unfinished business of the United Nations Security Council.

Do you think that it's realistic to think that there's an option beyond the Six-Party Talks in that respect?

Mr. CARTER. Thank you. Let me take the second part first, if I may, Mr. Chairman. Coercion can take a number of forms, and if we get on the coercive path or find that a more coercive dimension to our diplomacy is advisable, as I said earlier, it would be nice if the Chinese were with us, but if they're not, there are alternatives, and one is to go to the Security Council. That puts the Chinese on

the spot in a serious way, but that if it comes to that, that's what we'd have to do, I would judge.

You used the word "sabotage." I think that's too strong for where the Chinese are now. That may be the effect of what is happening. I don't think that's their intention. I think that they are failing to choose among contending strategic interests and the full recognition that this is very important one, which gets to the first part of your question, is an important thing to do. By the way, it's an important thing for us to do also. If you looked at our behavior and came down from Mars, you wouldn't conclude that we were seized of the issue either, would you?

That gets to the time limit question. I'm not sure I entirely understand the question, but if this answer is responsive to the thrust of it, I think we're paying the price already for three years of neglect, not only in the sense that North Korea seems to be unconstrained as near as we know in its activities and it's becoming unconstrained in its rhetoric about what it's doing, but I think already those in the region are looking around and saying this is kind of looking like a *fait accompli*. This is looking like nobody really cares.

That's a serious matter in Japan, just to take one example, where North Korea—an American diplomat, whom I won't name, used the phrase, which I thought was very apt. He said in North Korea, Japan has for the first time in 50 years found an enemy it can name. And that has a galvanizing effect on Japanese opinion and that heads us down a direction that we haven't been for quite awhile. So I think it's already having an effect.

It may be having an effect on Iran and others around the world who look at this and say, well, here is the most brazen example by the most isolated state on earth, and no one seems to be doing anything except pointing and saying it's your fault, it's your fault.

And one final observation. We can't outsource this to the Chinese. It is a dodge for us to say, well, the Chinese aren't fixing this problem, so that's an excuse for why we're not doing anything.

The fact of the matter is there's plenty of blame to go around here. I said our government, the ROK government, the Chinese government have all been delinquent in my judgment in this regard over the last three years, and share responsibility for this situation.

Chairman D'AMATO. Yes, what I mean when I say "sabotage" is what you said, that the effect of non-participation would doom the talks at least because of the leverage the Chinese have but are not using. And there is the question in terms of the mouse that roared. Here the whole world has focused its attention on the mouse that obviously likes it because otherwise who would pay any attention to North Korea? So if Iran and others are saying, if we want legitimacy and credentials in the world, nuclear weapons are the kind of thing that confers legitimacy, and this leads to the kind of proliferation that we're worried about.

Thank you very much.

Mr. CARTER. Thank you.

Cochair WORTZEL. Thank you very much. I'll open it up for questions to any of the witnesses. I thank you for your forbearance, Mr.

Milhollin and Dr. Pinkston. The next Commissioner to ask questions is Commissioner Donnelly.

Mr. CARTER. Commissioner Wortzel, may I interrupt for one moment just to say that I need to depart now, and I wanted to explain that there is nothing more important than the issues we're discussing here except that my daughter is in town on a field trip, and that's more important, and I have a luncheon appointment with her. I'm just being candid with you, and I don't want to stand her up.

Cochair WORTZEL. Thank you for your time. Thanks for being here.

Chairman D'AMATO. Yes, thank you very much.

Cochair BARTHOLOMEW. I hope you're taking her somewhere interesting.

Mr. CARTER. Air and Space Museum. Does that qualify?

Cochair WORTZEL. It's our fault for not managing our time.

Mr. CARTER. Thank you all very much, and I'm grateful to be here and apologize for leaving now.

Commissioner TEUFEL-DREYER. And all of us daughters approve.

Chairman D'AMATO. Thank you.

Commissioner DONNELLY. One of the cheapest tricks certainly in the congressional bag is pillorying the witness after he leaves.

And I'm very tempted to do so. But I will try to do it in the form of a question for the other two panelists who are remaining, because I'm having a difficult time sorting through what seem to me to be contradictory impulses. We were talking about it earlier in the first panel about this issue of security assurances, which is surely the one carrot. I think Dr. Carter was quite correct that we have relatively few carrots to offer for the North Koreans, but the one they really want is, again, euphemistically called security assurances, and the North Korean interpretation of that is a non-aggression pact.

So I just have the question of whether there's anything worth swapping for that. That will certainly take off or eliminate entirely the value of any coercive measures we might bring to the table, which also suggests to me that Dr. Carter's sequential approach, diplomacy first, and coercion afterwards, is a self-defeating strategy.

If the purpose of diplomacy and the one carrot we can offer is to break our stick, then the process just simply logically ends after the discussion of carrots. But I also wanted to draw out particularly Mr. Milhollin on the final point that he made in his presentation about the state-owned nature of Sinopec and other parent Chinese companies.

Again, to return to the question I asked to the first panel, I quite accept what you say, but it also suggests to me that from an outside perspective and an American perspective, to regard these entities as anything other than instruments of Chinese policy is a fundamental misconception.

It's good if you're a Chinese strategist. If you can get the American or international capital markets to take over the financing of these organizations from a strategic perspective, that's just a force multiplier. That doesn't change the character of the entity. Again, I'd just like both of you perhaps, to speak a little bit more fully

about how we should regard the activities of these giant state-owned companies. It may be the case that their senior officers siphon off a little bit into private accounts, but to me they seem essentially like instruments of Chinese policy.

Mr. MILHOLLIN. Shall I go first?

Commissioner DONNELLY. It's up to you.

Mr. MILHOLLIN. Your question reminds me of the experience we had with Argentina when there was an effort to make them part of the solution to the proliferation problem rather than part of the problem. And what happened was, if my memory serves, that because their scientific establishment was having a hard time importing what it needed from the rest of the world, and principally from the United States, a debate was set up inside the country, where you had scientists who wanted to do things with U.S. equipment, asking other scientists who wanted to do bad things, "look what you're costing us." "Do you really need to do this stuff?"

I think inside China, if we start sanctioning, really sanctioning big conglomerates and forcing them to lose money, there is going to be a debate inside China about whether it's worth it to make these, fairly small sales of glass-lined equipment and other proliferant items to various countries.

If you look at what China gets from us by way of exports or technology or capital market access, however you want to characterize it, if you just add up the dollars, they dwarf the dollars that the Chinese are getting from these little sales, unless you factor in perhaps other benefits such as oil contracts, but still if you want to—I think if you want to be realistic about this, you've got to look at the money.

This is basically about money. If you want to convince these companies to act differently, you've got to change the economic equation for them. I would say that unless we're willing to do that, unless we're willing to force the Chinese government to make these economic calculations, then we're wasting our time, because they can do the arithmetic, and obviously they've figured out that we're not serious about this.

So far they've been right. In my judgment, I guess I was saying to Commissioner Thompson, I've been testifying on this stuff for a long time, and if our country really wanted to solve this problem, it could have solved it a long time ago. If our folks really wanted to use our economy as a lever, we could have done it, we can do it tomorrow, but the fact is we don't want to do it because we're also interested in the money.

Everybody wants the money. Everybody wants to stop proliferation but nobody wants to pay anything for it. They want it to happen by magic. Well, guess what? It's not happening by magic.

Mr. PINKSTON. If I could just follow up on that regarding the question how we should treat these state-owned enterprises, I think we need to disaggregate the problem a little bit and it might require different types of policy measures.

First of all, we have to reach some agreement on what constitutes proliferation, and sometimes there's some disagreement. Now, the Chinese have come a long way on this, and they have drafted export control lists and they seem to be in compliance with multilateral export control regimes and so forth, and they need to

be reminded about that. We need to have a frank discussion and consultation with them to make sure that they are in line with international norms for controlling these technologies.

Then the second order question is why, if in fact, their export control lists are in compliance with international norms, then is there a corruption problem? Do we need to point that out? Is someone smuggling things and paying someone off or something like that? Or is it a problem with lack of enforcement? Is there lack of capacity? It's difficult to monitor everything.

It was mentioned earlier this morning that we even have cases; we have problems in the United States. So is there some way that we can have some dialogue to assist or enhance the Chinese capacity or share our experiences in building our capacity and so forth?

The Chinese often complain that suddenly there are sanctions and they don't know why. And they don't have information about it. They complain that we don't provide the information. Now, I know that sometimes there are concerns about sources and methods in acquiring some of this information that might be sensitive, but in some cases we might really have to confront them about the details of something. We might have to tell them, "Here's a case. Here's where something was passed along. It was this firm. This is the executive of the firm. Here are the people; they concluded this contract. Why aren't they being punished?"

I think we have to have that frank dialogue. I'm not in government. I don't know if that dialogue takes place. But then we have to challenge their intentions and try to find out what's driving their behavior.

Cochair WORTZEL. Thank you very much. Commissioner Dreyer.

Commissioner TEUFEL-DREYER. Initially I had been going to ask this question to Dr. Carter. He said you don't go to coercion until diplomacy has failed. Can you tell me if you, collectively, think about at what point you can you say that diplomacy has failed? It seems to me that we fail and we fail and we fail again and then we say, "Well, we've got to talk to them more and maybe next time it will work."

This seems to fit in with your statement, which I would abstractly agree with, and that is that we need the cooperation of South Korea and China to effect anything. The problem is we don't seem to ever be able to get that cooperation or only cooperation on such a low-level of common denominator that it really doesn't do any good. So I wonder if you could address that issue?

Is there any way that we can realistically expect their cooperation in a meaningful way as opposed to abstract declarations of high purpose, and if not, do we just give up?

Mr. PINKSTON. I think you're absolutely correct that to exert maximum pressure upon North Korea, that requires cooperation from the Chinese and South Koreans. Unfortunately, my understanding of the Chinese and the South Korean friends and people in government whom I speak with, they are not willing to exert that pressure unless North Korea takes certain provocative measures, very provocative measures.

Commissioner TEUFEL-DREYER. Yes, but what is more provocative?

Mr. PINKSTON. Well, like shipping weapons to other states or terrorist groups, or provoking a war, or taking military operations against South Korea. But until the United States really, fully extends a great deal for North Korea that they should accept, that the Chinese and the South Koreans feel that they should accept, and it would have to include security assurances because history, the history is that we did provide some assurances before. In 1993, in June of 1993, there was a Joint Communiqué whereby we agreed not to threaten North Korea, and the Agreed Framework of 1994, there was a clause in there whereby the U.S. agreed to provide written assurances that we would neither threaten to use nuclear weapons nor attack North Korea with nuclear weapons.

As I understand, those written assurances were never provided. So there was a precedent set. Now, if North Korea would accept some credible security assurance, I don't know. But we haven't tested that yet. Until we really do that, and put a real credible best deal on the table, and then if North Korea were to turn that down, then I think our friends in the region, particularly the Chinese and the South Koreans would be willing to apply greater pressure. But until then I don't see it happening.

Commissioner TEUFEL-DREYER. Commissioner Wortzel, do I have time for another quick question?

Cochair WORTZEL. Yes.

Commissioner TEUFEL-DREYER. Mr. Milhollin, what is the rationale behind giving foreign aid to competitors? You were talking about the United States giving \$429,000 to Sinopec. I'm reminded of a very famous British economist, P.T. Bauer, in a diatribe, a very well reasoned diatribe against foreign aid, talking about exactly this phenomenon, that we actually subsidize our competitors.

Mr. MILHOLLIN. You're asking me what the rationale is for this, what I consider to be irrational action.

Commissioner TEUFEL-DREYER. Yes. Do you know what excuse was given? I'm not asking you to defend it, obviously.

Mr. MILHOLLIN. My memory is that it would help this Chinese entity do more business with the United States. If you look at the history of foreign aid, especially, in the United States and elsewhere—I decided to be candid today—it's often a subsidy program for local business. It's a way of getting taxpayer money into the hands of American companies who are sending things abroad.

If the recipient doesn't happen to have an electricity system, you still can send them television sets. As I remember, that has happened. Maybe I'll say this a hundred times today, because I think it really is at the root of the problem. It's about the money, and that's probably the reason, if there is one.

There's always a real reason for everything. It's just you don't often see it on the surface.

Commissioner TEUFEL-DREYER. And this means we've been helping subsidize Sinopec so that the United States loses money.

Mr. MILHOLLIN. We've been helping NORINCO—well, yes, and we've been helping Sinopec do better marketing even though it's a multi-billion dollar company and seems to be doing pretty well on its own without foreign aid.

Cochair WORTZEL. Commissioner Mulloy.

Commissioner MULLOY. First, just a comment to Mr. Milhollin. I thank you for your recommendations about import sanctions on the parents in order to get people's attention. I can just tell you my experience when I worked on the staff of the Senate Banking Committee, the problem always was we wanted to put import sanctions on, but people always just wanted to put export sanctions on our companies rather than import sanctions on the foreign companies that were violating.

And that always came from the Ways and Means and the Finance Committees who are more or less very, very free-trade oriented and always felt that was some kind of interference for free trade and wouldn't want any of those kinds of import sanctions. That was always a problem, but I appreciate your testimony.

Mr. Pinkston, there was something I wanted to ask Dr. Carter, but you have something in your testimony on it as well. Is it a violation, is North Korea violating any international obligation it has by getting nuclear weapons? Is there some international obligation that forbids them to have nuclear weapons? Do you know?

Mr. PINKSTON. I'm not an international lawyer, but I've had this discussion with some people and some people argue that under the treaty, the conventions on conventions or something like that controls or has jurisdiction over all these treaties, and that once you sign the NPT, and you have safeguarded facilities, you have the right under the NPT to withdraw from the treaty, but once you have these safeguarded facilities, you cannot use them for proliferation purposes.

So some people will argue it's a legal technicality that you can withdraw from the treaty, but then you have to use different facilities for your weapons programs, but that's a legal question that I think is kind of moot. I try to focus on the security questions, the security issues.

Commissioner MULLOY. In your testimony on page ten, you say that North Korea will only abandon its nuclear weapons if it feels secure enough to do so. Then you talk about we're the ones who can make them feel secure or insecure. So are you suggesting that we should be doing something outside of the Six-Party framework to give them that assurance or do you think that has to be done in the Six-Party framework?

Mr. PINKSTON. My response would be that we cannot know 100 percent the thoughts of other people. We can't get inside their heads. But my assessment about their threat perception is I think it's distorted. If I look at the institutional arrangement in North Korea, there's a distortion of that, an exaggeration of the threat, an exaggeration of the so-called U.S. hostile policy towards them, but I think they believe they are under threat and that they are indeed insecure. I think it's human nature for states in the international system to take whatever action the leadership believes is necessary, whether it's bows and arrows or nuclear weapons, and if that's sufficient, they'll stop where they feel secure.

If people believe they need nuclear weapons to be secure, they will do that. It's costly for them to do so and I remain hopeful that we can find a solution to this problem. I think it's very difficult for them to give up these weapons because they are insecure, and another problem is so much time has passed. What happens when

you have an asset, it takes on an added value from what we call the “endowment effect.” An asset has more value when you actually possess it compared to when it is an abstraction or potential asset. So it becomes more difficult to give up something you have compared to a concept or something you think about.

So now it’s going to be more costly for us now, if indeed there is some kind of diplomatic solution available, because the military commanders who have this asset now are less willing to give it up. So it’s becoming increasingly more difficult.

Commissioner MULLOY. Thank you, Mr. Chairman.

Cochair WORTZEL. Commissioner Becker, are you still interested?

Commissioner BECKER. Mr. Milhollin, you referred to the economic price that companies would pay in this regard. I was wondering if you could expand on this? I agree with you—there seems to be a lot of concern on companies’ part, particularly multinationals that are headquartered in the United States, that if there’s a change in a relationship between the United States and China, that this could seriously affect their businesses and there are so many businesses. There are tens of thousands of businesses that have relocated to China, and all the major multinationals have moved significant parts of their operations to China.

What effect do you think that has on our Administration’s concern with China or changing this relationship?

Mr. MILHOLLIN. As long as I’ve been following this issue, which I’m afraid to say has been quite awhile, I think it would be fair to say that the economic interest of U.S. companies has always been a large factor in dealing with China. And what I’ve seen over time is that the United States Government has been highly reluctant to take any action that would lose money for U.S. companies.

And yet we at the same time complain loudly about proliferation, say it’s our number one issue, say it’s more important than anything else, but when it comes down to making the decision, we act as if the possibility for profits by our companies is, in fact, more important, and a lot more important than proliferation.

The Chinese, it seems to me, have shown us recently in their dealings with the Europeans that they’re quite ready to use their economy in order to improve their security. What they’re saying to the Europeans is, look, you want to sell us more civilian goods, drop the arms embargo. And the Europeans are saying okay.

The Chinese have calculated this very well and they’re going to win. We aren’t capable of that kind of an action apparently because we have wanted to stop Chinese proliferation for a long time, but we’ve never been willing to use our economy as a lever to do that. And as somebody pointed out previously, the numbers are there. We have a lot more leverage over China than it does over us.

If you look at the trend lines, look at the graphs, their exports to us are going up. Our exports to them are pretty much flat. So we could do it. It would work but it would cost money and so far we haven’t been willing to pay the price.

Commissioner BECKER. Do you care to comment on that?

Commissioner TEUFEL-DREYER. It would cost some people money.

Mr. MILHOLLIN. It would cost some people money.

Mr. PINKSTON. I would like to add to that. There are two difficulties in this. First, our WTO commitments and how that constrains

us in the actions we can take. We are constrained by certain international rules. Secondly, there are domestic costs. We benefit quite a bit from the economic relationship and trade relationship with China. I can give you an example.

Yesterday, I had to go pick up an iron. I had what you might call a “wardrobe malfunction.” I had to run out and get an iron very quickly, and it was \$10 from China, very cheap. I was quite surprised. The point is that to impose real broad sanctions against China would impose domestic costs upon the United States.

But I think we might have to do that in order to raise the level of this issue and to signal to the Chinese our resolve that we’re willing to absorb these costs. We should let them know that it’s so important to us that we are willing to absorb some costs. When you’re willing to do something that also forces you to pay yourself, I think it signals the importance of being willing to do that if necessary because our security is that important.

Cochair WORTZEL. Thank you. Commissioner Reinsch.

Commissioner REINSCH. Thank you. I’m glad you said what you said, Dr. Pinkston. I’ve been trying to decide if I want to have another fight with Gary over all this stuff, and maybe you have preempted it. But I’m still thinking about that.

In the interim, I have a couple of questions for Gary. First, I’m not familiar with the TDA case that you mentioned, but I’d like you to provide some additional details for the record. I am familiar with TDA—and what they do is fund studies. They give small amounts of money to foreign entities who then in turn hire an American entity to conduct a marketing study or whatever kind of study is called for, which at least in theory—I don’t know in practice—but at least in theory, then leads to some project that produces American exports and jobs.

The point is that you’ve described a relationship that’s very different from what TDA does. And so if you could provide some additional information about that particular case, I think we’d like to have it.

Mr. MILHOLLIN. I don’t think that I have misdescribed this situation. My understanding is that the aid is given in order for, in this particular case, in order for the American company to help the Chinese company develop a more effective electronic marketing system. So presumably the product produced as a result of this activity would benefit the Chinese company.

The act of producing it would presumably benefit the American company which gets the money. That’s my understanding of this, but if that’s incorrect, I will certainly provide the Commission with any further information that’s warranted.

Commissioner REINSCH. I think it is correct the way you’ve elaborated it. The point I was trying to make was, first, the money is recycled and it’s the American firm that gets the money. I think it’s a little bit incorrect, I suppose, to refer to it as foreign aid because the Chinese entity in this case doesn’t pocket the \$429,000. They recycle it.

Who benefits from the culmination of the project if you will, I think probably depends on the project. No doubt the foreign entity benefits. Otherwise, they wouldn’t undertake the thing in the first place.

The theory of the exercise, and as I said, I'm not here to defend TDA—I don't spend that much time on it—but the theory is that if Sinopec were in this case to decide that it wanted to set up this procurement system or whatever it is, they would contract with some American party to do that or provide that software and that the American side would benefit as well.

If, in fact, this has happened, i.e., the study has been completed and there's been some further action, it would be useful to know about that, just to find out how it turned out, because the idea is to be job and income promoting for the Americans and not for the foreigners, although you can see how that might not always turn out that way.

Second, I was struck in your written testimony and I think you alluded to it, with respect to your comments about Sinopec's investments in the Iranian energy sector. Wouldn't those in your judgment constitute violations of ILSA?

Mr. MILHOLLIN. Could you explain that a little more?

Commissioner REINSCH. Well, the Iran-Libya Sanctions Act provides for extraterritorial sanctions on foreign companies that make investments greater than \$25 million in the Iranian energy sector.

Mr. MILHOLLIN. I think there is an issue about that.

Commissioner REINSCH. Have you asked the Administration if they're investigating that?

Mr. MILHOLLIN. I have not. But do you think I should?

Commissioner REINSCH. Oh, I wouldn't want to make a recommendation to you, Gary, about that. I think you can figure it out for yourself. I think it would be interesting if you did, and I'd be very interested in hearing what they had to say.

Mr. MILHOLLIN. As you know from our long association, at arm's length, our organization is quite focused, and we only consider the economic aspects of things when they are relevant to proliferation. We're not really experts in the oil business.

Commissioner REINSCH. My point here, though, was the thrust of your testimony was that we are sanctioning the children and not the parent.

Mr. MILHOLLIN. That's correct.

Commissioner REINSCH. This happens to be a circumstance where one of the parents you've identified may be sanctionable under existing law, and it seems to me that might be something you want to pursue.

Mr. MILHOLLIN. I'm grateful to you for your suggestion. Might I respond to something you said earlier?

Commissioner REINSCH. Sure.

Mr. MILHOLLIN. Perhaps we should leave this foreign aid issue, but it seems to me, for example, if the United States pays the maker of a squadron of F-16s American dollars to give those to Iran, I would say that the Iranians have benefited, that it's not just a recycle operation.

Commissioner REINSCH. I wouldn't say that's an apt example because that's not something we're going to sell to the Iranians, but I wasn't making the point that the other side doesn't benefit. Of course it benefits. The transaction wouldn't occur if there were no benefits. What I was trying to suggest was that these things are

constructed in such a way so that the entire benefit is not intended to be on the other side.

It's designed to benefit American exports and American jobs. It would be a fair argument in this particular case if that failed, and that's why I asked for some additional information. Some of my colleagues on the Commission from time to time have suggested that Ex-Im Bank projects that were designed to do the same thing, and that is promote American jobs, have failed so maybe this is in that category as well.

But I don't think it's clear just from your testimony if that's true, so if you got some more light that you can shed on it that would be great.

Mr. MILHOLLIN. We'll try to do that. My impression is that this one particular company has received a number of these arrangements.

Commissioner REINSCH. That could well be true. But I see my time is up so I will refrain from extending Dr. Pinkston's argument.

Cochair BARTHOLOMEW. Indeed, your time is up, Commissioner Reinsch.

Commissioner REINSCH. Well, blame him. He kept responding.

Cochair BARTHOLOMEW. I just wanted to take a moment to thank both of our witnesses for their appearance today. Mr. Milhollin, I've obviously been aware of your work for many years and enjoyed our working relationship in my earlier incarnation, and just thank you particularly for your willingness always to come and speak plainly and clearly about what you see the issues are.

I live in hope that one of these days that you'll actually be able to come and testify before us and won't essentially be saying the same thing that you've had to say year in and year out and that there will be some progress to report one of these days. So we will stay tuned on that. But thank you very much to both of our witnesses. Thank you, Dr. Pinkston. We look forward to continuing to work with you.

Chairman D'AMATO. We'll reconvene in about 40 minutes.

[Whereupon, at 12:35 p.m., the hearing recessed, to reconvene at 1:15 p.m., this same day.]

**AFTERNOON SESSION, 1:15 P.M.
THURSDAY, MARCH 10, 2005**

PANEL IV: CONGRESSIONAL PERSPECTIVES

**STATEMENT OF CURT WELDON
A U.S. REPRESENTATIVE FROM THE STATE OF PENNSYLVANIA**

Chairman D'AMATO. Congressman Weldon would you like to take the seat at the table? We welcome Congressman Weldon to the U.S.-China Commission. Congressman Weldon represents the seventh congressional district of Pennsylvania, currently serving in his ninth term, is the most senior Republican in the Pennsylvania delegation, and a Member of the House since 1987. He's taken leadership roles on a wide variety of issues ranging from national security to the environment, and for purposes of this Commission on the North Korean nuclear crisis, having traveled there several times.

He's a Senior Member of the House Armed Services Committee, leading House supporter of national missile defense, Vice Chairman of the full Committee, as well as Chairman of the Tactical Air and Land Forces Subcommittee. We welcome Congressman Weldon, and we're very interested in your views on this ongoing crisis regarding the North Korea nuclear development, the Six-Party Talks and so on. And we look forward to hearing your views on this. Thank you.

Mr. WELDON. Thank you, Mr. Chairman, and distinguished Members of the Commission. I apologize for my good friend Solomon Ortiz. He was going to join me today, but he's tied up and cannot get here. He does have a written statement he's going to submit for the record. I told him I would extend his regrets to you all.

First of all, let me say I fully support the work of the Commission. I've been involved when you've testified before the House and have been very positively impressed by your work. It's essential that we continue this effort to fully understand where China is going and what her long-term intentions are.

I say that as someone who has reached out to China over the years. I think I'm the only elected official that has been asked twice to speak at the National Defense University in Beijing. During a four-year period, I traveled there and spoke to their mid- and senior-level officers about U.S.-China relations and relations in the Far East with their neighbors.

I was also a Member of the Cox Committee, headed by Chris Cox. Nine of us sat down for seven months and looked extensively at the FBI-CIA evidence of the transfer of our technology to China and came to the conclusion by a nine to zero vote that our security was significantly harmed by that transfer of technology.

I was also on the Speaker's Task Force on North Korea, and basically as the Vice Chairman of the Armed Services Committee and now Vice Chairman also of the Homeland Security Committee, for the past 19 years, I have basically monitored those countries that either are adversaries or potentially could become our adversaries in an attempt to try to find a way to find peaceful solutions that otherwise might end up in conflict.

That has forced most of my attention on the former Soviet states where I've made over 40 trips interacting with the Russian Duma and the Federation Council, but also a significant amount of effort traveling to the Far East, again, having traveled to both Taiwan and China on numerous occasions and lectured at a number of universities and meetings with all their top leaders.

The North Korean trip that we just got back from one month ago was designed by me as a follow-up to our trip 18 months ago to continue to support the President 100 percent in convincing North Korea to reengage in the Six-Party process and to agree with our President that complete and transparent total removal of all nuclear capability on the peninsula was an absolute must.

That was the whole purpose and focus of our entire trip this time. We started out the trip by visiting Russia, stopping in Khabarovsk to meet with the Russian Duma and the Foreign Ministry, and then spent four days in North Korea, and then traveled down to Seoul and visited with the Foreign Minister and the senior

leaders of the South Korean parliament, and then on to Beijing where we met with the acting Foreign Minister on a Saturday. He came in to meet with us on a Saturday, and then we spent an hour and a half with the Vice Chairman of the People's Congress in China, and then over to Japan where we did the same with the Diet and the Foreign Minister of Japan.

And our goal in touching base with all six nations was to reinforce President Bush's policies, the Six-Party process, and the need to completely denuclearize the peninsula. The trip into North Korea, unlike the first trip, was overwhelmingly positive. Because we had gotten over the rhetoric on the first trip, and because of subsequent meetings that I had attended with Dick Lugar and Joe Biden's staff in Georgia and a session over here on the Senate again with Joe Biden, we had an ongoing dialogue with the north that allowed us to get beyond the rhetoric very quickly.

In fact, we met for ten hours with Kim Gye Gwan, their lead negotiator at the Six-Party Talks. We met for 90 minutes with the Foreign Minister. We had the first meeting since Jim Kelly was over in 2002, and the only meeting with the President of North Korea except for his meetings with Jim Kelly, Madeleine Albright and Bill Perry.

We met with Paek Nam Sun for 90 minutes and had a very frank and candid discussion. He is the head of state of North Korea, and as you know Kim Jong-Il has no official consistent title in the North Korean government, just as Muammar Gaddafi does not have a title in the Libyan government. He is, in fact, the general.

Our meeting was with the highest elected official, the head of state, not elected, the highest official in DPRK, the, in effect, head of state. We met with Lee Gun, we met with General Lee, who is in charge of the Panmunjon Region, and during our meetings and our visit, and we had total and complete access. We took a thousand photographs. I can make them available to the Commission if you'd like to see them, and we took three hours of videotape in the sites that we visited.

The only area we couldn't take photographs was actually in the Tong Il marketplace which is a western oriented marketplace that we could not understand why the North would not allow us to photograph because in that marketplace among thousands of North Korean citizens were significant amounts of products and goods and things that we otherwise would not have thought they had available to their people.

But the focus of your effort, as I understand it, and I'll be happy to answer any questions you like, is on China's role in that situation, and obviously China is a critical player. China, I think, has maximum leverage with DPRK. Without China's support, DPRK would have a difficult, probably impossible success in feeding their people.

As it is now, they're not able to feed the bulk of their people. The two million people that live inside Pyongyang appear to be well fed and we interacted with literally hundreds of them in a very personal way, in the subways, in the marketplace, but we all know that outside of Pyongyang, things are much different, and there is a severe lack of food, a severe lack of energy.

We felt the lack of energy in Pyongyang because most of the major buildings that we went into for meetings had no heat, as you enter, but the individual meeting rooms were all heated.

My feeling about, from the North Korean perspective of what we encountered, was that it's kind of an amazing thing. The North Koreans actually spew out the rhetoric against America, but in the end I think they don't trust the Chinese, the Russians, and they certainly don't trust the Japanese. In the end, they want to be able to have America as a country that will live with them. They just don't know how to obtain that.

And because they don't know how to obtain our recognition and, in effect, legitimizing of this regime, they're using the nuclear card as the way to get our attention. In fact, it was interesting, when we met with the foreign minister, he said, well, you're questioning us on our use of nuclear capability, and by the way they admitted to me twice that they had nuclear capability, 18 months ago and when we were there earlier prior to the announcement of Ambassador Han that they were a nuclear state. They had told us that. That was nothing new and we told that information to our intelligence people here.

But the North Koreans said, why can't we have a deterrent just like you've allowed India, Pakistan and Israel to have a deterrent? They're non-declared nuclear states, yet you know they have nuclear capability. Why is all the focus on us? It was a tough one to answer. I said basically, look at the actions of your state. We didn't see any of those three countries launch a three-stage Taepo-dong missile over Japan's sovereign territory in August of 1998. You did that.

Those countries have not been caught involved in illegal state transfer and trafficking of drugs and narcotics. You have, in fact, had ships that we've interceded and our allies have intercepted that, in fact, have had drugs on board. Your proliferation of weapons of mass destruction and technology. Your sales of not just the Scud missiles but also the No-dongs, and the availability you've made of that technology to rogue states is of great concern to us.

The fact that in some cases we've even had reports, not yet verified, you've had discussions with countries about possibly even sharing, heaven forbid, your nuclear capability. They understood. And they did not make it a pre-condition that we deal with those three countries before they would come to the table.

In fact, I am convinced we can achieve a peaceful resolution of the Korean nuclear crisis. It's not going to be easy. It's going to require persistence. It's going to require a toning down of the rhetoric from our country by everyone to get them to come back to the table, but in the end I'm convinced that we can put together a package deal on our terms, but with the heavy support of China and Russia in the process.

China is playing a constructive role. It was obvious that when we left Pyongyang, our first stop was Seoul. We spent a day there. Then we went into Beijing, and our meeting in Beijing, which is on a Saturday, with the acting Foreign Minister, he said to us as we arrived, we've already been briefed by the North Koreans. A day after we left, they had already been briefed.

And he said the results of the briefing were very positive. In fact, he gave us two quotes that I have written down and used over and over. The acting Chinese Foreign Minister said we have an historic opportunity right now to resolve this issue and these kinds of opportunities do not come along frequently. Those are the two observations that he made that I thought were most interesting.

What we did in visiting Beijing was to convince both the leaders of the People's Congress and the Foreign Ministry that it was essential that they play a critical role in stopping the development of nuclear weapons in North Korea because if not, it would be logical to assume the South Koreans would want nuclear capability, and eventually the Japanese, and obviously the Chinese do not want to see that occur.

So that was the message that we provided to our Chinese hosts in the time that we were there, and a message we have taken to them in the past, and obviously, the thing they want to talk about most frequently is not necessarily North Korea; it always comes back to Taiwan, which leads me to a concern that I want to be careful in phrasing here because I do consider myself a friend of China and someone who has tried to be fair with China, although I have had significant problems with some of the actions of China and trying to understand where they're going.

My ultimate concern and one that I would hope that you would look at is from the Chinese perspective, if I were looking at their number one priority, which in my opinion is to take Taiwan back, and that's what you hear every time you visit with Chinese. Even though we were there to discuss North Korea, they eventually all got around to talking about Taiwan, and you know the legislation that's now being pursued within the Chinese government regarding the status of Taiwan.

They know that our number one priority in the region is to obtain denuclearization of the DPRK. They also know that that's got us preoccupied, and they have the ultimate trump card because we know that they're a key part of allowing us to solve the North Korean equation.

So I would think there's probably some thought in China that it might not be all that bad if this kind of hangs out there for awhile, because as long as the U.S. needs us to resolve the North Korean problem, we've got maximum leverage with the U.S. over the Taiwan situation.

Now, probably what they would love to have would be someone come along and offer a quid pro quo. You let us take back Taiwan and we'll solve the North Korean problem for you. Obviously that would never be acceptable, but if you were in the Chinese leader's shoes, you certainly must be thinking strategically about the interest of America in the region.

That concerns me. I would hope that this Commission could look at that issue in depth to see whether there is any substance to that line of thought that, yes, China is helping us, but is there, is there a thought in China that perhaps that help also has to be tempered with their ultimate desire of regaining Taiwan.

I don't know the answer to that question. I do know that up until now I can constructively say that I think China has played a constructive role. I think they have offered their help. I think their in-

tentions have been very legitimate and I have applauded them for that publicly and privately in our meetings.

But I can tell you to solve this North Korean problem, we're going to have to have more effort from China because China is the major supplier of goods and services to DPRK. It is the major entity that provides support for the current regime. Russia in a secondary role. My own feeling is that in the end, the ultimate solution economically to the North Korean problem is going to not be the Agreed Framework, which offered in '94 two light-water reactors. I don't see that happening with this Administration.

But rather I see the possibility of running pipelines from the Russian Far East at Sakhalin down through North Korea along the rail corridor into South Korea. Those pipelines would carry both gas and oil. The Russians have tons of energy in the Sakhalin projects that our companies have been involved with them on. Sakhalin 1 through 5, which have involved companies like Exxon Mobil, Occidental, Marathon and so forth. The Russians need to get the energy to marketplace.

The South Koreans have obvious major energy needs. So do the Chinese. So there's kind of a scramble up in that region over who will be able to get this energy. And so the past two years, I've been encouraging at least three teams along with Maurice Strong, who is Kofi Annan's Special Envoy to DPRK, to look specifically at energy pipelines running through North Korea as an ultimate solution.

China also could play a constructive role in that effort, although the financing for those pipelines would largely come from South Korea gas and would come from Russian energy companies like Rosneft, perhaps Itera, Gazprom, perhaps LUKOIL, Stroytransgaz. I can tell you that two days after we left Pyongyang, they had an interesting visitor there. It was a guy named Miller, who was the CEO of Gazprom, the energy behemoth from Russia. I don't think he was in Pyongyang to talk about the environment.

I think he was there to talk about energy cooperation between DPRK and Russia, but I think constructive pipelines running through the North could become a viable solution that all of us, the U.S., Russia, China, South Korea, can rally around, that will provide the ultimate way to allow North Korea to gain the kind of energy assistance it needs in a non-nuclear way and to also gain an income source from the energy traveling through the pipelines.

To get back to the issue at hand here, which is the role of China in the process, we've got to continue to apply pressure in a positive way to China, continue to understand where China has gone. As a Vice Chairman of the Armed Services Committee and Chairman of the Tactical Air Land Subcommittee, I can tell you my concerns are that China is developing an aggressive military and a blue water navy that goes far beyond defensive needs.

As someone who has tried to reach out to China, I wonder what's their ultimate goal here? Do they perceive us a threat? Both times that I spoke at their National Defense University, I said if we're a threat, tell us. Do you perceive us to be a threat in your backyard because that should not be the case.

I really don't understand where China is going with its military. We just had a delegation of Members come back from a visit to

China shipyards. Their shipbuilding program is unprecedented. They're going to have more surface ships and more submarines than you can shake a stick at within ten years. Why? Who's going to attack them? North Korea? South Korea? Japan? Who is the enemy here?

So those are the issues that I think this Commission has looked at and needs to continue to look at and in this public forum, I would say to my Chinese friends, we don't quite understand. We want to be a partner. Certainly our largest trade imbalance is with China. In fact, many in the House on my side of the aisle and on the other side of the aisle are saying we're financing China's defense build-up with our huge trade imbalance and there are actually Members looking for ways to try to neutralize that trade imbalance because of the use of those dollars to fund the development of new ships and new military platforms.

But in the end, I agree with the Administration that we must continue to pursue an engagement policy with the Chinese. We must respect them, but we just ask the tough questions, and in the case of DPRK, North Korea, we must continue to convince them that a nuclear capability in DPRK is not in their best interests, that it would immediately lead to consideration, as you've already seen in South Korea and Japan for similar capabilities, and therefore they need to understand that they have to provide the maximum pressure that they can provide to convince North Korea to get back to the Six-Party Talks.

Now, when I was in North Korea with my delegation, and we always go in a bipartisan way. I had three Democrats, three Republicans, which is always the case, on every delegation. They did tell us they were going to return to the table. But it was conditioned. It was conditioned on a no inflammatory rhetoric coming out of our side. I immediately conveyed that message to the NSC from Seoul. I conveyed that message with my colleagues to Ambassador Hill, who is now the Special Envoy to North Korea, and to General LaPorte. We did the same thing to the South Korean Foreign Minister in a public setting about the need for us to tone down the rhetoric.

I don't think personally that the President certainly used any inflammatory rhetoric, but the North Korean read of the testimony of the Secretary of State was not that. They perceived the referral to the six outposts of tyranny and the tie-in to North Korea as a direct effort at saying that in the end America wants to remove the existing regime.

Now, a week ago, I went back up to New York to again meet with Ambassador Han. I was the first American to meet with him after his statement to try to ascertain where they were going, and to also talk about a new delegation that I want to take into North Korea that I challenged each of the parliaments in the region to be involved in.

I'll go through that briefly with you. I think there's a very legitimate and proper role for the Congress in foreign policy. It is not to speak for the President. That's not our job. It's not to speak for the Secretary of State or for the American people. We don't set the diplomatic direction for America, but we do have a legitimate right

of oversight and a responsibility to monitor the policies and the dollars that we're providing for our foreign policy.

In the case of dealing with China, we reinforced that over and over again, but we also challenged each of the parliaments, the Japanese Diet, the Supreme People's Assembly, the Chinese People's Congress, the Russian Duma, and our own Congress, to come to a two-day conference or seminar at Mount Diamond. Mount Diamond is a South Korean Hyundai-built recreational complex right above the DMZ along the coast.

It is a beautiful complex that the North Koreans allowed to be built in North Korea, financed by the South Koreans, as a way to bring in tourism. And getting the support of three major South Korean business entities, including Joong Ang Ibo, which is their largest media conglomerate—in fact, their CEO is now the Ambassador to the U.S. here—KITA which is an industrial association, and a third group involving Hyundai. We have secured the financial support to bring parliamentarians from all five nations to meet with parliamentarians from North Korea at Mount Diamond for two days.

We would not have negotiations, not even discussions around the more sensitive issues, but rather as an attempt to build dialogue among individuals. I'm one that believes that kind of dialogue is a way that we can help the Administration convince not just North Korea, but the other parties that the foreign policy that we're moving on is the right foreign policy for the region.

Once we ended those two days of discussions at Mount Diamond, then the American delegation would go into Pyongyang and I've been committed to a meeting with Kim Jong-Il which is kind of historic because he's not met with an American since Madeleine Albright was there in 1994.

I've also been given the temporary approval, preliminary approval to speak at Kim Il-Song University, which is the major university in North Korea.

The problem is at this point in time, the Administration doesn't necessarily want to support that with an airplane. So I'm in a dilemma. I've got 20 Members of Congress ready to go, ten Democrats and ten Republicans. I'm a supporter of the President, supporter of the foreign policy, and I've got to work this one gingerly just as I've done every other trip and as I did on both trips to Libya.

I want to thank you for the work that you're doing. I'm going to continue to press forward for one simple reason, and I'll explain that to you as I explained in a speech to the Korea Society two weeks ago, and a speech last night on the Hill. I don't choose to be a diplomat in my life. Like the good Senator, one day I hope to leave this institution and go out and do real things in life, perhaps as a teacher, which is what my profession is.

I don't want to be in the diplomatic corps. I don't want to be in the State Department. I don't have any desire for that, but as a Senior Member of the Armed Services Committee who has spent 19 years on that Committee and is now Vice Chairman, like the Senator, I've had to go into people's homes, families in my district and sit across from a mom and dad and explain to them why I voted

to have their loved one come home in a body bag, because of wars that we've gotten involved in.

That is the most difficult part of any elected official's job, to sit down face to face with a family of a loved one who has been killed, and I've done that many times, and I'm not a shrinking violet. I'm a very strong supporter of our military and I support the President and his decision to go into Iraq and Afghanistan and I support it today.

I've had to go into homes to explain that vote and that decision, but I'm going to use every bit of energy in my body, as long as I'm in Congress, whether the White House or the State Department likes it or not, to support the President's ultimate objective which is to peacefully resolve in this case the nuclear crisis and peacefully resolve the problem between Taiwan and China.

Now, I would say this to you as a Member of Congress. There are people in the Administration who don't have to sit in those homes, who don't have to talk to those families, who sometimes advise the President that lead to those decisions that end up causing war and conflict. I'm never going to take a backseat to them. I'm not going to overstep their responsibilities nor their jobs. But I am going to exercise the legitimate right that I have as a Member of Congress in advising a President who I campaigned hard for to accomplish peacefully a solution to the resolution of the China problem with Taiwan and a resolution peacefully of the North Korean-South Korean situation.

Thank you.

Panel IV: Discussion, Questions and Answers

Chairman D'AMATO. Thank you very much, Congressman, and thank you very much for your tremendous service, for that very impressive presentation, your activity in this area, your energy and your vision. It's very impressive for me and for the rest of the Commission. Do you mind a couple of questions?

Mr. WELDON. As many as you'd like.

Chairman D'AMATO. I just have one quick one myself. In your discussions, particularly with the Chinese, if they admit that there is a historic moment here, which I hope that, as you say, they do, have you asked them why they have not put together themselves a comprehensive proposal to engage the rest of us, but seem to have stayed in the background just doing enough to host the talks but not providing the menu that would move them forward?

Mr. WELDON. We have and what they maintain is that the main challenge is for the U.S. to resolve the problem with DPRK. That it is within our control, that the North Koreans perceive the major threat coming from the U.S., and not from China. I would say at this point in time that's probably correct, but I would also say, as I did to the Chinese, that they have to understand that they are the one country that has a maximum leverage with DPRK and therefore they have a special responsibility, especially since they apparently want to assume a leadership role in that region. I can't understand why they want to pursue such an aggressive military strategy and military capability if they don't want to be a leader. And leadership requires actions.

So if you are developing a blue water navy, if you're spending all this money on tactical fighters like the F-10 and the other programs they are building, then why wouldn't you step up to the plate and come up with a constructive scenario to end the conflict? That's a legitimate question that we need to be asking of them.

Chairman D'AMATO. Yes, thank you. Commissioner Wessel.

Commissioner WESSEL. Thank you, Congressman. Your constituents are lucky to have you. Your students were lucky to have you after hearing your presentation, and at some point, they'll be lucky again when you decide to enter the private sector.

Mr. WELDON. Thank you.

Commissioner WESSEL. I have two questions for you. Earlier this week, The New York Times reported that the Chinese Foreign Minister asked questions about the quality of our intelligence, and that, as you well know, has been an issue we've all had to deal with for some time. In your talks with the Six-Parties, your discussions and visits, how much confidence do they have on the state of the North Korean program, which really is the underlying assumption in terms of the process as well as the priorities we have in terms of those talks?

Mr. WELDON. That's an excellent question. In fact, if you read today, a Russian leader in the Foreign Ministry—and I hosted the Foreign Minister from Ukraine for breakfast this morning, and we talked about this issue—a Russian official yesterday declared that North Korea does not have nuclear weapons, and emphatically came out against the position that even the North Koreans have declared.

He said, yes, they have the ability to reprocess the 8,000 rods, this was a Deputy Director of the Ministry of Atomic Energy in Russia—but that he doesn't believe they have actually weaponized that nuclear capability. I can tell you only what they told me on both of our trips. They were open. On this trip, Kim Gye Gwan, and I have his actual quotes, which I can give you for the record, he started off by saying, look, let's not fuss about whether or not we have nuclear capability. We have it. I'm telling you let's get over it.

We are a nuclear state, and those were his exact words. I tend to believe they do have nuclear weapons. I tend to believe they have a handful, perhaps anywhere from two to ten. I believe they're probably very crude, but I think if you placed one of them in Seoul or near Seoul, you'd end up with millions of people that would be obliterated.

The question that really needs to be answered is do they have an enriched uranium program? They allegedly admitted that to Secretary Kelly when they had the discussion in 2002, and then later on, they said that was a misinterpretation of what they had said. I can tell you what the Foreign Minister said to us, again, this is an exact quote from the DPRK Foreign Minister, and "We have no enriched uranium program." It was emphatic, it was clear.

Now, I'm not a nuclear scientist. I have no way of evaluating that. In fact, we're working within the defense establishment to find ways to more fully understand how to detect enriched uranium programs. But in this case, they've denied they have. We have no way of knowing. The only thing that I told the North Koreans, and

our entire delegation repeated this over and over again, if we have to have total, complete and transparent assessment and removal of all nuclear capabilities above ground and below ground.

What was interesting on this trip, though, was we convinced the North Koreans that time was not on their side. And I'll make two quick points to follow up, if you mind, to this that I think shows the importance of bipartisan congressional travel on these delicate issues.

In our first trip to North Korea, we're sitting across the table, my three Democrat friends, and my two Republican friends, and Kim Gye Gwan is berating America, you just don't understand, you're belligerent, you don't want to respect us, you're not allowing us to live in peace, you're constantly threatening us, and all this happened because of George Bush.

And, you know, George Bush is the problem. This didn't happen under President Clinton. It's all a problem of George Bush, and with that Eliot Engel, a good friend of mine, a liberal Democrat from New York, jumped in and said wait a minute. I didn't vote for George Bush. In fact, I campaigned for Al Gore. For you to say this is all about George Bush is totally completely wrong.

This is not about George Bush. This is about your behavior. It's about your launch of a Taepo-dong missile over Japan. It's about the persecution of your people. It's about the proliferation of your weapons of mass destruction technology. You are the reason there is a problem and your actions, not the changing of the Presidency in the United States.

To me, that's the ultimate statement that a diplomat could never make with the degree of sincerity and forcefulness that Eliot Engel made and that's an important part of, I think, why we have to have these kinds of efforts.

The second thing, on our last trip. We reinforced to them that time is not on their side. We talked about missile defense. We said, you launched a three-stage missile over Japan in August of 1998. Do you know what the American response to that is? We're spending \$10 billion this year on missile defense, \$10 billion, more than the entire economy of your country on missile defense. Because we're not going to give you the opportunity to threaten the security of the American people or our allies.

And I said, secondarily, the President, last year asked for Congress to support a new use of our nuclear weapons called the RNEP, the Robust Nuclear Earth Penetrator. It's very controversial. It's known as a bunker buster. Senator Thompson knows fully well this issue.

I said to them this came within one vote of being passed by the Congress, but it was defeated. If you continue down this path of not cooperating, I could almost guarantee you in this session that Congress will improve the research for the RNEP because of the deep underground complexes that you have.

So the status of their nuclear program, I think, is still undetermined, and in terms of our intelligence, I would just point to what Don Gregg has said frequently. Don Gregg is the executive director of the Korean Society.

He spent 19 years in the intelligence community as the expert on Korea and he was the lead analyst. He then became the U.S.

Ambassador to South Korea. He now runs the Korea Society, and he said that North Korea is the biggest intelligence failure in the history of the CIA and I won't dispute that.

Many of the perceptions I had going in to Pyongyang were not what we saw when we got there. They told us they'd never allow us in the subway, in the subway. We were down in the subway; we had full access; we photographed the entire complex. We got on a subway train, photographed the train, talked to the people, interviewed little kids that spoke English, and got off the subway at another station, and went back up again.

Our intelligence within North Korea is abysmal and I think it's part of our problem and not fully understanding, not only just the status of their nuclear program, but also understanding what *juche* is. I mean I have a lot of respect for my colleagues but I couldn't tell you many colleagues in the Congress could explain to you what the process of *juche* is all about.

If you don't understand *juche*, you have no idea what North Korea is all about. And so anyway I think our intelligence needs a lot of work, and I think Porter Goss is doing an admirable job in that regard to try to beef up our efforts with North Korea, and by the way we shared everything we had with the intelligence community on the way back.

Commissioner WESSEL. Thank you.

Chairman D'AMATO. Commissioner Thompson.

Cochair THOMPSON. Thank you very much, Congressman, for your service. Your insight and analysis is absolutely unique. And I'm sure the whole nation appreciates it. I was wondering whether or not you thought ultimately that even though China is important to this process, ultimately North Korea's attitude has got to be the final arbiter?

Whether or not under any circumstances that they would agree to submit to the kinds of inspections that would be necessary? It would seem to me at this stage of the game our having been so uncertain in times past, making mistakes about what they had and where they had them and so forth, that it would have to be so intrusive as to present a whole new set of problems that we haven't even approached yet. Are we any, has there been any discussion about that or do you have any thoughts about it?

Mr. WELDON. Senator, that's going to be the most difficult part of any solution. We cannot have another '94 Framework because if you don't have transparency, it doesn't matter what was said on the bottom line when it was signed.

With DPRK, you've got to be able to go in on a continual basis, not a one-shot deal, on a continual basis you've got to be able to inspect. When I was there on the first trip, I couldn't sleep the first night after having the travel and all these meetings, and I knew what DPRK was asking for through all the meetings we had, and I had been briefed by Secretary Kelly before we left about what the U.S. wanted.

And I woke up at three o'clock in the morning and jotted down ten things on the back of an envelope and divided it up into two parts. The next morning I said I'd like to meet with Kim Gye Gwan alone tonight with our interpreter and by the way everything that

I said over there was interpreted by the State Department's interpreter.

So our government, and you can have access to this—

Cochair THOMPSON. I thought you'd probably be speaking the language by now.

Mr. WELDON. No. We have a complete and total transcript of every meeting, including this discussion, but I said to him, let me run ten things by you and see what your reaction is so I can go back and tell my President whether or not these would in any way be acceptable. And the two-part process and the ten steps would have them do some very unbelievable things, like join the Missile Technology Control Regime, which I would never think they would even think about; becoming an observer to the Helsinki talks and the Helsinki Final Act, which is a guarantee, as you know, of human rights; rejoining the NPT.

But in the end, the first part of the process required a total and complete transparent assessment over a one-to-two year period of every installation they have above ground and below ground. And I told them, I said that's the only way that our country is going to be confident that you're really being honest with us, especially after the '94 debacle.

They did not object to that. Now, not objecting to that doesn't mean they approve it, and it certainly, as you have pointed out, not the kind of extensive oversight that's going to be required. For us to have an eventual agreement with DPRK, we've got to have complete and total access to all of their sites.

And anything less is not going to be satisfactory because it means they could continue to build nuclear capability or other capability without our knowledge. Achieving that is not going to be easy, but I do think it's possible.

The North's economy is going along right now. In fact, the people in Pyongyang appear to be well fed. The city is working. They've got public transportation.

Chairman D'AMATO. Excuse me just a second, Congressman. I just wanted to let you know that there is a vote that is on in the House.

Mr. WELDON. Is it a single vote? Okay. Five minutes and I'll continue to talk. I've missed a vote before. I'll miss one again. If I get blamed, it's all your fault.

But anyway, Pyongyang with its two million people is working. It may not be the most advantageous, but it's working, and the city actually is quite a beautiful city. And they've got investment coming in, which is another way that we could squeeze them by shutting off that investment through three specific banks which is another option that we have.

But the rest of the country is, I would imagine, abysmal from what I have heard and from what we've heard from people that have gotten out. The human rights violations and abuse and torture and lack of food is just beyond our comprehension.

In the end, they know that they need the West and western investment for their economy. What they really want is they want acceptance by the U.S. and don't know how to get it, and the question we really have to ask ourselves is are we willing to give them what in effect becomes at least in the short term legitimacy?

Are we willing to accept that regime? Now, that's a very fervent debate especially in my party, about whether we can accept. I would have the same debate about the government in China. It's not exactly a bastion of democracy. I might have that same debate about Saudi Arabia. We're trading with both of those countries and I support that.

So my own thought is that I don't like the regime in North Korea, but I think in the end if we find a way to resolve this crisis, they want to open up. I've visited their computer center. I saw kids in second grade working on computers. I can show you photographs, learning the English language on computer terminals in one of their top schools in Pyongyang.

I went to the computer center and saw North Koreans doing computer aided design, showing me how they're designing their bridges, all through computers. This was a personal project of Kim Jong-Il to build the Pyongyang Computer Center, two major installations in the heart of downtown. They want computers.

If they want computers, and they want their society and their people to benefit from western trade, which they obviously want, and I think it's our best interests to establish a process to get rid of these nuclear weapons, and then I think time will do the rest, and I think the situation.

Cochair THOMPSON. Thank you very much. Limited time. I'll pass to one of my colleagues.

Chairman D'AMATO. Thank you. Commissioner Dreyer.

Commissioner TEUFEL-DREYER. By the way, I'm sorry I'm not from Pennsylvania. I would like to vote for you.

Mr. WELDON. Thank you.

Commissioner TEUFEL-DREYER. But, that said, you mentioned if you don't understand *juche*, you don't understand what North Korea is all about. While I may not understand *juche* very well, but I do understand that it's been a failure. And yes, they want respect from the United States, but saying "ha-ha," we have nuclear weapons is probably not the best way to get our respect.

Perhaps someone like you needs to work on that with North Koreans. As you said, there's a big question why the Chinese military continues to expand its combat capabilities. I would argue that the United States and China were actually quite friendly up until the Tiananmen incident of June 4, 1989, and then of course, the Soviet Union fell apart right about the same time. I don't think it's the Taiwan issue at all that's operative here, since Taiwan was present as a factor in the years before 1989, when the U.S. and China were quite friendly.

I think in the United States, there was tremendous disillusionment with China after Tiananmen. People here believed it was going to progress toward democracy; then all of a sudden the PRC began going back in the other direction, where it still is, and the Soviet Union was not around anymore so they couldn't play the Soviet Union off against the United States. In other words, I don't think the Taiwan issue is really the major factor here.

I think Taiwan is something the Chinese are twitting us with: give us Taiwan and all the other issues between us will go away. I don't think that's true. The real issue is that the Chinese feel threatened by having a power that's stronger than they are. More-

over, you mentioned “give them Taiwan back.” Taiwan was never theirs. Of course I realize that you were quoting what they say. But Taiwan never belonged to the PRC in the first place.

So it seems to me the problem is not so easily solvable as they are leading you to believe. There is still the huge U.S. trade imbalance with China and a host of other things. And if those went away, there would still be China’s territorial arguments with Vietnam and Japan and other areas of the world.

Is it possible to talk to them about that, or is it just too difficult?

Mr. WELDON. It is. What I also worry about with China is they’re making massive aggressive moves for energy, getting involved in long-term energy deals that we better pay attention to because our energy needs are being met domestically at home. We’re heavily reliant on the Middle East. I propose to the Administration that we announce a strategic energy relationship with Russia. They have tons of energy; we have tons of need.

The Chinese are very clear and they’re making aggressive moves with a lot of countries, including discussions with nations like India and Iran, Pakistan, about energy availability and we better pay attention to that because 20 years from now when we’re looking for energy, especially if we don’t pass the comprehensive energy plan, which we’ve not yet done in the Congress, then China understands that vulnerability and they’re moving to take care of their people, and they have far greater needs than we do with 1.3 billion people.

On the issue of *juche*, the only reason I mention that is I used to frequently travel to the Soviet Union when it was Communist and it was a closed society. North Korea is a hundred times more closed than the Soviet Union ever was. And you have a closed society with no entry from the outside. Unlike when we used to meet with the young Communists from the Soviet Union, they would come over and they’d say, okay, Curt, our parents are involved in the party, can we go shopping in New York, we want to take some DVDs and some TV sets and radios and we want to buy jeans and all.

In North Korea, with everyone that we met, they actually believe in the system. Now, maybe that’s because they’ve been so oppressed for so long. They all wear pins with the Dear Leader’s face on it, and every conversation starts off with “Dear Leader.”

When we went to Kim Il-Song University, the first 45 minutes was room after room tracing the entire life of Kim Jong-Il from being a baby up through the years—and in the end I said where is the red cape? In America, we’d call a person like this Superman.

They actually create this sense of revering this guy, almost as a god, and what we have to understand is that I don’t get a sense that there are people in North Korea who understand there is something out there that they want to get which is what the Soviets went through right before the country fell apart.

They are satisfied. *Juche* calls upon them to be self-reliant, self-dependent, loyal to themselves and not worry about the outside influence and in the end I think what Kim Jong-Il will do, he’ll starve the people and take care of the people in Pyongyang, and the system will continue to survive.

My chief of staff on my first trip was in Germany visiting an elevator, or Switzerland, visiting the world's leading elevator plant, and while he was there, they were showing them one of only three of the top and most expensive elevators they've ever built, in the history of the company, and two of them were going to North Korea so they find a way to spend money and the same time we have to understand that China, I think, is the major provider of that support base and whether or not China ultimately help us resolve that problem, I think the Senator is correct. In the end, it's got to be North Korea itself that has to resolve it, but China I think can help.

If China pulled the plug on North Korea tomorrow, North Korea would not be able to sustain their self.

Chairman D'AMATO. Thank you. Commissioner Bryen.

Commissioner BRYEN. This has been a fascinating dialogue and particularly your reflections on your visits to North Korea were quite interesting. It makes us all want to go just to see if all what you said is right.

Mr. WELDON. Get me a plane and I'll take you on the next trip, Steve.

Commissioner BRYEN. We may sign up. I wanted to explore this with you because in July of 2003, you had a ten-point plan to try and work through this North Korean problem and in that plan, you talk about a non-aggression pact in two steps. My problem is I don't know what a non-aggression pact is. It seems to me it's a very fuzzy idea, and also a very dangerous idea, or at least it would lead you to believe that it could be a dangerous idea because you could interpret it in so many ways.

In your conversations with the North Koreans, it's almost as if they pulled this thing out of a hat. I'm wondering whether you have any sense of what they mean and what they expect to achieve?

Mr. WELDON. That's an interesting question. They don't know what they mean. They originally talked about a treaty and we told them emphatically there's no way that Congress will support a treaty that guarantees you not to be attacked by our country. That's not going to happen.

And when you referred to a ten-point plan, it was those ten ideas that I put down. Interestingly enough, on this trip, we didn't talk about solutions because that's not our job to negotiate. But the Foreign Minister said to me, Congressman, those ten points you raised in the first trip, if your country would have taken those ten, we wouldn't be here today in this position.

Even though we didn't agree with everything there, that's the way to solve the problem. And in the ten points, what the North Koreans only want is they want a commitment that we will not preemptively attack them. I think they would accept a statement, perhaps in writing, a letter from our President, which he's already said publicly, that we have no plans to preemptively attack them, of course, unless they attack one of our allies or someone of our interest in the region, and we mention that to them.

The second thing they want is they want assurance that we're not going to seek regime change because that's what they think we ultimately want. But the President has said he doesn't seek regime

change. And so in the ten-point process that I laid out, I said at the same time on the same day, five things would happen:

North Korea would renounce its nuclear program publicly, and they would announce they're rejoining the NPT, the Non-Proliferation Treaty. And at the same day, the United States will put an office in Pyongyang, not an embassy, an office, and put someone there to staff it. At the same time, the President would issue a commitment not to attack them, which he's already said he would do; it's not new. And that the five nations would begin a process of discussing the eventual capability of economic support, not economic support, the eventual capability of doing that.

The North Koreans would agree to—within a year to two years—allow a complete, total and transparent inspection of all of their complexes involving nuclear capability. At the end of that inspection to our agreement, only at the end of the inspection to our satisfaction, would the second phase kick in.

And if we never reached that phase where they let us have the access that the Senator talked about, they'd never get to the second part. But if they gave us that unfettered access and let us get into their underground sites and their aboveground complex, then the second phase would kick in.

That would be a permanent commitment not to preemptively attack them unless, of course, they attacked their neighbors. It would then have them join the MTCR. It would have them join the observations of the Helsinki Final Act, guaranteeing human rights for their people.

It would then have the economic plan, including possibly the pipeline type initiative, then be put into place, largely financed by the Japanese and the South Koreans, who have said they understand. That would be their primary responsibility, and that economic plan would go on, and there would be an ongoing inspection process available to annually go back and look at those sites and make sure there would be no restart of the program.

We also added as a final item that we would fund, the U.S. would fund with the other nations involved, a Russian style Nunn-Lugar program, a cooperative threat reduction program like we do in Russia, like we've done in Ukraine, that would go into DPRK and pay for the removal of all the nuclear capabilities that we had seen developed in our assessment.

To me, it was pretty simple. To me, it accomplishes what we want and it accomplishes what they want. Now maybe they're bluffing, maybe they're BS-ing, maybe it's time to call their bluff in front of the world and say, okay, you're telling us you're ready to give it up, you're telling us you're ready to be transparent, well, do this, do it, and if you don't do it, then obviously we've proven that they don't want to peacefully resolve this issue.

And if that came a point in time, I'd be prepared to support the President in whatever action he decided to take.

Chairman D'AMATO. Thank you.

Commissioner BRYEN. Can I follow that up? Right now we're just talking about talking; right? That's the status. No dialogue?

Mr. WELDON. Yes, there's no realignment of it. They have not, they agreed to come back, but then they, because of the "outposts of tyranny" have backed out.

Commissioner BRYEN. So is it conceivable that their strategy is just to drag this thing out as long as they conceivably can, until they really have a full-up nuclear capability and they really have a full-up delivery system, and they've gotten to where they want to get to?

Mr. WELDON. I think that's part of it. And that's why, Steve, on our trip, throughout our meetings, we stressed the fact that time was not on their side. That's why we brought up the ballistic missile defense initiative and how we're spending \$10 billion a year. That's why we brought up the RNET, the nuclear penetrator. And that's why Fred Upton, who is Subcommittee Chairman on Energy, brought up the energy bill, which has a provision that says no U.S. dollars can be used by the President in North Korea, and we told them it's only going to get worse.

The longer you take to come back to the table and resolve this conflict peacefully, the more the Congress is going to be aggressive, even beyond the President, in holding you accountable for your actions.

So I would agree and I don't think time is on our side; I don't think it's on their side. It's in both of our interests to get this resolved.

Commissioner BRYEN. Congressman Weldon, I just want to join the other Commission Members in saying that you've shown outstanding leadership in this area, and it's very much appreciated.

Mr. WELDON. Thank you.

Chairman D'AMATO. We have more. Commissioner Mulloy.

Commissioner MULLOY. Thank you, Mr. Chairman. Congressman, I'm a native of northeastern Pennsylvania and I have strong ties up there, and I am really proud of your presentation here today and all you've tried to do.

Mr. WELDON. Thank you.

Commissioner MULLOY. I agree that Taiwan and Korea are really very difficult situations. Sometimes I look at Taiwan and you almost think it's going to be like a Greek tragedy, these forces driving that and we got to find some way to delink these problems or to deal with that. Having worked in the Congress for 15 years and then having been an appointed confirmed official in the Executive Branch, I agree with you. You have to have the elected representatives of the people pressing these guys who are appointed because they haven't been out there getting elected and being with the people. So I salute you in everything you're doing here.

Your plan about how to deal with the Korean situation, it appears to me that in order to get this first thing, the non-aggression pact, that you would have to have to have a separate negotiation first with Korea before you go into the Six-Party Talks; is that what you—

Mr. WELDON. No.

Commissioner MULLOY. This Administration does not seem to want to do that, and I'm just wondering what is your own view?

Mr. WELDON. I think you do it within the Six-Party Talks. What they're looking for, they're looking for a package deal, but I think the other four countries will go along with America's lead. I don't think they present any problem. I think what the President has

said, that this issue can't be resolved by the U.S. alone because if it fails, the U.S. will then bear the full responsibility.

The other countries are there in the region; they've got to accept. I think it can be done through the Six-Party process.

Commissioner MULLOY. So you think that we're right in saying we want to get to the Six-Party and not—

Mr. WELDON. Yes, I don't think we should negotiate with them alone. I think that would send the wrong signals to China and Japan and Russia. I think they need to be a party to this. They need to be responsible financially. The taxpayers here shouldn't have to pay for, in this case, North Korea cheating on an agreement that they signed in 1994. That's not fair either.

Commissioner MULLOY. That's very helpful. I want to thank you again and look forward to our Commission working with you in every way possible.

Mr. WELDON. Thank you. Thank you.

Chairman D'AMATO. Thank you. And one last question. Commissioner Donnelly.

Commissioner DONNELLY. Mr. Weldon, having served with you on the staff of the Armed Services Committee, nobody is more respectful of your service or more impressed by your intellect than I am. I have to confess I'm kind of tickled to be on this side of the microphone.

Mr. WELDON. I bet you are.

Commissioner DONNELLY. I'm happy I'm not testifying in defense of a staff markup.

Mr. WELDON. As I look up here, I said what I am doing on the wrong side here?

Commissioner DONNELLY. So I'm going to enjoy the moment, at least briefly. Two things struck me about what you said. First of all, I was struck by what the Chinese told you about their perception of our priorities in the region, particularly that denuclearizing North Korea is our number one priority, and my question would be why do they think that? Why is the denuclearization of a failing state is more important to us than the militarization of a rising superpower or the democratization of a rising superpower?

And secondly, I just wanted to tease out this idea of the deal you propose with North Korea, and wonder whether there wouldn't be a demonstration effect if we legitimize the Kim regime, whether the Iranians and others aren't going to essentially demand the same kind of a deal, and what you think the—

Mr. WELDON. I don't think we can allow anyone to demand a deal from us, and the Iranians are a major problem. In fact, I have a book that's going to be coming out in several weeks that's going to blow the lid off of this city because it's going to document the past two years of evidence I've given to the CIA, all of it dated, about Iranian involvement in Iraq and Afghanistan, that we could have paid attention to more directly and did not.

I don't trust Khameni. I differentiate him from Khatami and the government, but his intentions are very, very dangerous, not just in the region, but also toward us.

We have to make a decision. I told the Administration this and I've told the President this, if my President of my party decides that he can only resolve the North Korean question by going in and

changing regime, then I wouldn't have gone over there. I'm not out to be some kind of a hero. If the President of my party and my leader decides based on all the information he has, which is far more than me and far more intelligence, for whatever reason, we have to achieve regime change, and I would accept that.

But that's not what the President told me, and that's not what the President said publicly. He has said he wants to achieve the removal of the nuclear capability in Korea, and he wants to do peacefully and my goal is to help him.

I don't think we necessarily have to legitimize any regime. I hope we're not legitimizing the government in China, which if you look, still has major human rights problems and concerns. I don't think we're legitimizing the government of Saudi Arabia and some other Middle Eastern countries that maybe are not the democracy ideal that we want.

I think we've got a more pressing problem of the potential of transfer of nuclear capability to some very unstable leaders. Now, we already know that A.Q. Khan was involved in Libya, and I will guarantee you he was involved in North Korea as well. The sources that I fed to the CIA told me a year and a half ago that Iran sent two teams up through China into North Korea in a direct attempt to acquire the nuclear technology.

Now, those were Iranian sources from the highest levels of people that are in the know of the Council of Nine, advisors to Khameni. I don't think we have to legitimize, but I think we have to deal with what we have here to solve this immediate problem, and at the same time standing up for the values that have always been a key part of what America stands for, and that's not an easy task, and there are going to be people who criticize us for that because there are some people that say we need regime change immediately.

One final point, I would ask you all to consider what I think is the gravest threat to our security, and I think you need to look at this in the context of China. Two years ago I raised the issue of a focus on electromagnetic pulse. The Administration and the Defense Department was not paying attention to it. We forced this issue. I mandated language in our defense bill to create the EMP Commission.

The EMP Commission met for a year. I led the extension of that effort for another year of the top scientists in our country that have looked at the use of electromagnetic pulse against our country and against our military. I can guarantee you the Chinese military understands EMP. And I can guarantee you if I were a Chinese military officer, and I wanted to eventually look at the possibility of a scenario to take back Taiwan, I would launch a low complexity missile over Taiwan and I would detonate a nuclear weapon in space. That nuclear weapon would fry all the electronic components of Taiwan and dumb it down, and it could also in the Chinese mind dumb down our carrier battle fleet in the region. That's not going to work, but that's what I think some in China think.

That's my gravest concern about the vulnerability in the China-Taiwan situation, that if push comes to shove, and if the Chinese believe they've got to take military action, they would do it, first of all, by laying down electromagnetic pulse. The EMP Commission

headed up by Dr. Peter Pry will be happy to come in and give you a full brief. They briefed the House in July. They briefed Jon Kyl in the Senate Committee just a week ago. I would have him come in and brief you specifically in a classified session or maybe a secret session about the implications of the use of EMP by the Chinese.

Chairman D'AMATO. Thank you. We will do that, Congressman, Congressman Weldon.

Commissioner WESSEL. Mr. Chairman, let me just say thank you on that. We have looked at the HAND, high altitude nuclear device, and other issues, so we need to continue that and work with you.

Chairman D'AMATO. We'll get a briefing from them. Congressman Weldon, on behalf of the China Commission, we want to commend you for your tremendous dedication, leadership and involvement in these issues and we'd like to stay in touch with you.

Mr. WELDON. Thank you very much.

Chairman D'AMATO. Thank you for your service.

Mr. WELDON. Thank you.

Cochair THOMPSON. Thank you.

Chairman D'AMATO. We'll take a five-minute break before beginning the next panel.

[Whereupon, a short break was taken.]

Chairman D'AMATO. The hearing will come to order, and I will turn the proceedings over to Commissioner Bartholomew who will be officiating this afternoon.

**OPENING STATEMENT OF COMMISSIONER CAROLYN BARTHOLOMEW
HEARING COCHAIR**

Cochair BARTHOLOMEW. Thank you very much, Mr. Chairman. I just want to give a brief statement myself and then we'll move forward to hear from our witnesses. Right now we're going to hear from two panels focusing on the North Korea crisis in China.

We're pleased to hear from three distinguished non-governmental experts who I welcome and thank in advance for their time and their willingness to share their expertise with this Commission. We're also particularly honored that we'll be joined later this afternoon by Joseph DeTrani, the U.S. Government's Special Envoy to the Six-Party Talks.

It's a very busy day for North Korea experts on Capitol Hill. Chairman Hyde held a hearing in the House International Relations Committee this morning on North Korea, at which former Secretary Perry and Ambassador Lilley both testified.

As discussed here this morning, the proliferation of weapons of mass destruction is a real and global concern. The Chinese government wishes to be taken seriously as a global player and seems to yearn for global respect. To achieve those goals, it must act responsibly and effectively on issues of global interest such as human rights, compliance with its WTO obligations and halting the proliferation of weapons of mass destruction.

Yet, while the U.S. Government and governments of other nations continue to identify proliferators and WMD transactions and networks, Chinese companies continue to export WMD-related technologies to problematic countries such as Iran. It's a sad state

of affairs that the Chinese government reportedly employs 50,000 people to monitor Internet activity in China, but claims that it cannot control the proliferation behavior of a handful of companies, companies with ties, often familial, with the government.

Another issue closely related to the proliferation question, of course, is North Korea. China provides the majority of food and oil to the North Korean regime and in effect keeps Kim Jong-Il in power. His regime, aside from presiding over a long-running human rights debacle, has chosen to play a risky and dangerous game of nuclear blackmail with its neighbors and with the United States.

For at least a decade, China's potential role in resolving the North Korea crisis has been invoked as an explanation or an excuse for why the United States could not push China too hard on other interests such as human rights, market access, and even sometimes missile proliferation.

More recently, we have been told repeatedly that the Chinese government is playing a critical role in the Six-Party Talks. At times, it seems that we are being sold a bill of goods. How many times can the Chinese government get credit for bringing North Korea to the table when little progress seems to be made at that table, and in fact, the table itself often seems to be broken.

This issue is not going to resolve itself and the longer it goes on, the more dangerous it becomes. Since their initial meeting in August 2003, the Six-Party Talks have been the instrument by which five nations greatly affected by North Korea's actions have sought to obtain responsible steps from Pyongyang.

It was troubling to see earlier this week a report that China is calling for the U.S. to deal with North Korea on a bilateral basis. China has since said the article was inaccurate and claims that Beijing remains committed to the Six-Party Talks. If this is truly the case, we expect to see China using all of its leverage as soon as possible to bring about positive results.

I look forward to hearing more on this and other issues in the next two panels. These topics are crucial to the security of the entire world, not just to the United States, so thank you very much.

Now we have Selig Harrison and Balbina Hwang testifying in front of us. I think their biographical information is out. Just very briefly, Mr. Harrison has a long and distinguished history and career working on East Asia issues. Currently he's the Director of the Asia Program at the Center for International Policy and is a Senior Scholar at the Woodrow Wilson International Center for Scholars.

He's also the Director of the Century Foundation's Project on the United States and the Future of Korea.

Ms. Hwang is a policy analyst at the Asian Studies Center at The Heritage Foundation. She's a native of Korea and is completing her dissertation focused on issues related to Korea. We look forward to hearing from both of you.

Henry Sokolski will be joining us a little later this afternoon. Mr. Harrison, would you like to start?

[The statement follows:]

**Prepared Statement of Commissioner Carolyn Bartholomew
Hearing Cochair**

We will now hear from two panels that will shed additional light on the North Korea crisis and China's role in it. We are pleased to learn more about this topic from three non-governmental experts and an Administration official directly involved in the matter.

As discussed this morning, the proliferation of weapons of mass destruction is one of modern life's most frightening realities. It is a truly global concern. Should China seek global respect, it must act responsibly and effectively on universal issues of concern such as human rights and WMD proliferation. The U.S. Government and the governments of other nations continue to voice their concerns, yet Chinese companies continue to export WMD-related technologies to problematic countries such as Iran. It is always fascinating, or rather, horrifying for me to hear that the Chinese government is able to use thousands of individuals to monitor its own people's internet activity yet claims that it cannot control the proliferation behavior of a handful of companies—companies with ties, often familial, with the government.

Another issue closely related to the proliferation question, concerns North Korea. China provides the majority of food and oil to the North Korean regime and in effect, keeps Kim Jong-il in power. This regime, aside from presiding over the longest running human rights debacle of any modern regime, has chosen to play a risky game of nuclear blackmail with its neighbors and the United States.

I cannot overstate this fact—China's interests with North Korea do not coincide with our own. It is true that China is concerned about a nuclearized North Korea, but Chinese media sources have stated the main cause for this is fear of a nuclear arms race involving other regional players reacting to Pyongyang's ambitions. It is also true that China is fearful of seeing North Korea descend into a state of chaos should the current North Korean regime collapse. What is in China's interests is to maintain the Kim Jong-il regime and thus maintain North Korea as a traditional "buffer" zone. The food and oil exports have accomplished this goal thus far. At the same time, China wishes to engage the other regional powers to quell any fears and maintain the status quo.

Since their initial meeting in August 2003, the so-called Six-Party Talks have been the instrument by which five nations greatly affected by North Korea's actions have sought to obtain responsible steps from Pyongyang. The outcome of the talks has not been positive and China has not fought hard to see real progress. It was disturbing to see, earlier this week, a report that China is calling for the U.S. to deal with North Korea on a bilateral basis. China has since said the article was inaccurate and claims that Beijing remains committed to the Six-Party Talks. If this is truly the case, we expect to see China using all its leverage, as soon as possible, to bring about positive results.

I look forward to hearing more on this in the next two panels. These topics are crucial to the security of the entire world, not just the United States. Thank you.

PANEL V: RECENT DEVELOPMENTS AND IMPLICATIONS

**STATEMENT OF SELIG S. HARRISON, SENIOR SCHOLAR
WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS
DIRECTOR, ASIA PROGRAM, CENTER FOR INTERNATIONAL POLICY
CHAIRMAN, TASK FORCE ON U.S. KOREA POLICY**

Mr. HARRISON. Thank you very much, Madam Chairman. I'm going to begin with a discussion of China's priorities in dealing with the denuclearization of North Korea. And then I will suggest how the United States can work more effectively with China, South Korea, Japan and Russia in negotiating a definitive end to the North Korean nuclear weapons program.

In earlier testimony before this Commission, Ambassador Stephen Bosworth declared on July 24, 2003, that quote:

"China has basically three fundamental objectives in the Korean Peninsula . . . no nukes, . . . no war, . . . no collapse."

I endorse this assessment. Of these three priorities, the most important in Chinese calculations is to forestall a war by keeping the United States engaged in Six-Party negotiations with North Korea of indefinite duration.

The danger of a war resulting from a U.S. effort to promote regime change in Pyongyang is taken very seriously in Beijing in the context of two-related factors. First, a war in Iraq in which the United States has proved willing to accept heavy casualties in order to remove a dictatorial regime.

Secondly, the stated desire for a regime change that underlies U.S. policy toward North Korea, exemplified by the President's statement to Bob Woodward in *Bush at War* that he, quote, "loathes Kim Jong-Il" and would like to, quote, "topple his regime."

Given its focus on avoiding an inadvertent or a deliberate war, China would like to see a clear end to a U.S. policy that is based on a hope for regime change and a desire to promote it with the help of China.

What China wants accordingly is a denuclearization agreement that is directly linked to the normalization of U.S. and Japanese relations with North Korea. In this connection, several think tank specialists and foreign ministry officials in Beijing, whom I've met on visits there for the purpose of discussing North Korea within the recent past—one in December and earlier in April—have expressed dissatisfaction with a key feature of the June 24, 2004 U.S. proposal submitted in the Beijing talks for North Korean denuclearization.

The full text of this proposal, our proposal, U.S. proposal, is in the report of the Task Force on U.S.-Korea Policy, that I chaired which I believe the Commission staff has circulated.

In this proposal, the Administration stated explicitly that even if North Korea agreed to a satisfactory denuclearization agreement with full verification, the United States would not be prepared to normalize relations.

This position contrasted sharply with the South Korean proposals made on the same day, June 24, that explicitly envisaged the normalization of U.S. and Japanese relations with North Korea in tandem with denuclearization. Now most U.S. discussion, no doubt here today, but in general in Washington, of China's role focuses on its objective of no nukes in Korea and how China can be induced to apply decisive leverage, especially economic leverage, to bring about North Korean acceptance of a denuclearization agreement.

However, little attention is paid to how China views the June 24 U.S. denuclearization proposal. I'm going to just quote one brief passage from a forthcoming article in the *Washington Quarterly* by Anne Wu, who is a middle level Chinese Foreign Ministry official now in the United States and a little more free than serving officials to say what she thinks. Here is what she says, "China would like to see flexible and practical U.S. policy toward North Korea instead of a take it or leave it proposal."

Specifically, China favors a step-by-step denuclearization process based on simultaneous concessions by the two sides in which at each step, to quote the Chinese official phrase, the two sides exchange, quote, "words for words" and "action for action."

By contrast, the U.S. proposal would require North Korea to reveal all of its nuclear capabilities at the outset of negotiations, at the outset of a denuclearization process, and to quote—from the U.S. proposal—quote, "permit the publicly disclosed and observable

disablement of all nuclear weapons, weapons components and key centrifuge parts" before we on our side, the U.S., indicates what incentives would be offered to North Korea in return.

So there's a big difference between the Chinese conception of what is an acceptable and realistic and workable basis to get denuclearization and our own at this stage.

I think you might have mentioned, Madam Chairman, why don't they put forward a comprehensive proposal, or somebody did in the questioning of Congressman Weldon. Publicly, Beijing does not express its criticisms of U.S. policy in order to keep relations with Washington on an even keel. This is partly because it feels dependent on U.S. goodwill for its energy security and partly because it wants to neutralize U.S. support for Taiwan in any future crisis. They have many fish to fry in their relationship with the United States, so they play it in a very discreet way, and it was quite remarkable when the Foreign Minister on the sixth in his press conference made the statement that I'm sure you are all familiar with, that in effect said that they didn't accept our intelligence assessment with respect to the uranium enrichment program.

Now, more broadly, underlying China's attitude toward North Korea is, as is often said, a desire to stabilize its northeastern border and to reinforce the status quo in its relations with other northeast Asian states. Thus, the deployment of operational North Korean nuclear weapons, and we're far from that at this stage, would clearly be destabilizing because it would trigger the nuclear ambitions of Japan, also South Korea and Taiwan.

But, an unstable regime and an uncontrollable flow of Korean refugees to Manchuria where an ethnic Korean minority of three million is already concentrated—would also be destabilizing. For this reason, China is critical of the North Korea Human Rights Act, which as Anne Wu observed in that article I mentioned in the Washington Quarterly is: "likely to further complicate Beijing's diplomatic effort by reinforcing Pyongyang's perception of a hostile policy on the part of the U.S. and by encouraging further defections."

From China's point of view, further defections would be destabilizing and contrary to its interests in that northeastern border.

I will now conclude with a brief discussion of U.S. policy options, and we can explore this part of my testimony further if you wish in the discussion. My views are outlined in detail in the report of the Task Force on U.S.-Korea Policy under my chairmanship in which 28-leading academic, governmental and military specialists on North Korea participated including former Chief of Staff Admiral Crowe.

Two key steps by the United States could lead to a resolution of the present impasse in the Six-Party Talks and could set the stage for successful step-by-step negotiations, as distinct from the all at once approach we've now got, leading to denuclearization with full verification.

First, I would propose statements by the President and Secretary of State to set the stage for the negotiations in which the U.S. finds an acceptable way to back away from regime change. At a minimum, the Secretary of State should reaffirm that the United States has, quote, "no hostile intent" toward North Korea.

These were the key operative words in the October 12, 2000 Joint Communiqué in Washington by former Secretary of State Albright and North Korea's number two leader, Vice Marshal Jo Myong Rok.

Now it's possible, but I'm not at all certain, that the words "no hostile intent" would be sufficient to get North Korea back to the bargaining table and certainly a necessary step to get a settlement would be for the President or Secretary Rice to state that the United States is prepared for, quote, "peaceful coexistence with North Korea despite the differences in social and political systems."

Now, this is much more important than the type of non-aggression pact or multilateral security guarantee that Congressman Weldon was discussing. In the eyes of the North Koreans—would such a statement be a retreat from the President's inaugural address? The White House has said that the President's call to end tyrannical regimes was only a long-term declaration of U.S. values. Thus, a declaration of readiness for peaceful coexistence with North Korea could be rationalized, in my view, by the White House if it is seriously afraid of a North Korean nuclear weapons program and wants realistically to stop it.

In my view, in the absence of such a declaration or some other formula for backing away from the regime change policy in a credible fashion, it is unlikely, unlikely that meaningful negotiations on North Korean nuclear disarmament will be possible.

So I think we have a choice to make. We have to decide are we seriously worried about the North Korea nuclear program or not?

Number two, the state of negotiations is currently blocked in part by the U.S. requirement that North Korea admit to an alleged secret weapons grade uranium enrichment program. I discussed this issue at great length in an article in *Foreign Affairs*, the January issue, and I will just say today that I think this uranium proviso should be removed from the U.S. denuclearization proposal to permit what I call a plutonium first policy, and that's the one that this Task Force on U.S.-Korea Policy has endorsed.

Of course, we have to include in a denuclearization settlement adequate steps to determine what, if any, uranium enrichment capabilities they have as part of a step-by-step process but not as a hurdle that has to be crossed at the very beginning before any other negotiations can move forward, which is what our posture amounts to now.

As the task force observed, quote, "No evidence has yet been presented publicly to justify the U.S. accusation that facilities capable of enriching uranium to weapons grade exists in North Korea." I spell out this argument in my *Foreign Affairs* article, and the South Korean National Intelligence Service, the director, Mr. Ko Yong Ku, formally endorsed that view, not by naming me, but in the language he used about the uranium program in his February 24, 2004 report on North Korean nuclear capabilities to the National Assembly's Intelligence Committee.

That testimony, which I think was very important, has not been reported in the U.S. media up till now so far as I know. The Chinese Foreign Minister on March 6 has also indicated that he doesn't buy the U.S. intelligence assessments on the uranium program, not plutonium, that were presented by President Bush, to

President Hu Jintao at the APEC meeting. And then the President sent Michael Green of the NSC to meet with Hu Jintao, and the President requested an audience for him, and they put some stuff before him, and after all that, for the Chinese Foreign Minister to say that I definitely know no more about this than you do to a question he was asked is a very diplomatic and very Chinese way of saying that they don't buy what we put before them.

I hope if the Administration has evidence on this uranium enrichment plant, it will be put forward. That will put North Korea on the defensive. It will help us to line up a solid diplomatic coalition in the Six-Party Talks. Unless conclusive evidence comes to light, however, and is put forward, the entire uranium issue should be deferred so that the parties can focus on the more immediate threat, North Korea's known plutonium reprocessing capabilities. Since the 1994 agreement collapsed, there is clear evidence that Pyongyang has reprocessed some or all of the 8,000 plutonium fuel rods at the Yongbyon reactor that had been safeguarded by the accord.

By insisting that North Korea confess, as it were, to the existence of a uranium program before new negotiations on denuclearization can begin, the Bush Administration has blocked action, has tied our hands in dealing with the one present threat that North Korea is clearly known to pose: the threat represented by its reprocessed plutonium which could be used for nuclear weapons or transferred to third parties.

Thank you very much.
[The statement follows:]

**Prepared Statement of Selig S. Harrison
Senior Scholar, Woodrow Wilson International Center for Scholars
Director, Asia Program, Center for International Policy
Chairman, Task Force on U.S. Korea Policy**

China, North Korea and the United States

Thank you, Mr. Chairman. I will begin with a discussion of China's priorities in dealing with the denuclearization of North Korea and will then suggest how the United States can work more effectively with China, South Korea, Japan and Russia in negotiating a definitive end to the North Korean nuclear weapons program.

My observations are based on extensive discussions in Beijing concerning North Korea from April 10th to 24th and December 12th to 16th, 2004, together with four decades of study of the Chinese role in Northeast Asia as Senior Fellow in charge of Asian Studies at the Brookings Institution from 1963–1965; as Northeast Asia Bureau Chief for the *Washington Post* from 1968–1972; and as a Senior Associate of the Carnegie Endowment for International Peace from 1974–1996. I am currently a Senior Scholar of the Woodrow Wilson International Center for Scholars and Director of its Project on Oil and Gas Cooperation in Northeast Asia, and Director of the Asia Program at the Center for International Policy.

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In earlier testimony before this Commission, Ambassador Stephen Bosworth declared on July 26th, 2003, that "China has basically three fundamental objectives in the Korean Peninsula: no nukes, no war, no collapse." I endorse this assessment. Of these three priorities, the most important in Chinese calculations is to forestall a war by keeping the United States engaged in Six-Party negotiations with North Korea of indefinite duration.

Testimony Prepared for a Hearing of the U.S.-China Economic and Security Review Commission on "China's Role in the North Korea Nuclear Crisis," March 10, 2005, Dirksen Senate Office Building, Washington.

The danger of a war resulting from a U.S. effort to promote regime change in Pyongyang is taken seriously in Beijing in the context of two related factors: (a) a war in Iraq in which the United States has proved willing to accept heavy casualties in order to remove a dictatorial regime, and (b) the stated desire for regime change that underlies U.S. policy toward North Korea, exemplified by the President's statement to Bob Woodward in *Bush At War* that he "loathes" Kim Jong Il and would like to "topple" his regime.

Given its focus on avoiding an inadvertent or deliberate war, China would like to see a clear end to a U.S. policy that is based on a hope for regime change and a desire to promote it with the help of China. What China wants, accordingly, is a denuclearization agreement linked to the normalization of U.S. and Japanese relations with Beijing.

In this connection several think tank specialists and Foreign Ministry officials in Beijing expressed dissatisfaction with a key feature of the June 24th, 2004, U.S. proposal for North Korean denuclearization. In this proposal the Administration stated explicitly that even if North Korea agreed to a satisfactory denuclearization agreement with full verification, the United States would not be prepared to normalize relations. This position contrasted sharply with the South Korean proposal on June 24th that explicitly envisaged the normalization of U.S. and Japanese relations with Pyongyang in tandem with denuclearization.

Most U.S. discussion of China's role focuses on its objective of "no nukes" in Korea and how China can be induced to apply decisive leverage, especially economic leverage, to bring about North Korean acceptance of a denuclearization agreement. However, little attention is paid to how China views the June 24th U.S. denuclearization proposal. "China would like to see a more flexible and practical U.S. policy toward North Korea instead of a take-it-or-leave-it proposal," observed a middle-level Chinese Foreign Ministry official, Anne Wu, in a forthcoming article (*Washington Quarterly*, Spring, 2005).

Specifically, China favors a step-by-step denuclearization process based on simultaneous concessions, in which at each step the two sides exchange "words for words" and "action for action." By contrast, the U.S. proposal would require North Korea to reveal all of its nuclear capabilities at the outset of negotiations and to "permit the publicly disclosed and observable disablement of all nuclear weapons/weapons components and key centrifuge parts" before the U.S. indicates what incentives would be offered in return.

Publicly, Beijing does not express its criticisms of U.S. policy, in order to keep relations with Washington on an even keel. This is partly because it feels dependent on U.S. goodwill for its energy security and partly because it wants to neutralize U.S. support for Taiwan in any future crisis.

Underlying China's attitude toward North Korea is a desire to stabilize its north-eastern border and to reinforce the status quo in its relations with other Northeast Asian powers. Thus, the deployment of operational North Korean nuclear weapons would clearly be destabilizing because it would trigger the nuclear ambitions of Japan, South Korea, and Taiwan. But an unstable regime in Pyongyang and an uncontrollable flow of Korean refugees to Manchuria, where an ethnic Korean minority of three million is already concentrated, would also be destabilizing. For this reason, China is critical of the North Korea Human Rights Act, which, as Wu observed, is "likely to further complicate Beijing's diplomatic effort by reinforcing Pyongyang's perception of a 'hostile policy' and by encouraging further defections."

* * * * *

I will now conclude with a brief discussion of U.S. policy options. My views are outlined in detail in the report of a Task Force on U.S. Korea Policy under my chairmanship in which 28 leading academic, governmental and military specialists on North Korea participated. (Copies have been made available to the Commission.)

Two key steps by the United States could lead to a resolution of the present impasse in the Six-Party Talks and could set the stage for successful step-by-step negotiations leading to denuclearization with full verification:

1. Statements by the President and Secretary of State, to set the stage for negotiations, in which the U.S. backs away from regime change. At a minimum, the Secretary of State should reaffirm that the United States has "no hostile intent" toward North Korea. These were the key operative words in the October 12th, 2000 Joint Communiqué in Washington between former Secretary of State Madeleine Albright and North Korea's No. 2 leader, Vice-Marshal Jo Myong Rok.

It is possible that the words "no hostile intent" would be sufficient to get North Korea back to the bargaining table. However, a more effective step would be for the

President or Secretary Rice to state that the United States is prepared for “peaceful coexistence with North Korea despite differences in social and political systems.”

Would such a statement be a retreat from the President’s Inaugural Address? The White House has said that the President’s call to end tyrannical regimes was only a long-term declaration of U.S. values. Thus, a declaration of readiness for “peaceful co-existence” with North Korea could be rationalized by the White House. *In my view, in the absence of such a declaration or some other formula for backing away from the regime change policy in a credible fashion, it is unlikely that meaningful negotiations on North Korea nuclear disarmament will be possible.*

2. The start of negotiations is currently blocked in part by the U.S. requirement that North Korea admit to an alleged secret weapons-grade uranium enrichment program. The U.S. accused North Korea of such a program on October 4th, 2002. According to the U.S., North Korea admitted that it had such a program; according to North Korea, it said it was “entitled” to have one to deter the U.S.

This uranium proviso should be removed from the U.S. denuclearization proposal to permit the “plutonium first” policy that the Task Force on U.S. Korea Policy spelled out and that I have advocated in an article in the January issue of *Foreign Affairs*.

North Korea can hide uranium-enrichment facilities from aerial surveillance more easily than plutonium facilities. North Korean cooperation in intrusive, on-the-ground inspections would therefore be necessary to determine whether Pyongyang is developing a weapons-grade enrichment capability, and if so, how close it has come to producing significant amounts of weapons-grade fissile material. Such cooperation is not likely until the final stages of a denuclearization agreement in which greater trust between North Korea and the U.S. has been developed.

As the Task Force observed, “no evidence has yet been presented publicly to justify the U.S. accusation that facilities capable of enriching uranium to weapons-grade exist in North Korea.” I spell out this argument in my *Foreign Affairs* article, and the South Korean National Intelligence Service formally endorsed my assessment in its February 24th, 2004 report on North Korean nuclear capabilities to the National Assembly Intelligence Committee.

Unless conclusive evidence comes to light, the entire uranium issue should be deferred so that the parties can focus on the more immediate threat: North Korea’s known plutonium-reprocessing capabilities. Since the 1994 agreement collapsed, there is clear evidence that Pyongyang has reprocessed some or all of the 8,000 plutonium fuel rods at the Yongbyon reactor that had been safeguarded by the accord. By scuttling the 1994 agreement on the basis of uncertain data that is presented with absolute certitude, and by insisting that North Korea “confess” to the existence of a uranium program before new negotiations on denuclearization can begin, the Bush Administration has blocked action on the one present threat that North Korea is known to pose: the threat represented by its reprocessed plutonium, which could be used for nuclear weapons or transferred to third parties.

Chairman D’AMATO. Thank you very much, Mr. Harrison. Ms. Hwang.

**STATEMENT OF BALBINA Y. HWANG
POLICY ANALYST, NORTHEAST ASIA
THE HERITAGE FOUNDATION, WASHINGTON, DC**

Ms. HWANG. Thank you very much. It’s a great honor for me to be asked to speak before the Commission this afternoon and to share with you my views on China’s role in the resolution of the North Korean nuclear crisis.

Let me state that these will be my personal views and may not necessarily reflect the views of The Heritage Foundation. I was given a number of substantive questions, and since I only have seven minutes, which I will try to stick by, I will not be able to address them all in my initial statement, but I hope to be able to tackle them during the Q&A session.

As such, let me begin briefly by touching on the issues that establish the parameters of our discussion here today: China’s role in the North Korean nuclear crisis. For centuries, China, the Great

Middle Kingdom, has enjoyed a special relationship with the Korean Peninsula.

More recently, China is proud of the rather dubious accomplishment of being one of the only countries that has managed to maintain good relations with both North and South Korea. Today, it is the largest official trading partner to both of the Koreas. Unfortunately, China is uncertain about what to do with this strategic asset, and its stance toward the Korean reunification remains deeply ambivalent at best.

The overarching questions for China are: is Korean reunification inevitable, and if so, will a unified Korea be more or less stable than a divided one? In economic terms, these questions are not just an academic exercise. Any unification scenario, even a gradual one, means that South Korean investments in China, which last year alone exceeded one billion dollars, will be diverted almost immediately towards the north for reconstruction.

China still regards the North Korean buffer between itself and the United States as a prize won by tremendous sacrifices made in blood, and China will be loathed to see them disappear. Indeed, the only benefit China might garner from unification or a collapse of North Korea is to try to use such an event as a distraction to make a move on Taiwan.

Thus, unless China can be guaranteed that its strategic position will at a minimum not deteriorate after reunification, it will continue to support the status quo of a divided peninsula.

Moreover, North Korea's nuclear programs do not necessarily detract from China's strategic advantage. Indeed, it may actually be enhanced as long as North Korea remains an ally and a, quote, "friend."

Uncertainty about a reunified Korea's ideological but, even more importantly, strategic orientation, unnerves China's policymakers far more than the status quo itself.

While most of us in the West and in Japan cannot imagine a unified Korea that is revisionist, I believe that in both Koreas and in China such possibilities and ambitions do indeed exist. Thus, China's immediate goals are to maintain a strong influence in both Pyongyang and Seoul while playing North Korea against the United States and Japan, and supporting the North Korean regime to maintain it as a buffer state.

Understanding China's strategic goals are critical to understanding its behavior in the Six-Party process and any resolution of the North Korean nuclear crisis.

Now, turning to the progress of the Six-Party Talks and China's support for the U.S. position, what has been the progress, if any, in the Six-Party Talks after three sessions? While many critics argue that no concrete results on dismantling North Korea's nuclear weapons has occurred, all the while allowing Pyongyang to produce ever more weapons, the talks have produced several less tangible, but nevertheless significant developments, such as institutionalizing a security issue within a multilateral framework, which is quite significant in Northeast Asia, and also allowing Japan and South Korea to have prominent positions in the process.

However, it is also true that the Six-Party process has produced some negative outcomes aside from the very obvious one of not yet being able to address the nuclear weapons program.

The real danger, I believe, has been to let China dominate the process and in so doing inadvertently raise its diplomatic prestige in the region, as well as allow it to manipulate the crisis for its own strategic purposes.

China continues to keep North Korea afloat with its shipments of energy and other subsistence aid and even, I argue, has in fact increased its economic support for North Korea.

Beijing has consistently stated that it supports a denuclearized Korean Peninsula and has called for North Korea to halt its nuclear weapons program publicly. Yet, just as consistently, Beijing has publicly urged Tokyo and Seoul to convince the United States to soften its stance with Pyongyang and to adopt a more flexible attitude.

Beijing has gone so far as to blame the United States for the mutual lack of trust between the United States and North Korea for the impasse in the Six-Party Talks. Thus it is clear that China has been deftly playing a dual game of remaining cautious about North Korea while at least keeping up the appearance of being a responsible power and attentive to regional problems.

Meanwhile, China has done little to actually use the limited leverage that it has on Pyongyang to engage in meaningful dialogue.

Now, I think the China-North Korea dynamic is very important and worthy of brief examination because it begs the question, why is China playing this dual game? I believe that North Korea presents China with a profound conundrum. On the one hand, brokering an end to the nuclear threat on the Korean Peninsula presents China with a unique and rather tantalizing opportunity to score its first big coup in global diplomacy.

Doing so would complement China's enormous economic growth and its increasing presence, particularly in Southeast Asia. On the other hand, China has very much to gain by maintaining the status quo, and very much to lose by shattering it.

Yet, I believe China's strategic considerations on the peninsula may be far more ambitious than just maintaining the status quo or minimizing the damage from any changes.

Satellite surveillance photos taken in November 2004 indicate that a 10,000-man Chinese Army division made preparations for a prolonged deployment along the Chinese-North Korean border. This may be an indication that Chinese troops are in position in case of an abrupt political change that could include the downfall of the North Korean regime.

Many suspect that China's motives for becoming involved in the Six-Party process were to mitigate the possibility of war in the peninsula and to maintain relative economic stability in the region. However, I believe that the problem for China is that if the two Koreas were to be unified under South Korean leadership, then a unified Korea that shares America's democratic values, much less continued presence of the U.S. troops on the peninsula, would exert a strong socio-cultural, economic influence in large parts of Manchuria which is home to two to three million ethnic Koreans, causing a threat to Chinese political control.

But China's real reluctance to actively broker a deal may be a deep-seated skepticism about the United States' strategic designs in the region and to a lesser degree those of Japan and the two Koreas.

China is deeply troubled by North Korean behavior. There is a profound distrust and disdain if not outright hatred beneath all of the smiles and the friendliness between the Chinese and the North Koreans, despite their long history of shared bloodshed.

NGO workers in the region have reported to me recently that they have witnessed regular patterns of overt Chinese racism against North Koreans. Such Chinese arrogant condescending and supercilious behavior towards the North Koreans have ingrained in many North Koreans a deep-seated mistrust of Chinese actions and motives.

North Korea may grudgingly acknowledge China as a necessary lifeline, but it is also considered a source of all that is foreign, impure, and dangerous to the "pristine and pure" North Korean society. The SARS epidemic in 2003 and the growing onslaught of AIDS are just one tangible and physical horrifying evidence of China's dangerous influence.

But increasingly, evidence indicates that a real competition for dominance in the North Korean economy is emerging. Chinese businessmen have been investing heavily in the last year in Pyongyang and trade has increased 35 percent between China and North Korea just last year, up to 1.2 billion.

More significantly, the balance of that trade has shifted such that North Korean exports to China have increased. Chinese business investments in North Korea, however, and their negative experiences have caused deep concerns and many cite serious risks. And given the negative economic nature of the investments, it is clear that the Chinese investments are being pursued for strategic, more than immediate economic gains.

One other note: in November 2004 China began to permit trade with North Korea across the border to be conducted in renminbi. Hitherto, such trade was carried out only using U.S. dollars or letters of credit from banks and third countries. Renminbi usage allows far greater transactions as well as overcoming North Korea's foreign exchange scarcities.

One may thus consider that China's active support of North Korea's economy is not just an effort to prevent collapse, but to actually begin to dominate that economy.

Now, some have even gone so far as to argue that if Pyongyang remains recalcitrant or crosses a red line—such as testing a nuclear device—China may take the initiative to trigger an internal coup that would overthrow the Kim Jong-Il regime and maneuver the installation of a Beijing friendly military dictatorship, allowing China to establish hegemony over North Asia.

Such ambitions to dominate Asia are evident in state-sponsored academic projects that purposely distort histories around its borders in order to justify any future possible Chinese territorial takeover, such as the so-called famous Koguryo incident that occurred last summer.

The Chinese-North Korean relationship is indeed complex and murky. The two countries may be like lips and teeth, but we are

reminded that lips without teeth cannot eat and will starve, and teeth without lips will freeze.

So, in conclusion, while I remain cautiously optimistic about the Six-Party process—because I unequivocally and fundamentally believe that any solution must be multilateral in nature and should be carried out through its conclusion—the negative outcome of this process has been the elevation of China’s status and role in the process.

I believe putting China in the leadership position in the nuclear talks produces negative consequences that are counter to the regional interests of the United States and its allies, the ROK and Japan. And with all due respect to my colleagues who dedicate their work to nonproliferation issues, I submit that what is at stake here is more than just the specter of North Korean nuclear weapons. It is actually the very future of the balance of power in Northeast Asia and whether or not the United States will be able to continue to be a Pacific power in the 21st century.

Finally, I have several recommendations, but perhaps I’ll just leave that for the Q&A period. Thank you.

Cochair BARTHOLOMEW. Yes, Ms. Hwang, you can go ahead and make the recommendations.

Ms. HWANG. Very briefly, since the Six-Party process has officially not been concluded and our diplomats are very aggressively and actively working to complete them, I think that they ought to be followed through, but I also think they will be unsuccessful unless this issue of the uranium is addressed, and respectfully I completely disagree with Sig Harrison.

I think the enriched uranium program is absolutely fundamental and it cannot be dropped from the beginning of the process. In fact, precisely the problem is not that North Korea won’t admit to them. North Korea won’t. The problem is that none of the other four parties will accept U.S. intelligence, and the one part I do agree with, Sig, is that I think the U.S. should make public the evidence that it has.

I disagree with Sig Harrison; I don’t think that the United States has not made that case with our allies and with China and Russia. They have. The problem is that publicly Beijing consistently makes these comments stating “we’re not certain, this isn’t priority” and so on. So the United States must actually make this public and end this internal debate among the four and the five parties. Otherwise, North Korea can just sit back and continue to use that to take no action.

Secondly, I think that the next round of this Six-Party Talks should be convened as quickly as possible. Announce a date, set the time, and if North Korea doesn’t come, then so be it. I think the five parties should meet. And then I think it’s very clear to the world who is responsible for the stalemate. And at those talks, it should be declared that the process has ended and then proceed to internationalize the issue.

Obviously, taking it to the U.N. Security Council is an important step and should be pursued, but there are intermediate steps that can be taken. North Korea currently has diplomatic ties with numerous other countries, including many European Union countries and Australia and Canada.

These countries should be urged to sign on and declare that North Korean nuclear weapons are unacceptable and even perhaps cut diplomatic ties.

Finally, I think it's very important that the U.S. make immediate efforts to strengthen the bilateral alliances with South Korea and continue to improve its relationship with Japan. Both China and North Korea are using differences between the allies, differences of interest and priorities to drive wedges. This is not just a North Korean tactic. It's a Chinese tactic and China has as much to gain as North Korea does by dividing the alliances and actually splitting them. China would be very happy if the United States withdrew from the Korean Peninsula.

So I think that these are the issues or the priorities that the United States should place in the immediate future.

[The statement follows:]

**Prepared Statement of Balbina Y. Hwang
Policy Analyst, Northeast Asia, The Heritage Foundation, Washington, DC**

Thank you. It is a great honor for me to be asked to speak before your Commission this afternoon, and to share with you my views on China's role in the resolution of the North Korean nuclear crisis. Let me state that these will be my personal views and may not necessarily reflect the views of The Heritage Foundation.

I was given a number of substantive questions and since I only have 7 minutes, I will not be able to address them all in my initial statement. But I hope to be able to tackle them during the Q&A session. As such, let me begin by briefly touching on the issues that establish the parameters for our discussion here today: China's role in the North Korean nuclear crisis.

China's Interests on the Korean Peninsula

For centuries, China, the great Middle Kingdom, has enjoyed a special relationship with the Korean Peninsula. More recently, China is proud of the rather dubious accomplishment of being one of the only countries that has managed to maintain good relations with both North and South Korea; today it is the largest official trading partner to both Koreas.

Unfortunately, China is uncertain about what to do with this strategic asset and its stance towards Korean reunification remains deeply ambivalent, at best. The overarching questions for China are: Is Korean unification inevitable? And if so, will a unified Korea be more or less stable than a divided one? In economic terms, these questions are not just an academic exercise. Any unification scenario, even a gradual one, means that South Korean investments in China, which last year alone exceeded \$1 billion, will be diverted towards the North for reconstruction. In strategic terms, these questions are even more troubling for China. Strategically, given the current U.S.-ROK intention to maintain an alliance even after unification (let me return to this point later, because it is an important one), China has no reason to support unification.

China still regards the North Korean buffer between itself and the United States as a prize won by tremendous sacrifices made in blood, and China will be loathe to see it disappear. Indeed, the only benefit China might garner from unification or a collapse of North Korea is to try to use such an event as a distraction to make a move on Taiwan. Therefore, unless China can be guaranteed that its strategic position will at a minimum not deteriorate after reunification, it will continue to support the status quo of a divided peninsula. Moreover, North Korea's nuclear programs do not necessarily detract from China's strategic advantage; indeed, it may be enhanced, as long as North Korea remains an ally and "friend."

While China may deem the tensions across the 38th parallel as potentially dangerous, particularly given the increasing economic repercussions to its own economy should instability arise, a divided Korea is less threatening to China than a unified Korea with U.S. troops. Moreover, uncertainty about a reunified Korea's ideological, but even more importantly strategic orientation, unnerves Chinese policymakers far more than the status quo. While most of us in the West and Japan cannot imagine a unified Korea that is revisionist, I believe that in both Koreas and in China, such possibilities indeed exist.

Thus, China's immediate goals are to maintain a strong influence in both Pyongyang and Seoul while playing North Korea against the United States and

Japan, and supporting the North Korean regime to maintain it as a buffer state. Understanding China's strategic goals are critical to understanding its behavior in the Six-Party process and any resolution of the North Korean nuclear issue.

Significance of North Korea's February 10 Announcement

On February 10, North Korea declared that it has "manufactured nuclear weapons," and would temporarily pull out of the Six-Party process until certain conditions were met. But ultimately, this announcement proved to be far less significant than first assumed. Pyongyang's admission to manufacturing weapons did little to clarify the number or nature of its nuclear weapons programs.

To date, one of the areas of greatest contention among the six parties has been the unsettled debate regarding North Korea's Enriched Uranium (EU) program. While the United States has presented incontrovertible evidence to each of the other five parties including Pyongyang, skepticism about U.S. evidence has been expressed publicly by the other parties, most notably Beijing.

While Beijing issued some unusually strong language critical of Pyongyang in the aftermath of the February 10 statement, this was shortlived. As recently as March 6, Foreign Minister Li Zhaoxing questioned the existence of a EU program, which was a direct rebuke of concerted U.S. efforts in recent months, led by Michael Green of the National Security Council, to convince the Chinese that North Korea has indeed been attempting to develop uranium enriched nuclear weapons.¹ This statement reflects a consistent position that Beijing has maintained since the Six-Party process began in 2003.

The problem of course, is that without a unified and firm stance on all of North Korea's nuclear programs, any dialogue will produce incomplete and unsatisfactory results, rendering them essentially meaningless.

Progress of the Six-Party Talks and China's Support for the U.S. Position

What has been the progress, if any of the Six-Party Talks after three sessions? While many critics of the process argue that no concrete results on dismantling North Korea's nuclear weapons has occurred, all the while allowing Pyongyang to produce ever more weapons, the talks have produced several less tangible, but nevertheless significant developments. These include: institutionalizing a security issue within a multilateral framework—the first time ever in Northeast Asia; obtaining consensus that this issue must be resolved multilaterally and not bilaterally; allowing Japan and South Korea to have prominent positions in the process rather than being marginalized as in the past.

However, it is also true that the Six-Party process has produced some negative outcomes, aside from the obvious one of not yet being able to address the nuclear weapons programs. The real danger I believe has been to let China dominate the process, and in so doing, inadvertently raise its diplomatic prestige, as well as allow it to manipulate the crisis for its own strategic purposes.

It seems that the universal operating premise of the Six-Party process has been that "we are dependent on China for a resolution." This mantra is heard from Seoul to Tokyo, to Washington, to Moscow. Yet, China continues to keep North Korea afloat with its shipments of energy and other subsistence aid.

Just as harmful, Beijing has continued to support and perpetuate North Korea's propagandistic stance that the United States holds the two most important keys to resolving the North Korean problem: ending a state of hostility that dates from the Korean War and providing tangible assurances to North Korea that Washington does not seek the overthrow of Pyongyang.

Beijing has consistently stated that it supports a denuclearized Korean Peninsula, and has called for North Korea to halt its nuclear weapons program. Yet, just as consistently, Beijing has publicly urged Tokyo and Seoul to convince the United States to soften its stance with Pyongyang and adopt a more "flexible" attitude. Beijing has gone so far as to blame the "mutual lack of trust" between the United States and North Korea for the impasse in the Six-Party Talks. As recently as two days ago on March 8, Foreign Minister Li Zhaoxing supported North Korean demands for direct bilateral talks with the United States and called for Washington to adopt a more "sincere" posture.²

Thus, it is clear that China has been deftly playing a dual game of remaining cautious about North Korea, while at least keeping up the appearance of being a responsible power and attentive to regional problems. Meanwhile, it has done little

¹"China Doubts U.S. Data on North Korean Nuclear Work," *The New York Times*, March 7, 2005.

²East-Asia Intel, "Li's Diplomatic Nuke: Don't Count on Beijing to Rein in North Korea," March 8, 2005.

to actually use the limited leverage it has on Pyongyang to engage in meaningful dialogue.

Most argue that the reason the Six-Party Talks have stalled since June 2004 is that Pyongyang was waiting for a softening of the U.S. stance: first with the possibility of a change of regime in Washington in November, then the inauguration of a new Bush team, followed by signals to be accrued from the Inaugural speech and the 2005 State of the Union address.

However, I disagree with this assessment. It is highly unlikely that Pyongyang, which has considered Washington an entrenched hostile enemy since the Korean War, would gamble on the mere possibility of a softening stance by the United States. Rather, I believe that Pyongyang has prudently waited since the issuance of a solid proposal by the United States at the third round of the Talks in June, for the reaction from the other five parties. As the months went by with no public endorsements and strong words of support from any of the four parties, much less Washington itself, Pyongyang was content to sit quietly without having to respond.

If anything, unhelpful comments emanating from the leaderships in Beijing, Moscow, Seoul and even Tokyo about the “inflexible” U.S. stance, and strong denouncements ruling out the possibility of the use of force played right into Pyongyang’s hands, and effectively hampered the group’s negotiating position vis-à-vis North Korea. In light of clear misgivings among the five parties, and no penalties meted out by those with leverage over North Korea, Pyongyang had everything to gain and nothing to lose by indefinitely delaying its return to the negotiation table.

Assessment of the China-North Korea Dynamic

This then begs the question: Why is China playing a dual game? I believe that North Korea presents China with a profound conundrum. On the one hand, brokering an end to the nuclear threat on the Korean Peninsula presents China with a unique and rather tantalizing opportunity to score its first big coup in global diplomacy. Doing so would complement China’s enormous economic growth and its increasing presence particularly in Southeast Asia.

On the other hand, China has very much to gain by maintaining the status quo on the peninsula, and much to lose by shattering it. Yet, I believe China’s strategic considerations on the peninsula may be far more ambitious than just maintaining the status quo, or minimizing the damage from any changes.

Satellite surveillance photos taken in November 2004 indicate that a 10,000-man Chinese army division made preparations for a prolonged deployment along the Chinese-North Korean border. More recently, reports in early March 2005 confirm further that China appears to be building up logistics for military operations along its border with North Korea. This may be an indication that Chinese troops are in position in case of an abrupt political change that could include the downfall of the North Korean regime.³

Many suspect that China’s motives for becoming involved in the Six-Party process were to mitigate the possibility of war on the peninsula, and to maintain relative economic stability in the region. An argument often proffered by Beijing is that too much pressure on Pyongyang would risk the possibility of collapse, thereby causing a flood of refugees across the border. I do not believe, however, that Beijing’s worst nightmare involves the onslaught of refugees; it would certainly be an irksome problem but not one that would devastate China.

Rather, it is the possibility that if the two Koreas were to be unified under South Korea’s leadership, then a unified Korea that shares America’s democratic values would exert a strong socio-cultural influence in large parts of Manchuria, which is home to two million ethnic Koreans, causing a threat to Chinese political control.

But China’s real reluctance to actively broker a deal may be its deep-seated skepticism about the United States’ strategic designs in the region, and to a lesser degree, that of Japan and the two Koreas. An argument heard in China is: “If we were to cut off aid to Pyongyang and the Koreans unified on South Korean terms, it would be a big disaster for China. The United States would insist on basing its troops in the northern part of the peninsula, and China would have to consider that all of its efforts going back to the Korean War have been a waste.”⁴ After all, as other Chinese often point out, having a friendly country—North Korea—tying up American troops on its southern border, frees Beijing to focus its military forces on other contingencies, notably, Taiwan.

³Joongang Ilbo, “Chinese Troops Set Up Camp on North’s Border,” November 24, 2004.

⁴Howard French, *The New York Times*, “China Is Uneasy in Korean Role, Wary of U.S. Motives,” February 19, 2005.

All of this does not mean that China is not deeply troubled by North Korean behavior. There is profound distrust and disdain, if not outright hatred between the Chinese and North Koreans, despite their long history of shared bloodshed.

NGO workers in the region have reported to me that they have witnessed overt Chinese racism against North Koreans. Such Chinese “arrogant, condescending and supercilious behavior” has ingrained in many North Koreans a deep-seated mistrust of Chinese actions and motives. North Korea may grudgingly acknowledge China as a necessary life-line, but it is also considered a source of all that is foreign, impure and dangerous to the “pristine and pure” North Korean society. The SARS epidemic in 2003 and the growing onslaught of AIDS are just one tangible and horrifying evidence of China’s dangerous influence.

At the same time, North Korea is ultimately a pragmatic regime above all else, and in a world with few friends, Pyongyang has perfected to an art the ability to extract goods from benefactors. In 2004, North Korea reportedly gave exclusive rights to a Beijing-based Chinese company, Chaohua Youlian Cultural Exchange Co. Ltd. (CHYL), to facilitate PRC investment in North Korea. Although the company website and Chinese media have called CHYL a “private” enterprise without mention of ties to the PRC government, South Korean media have reported it as a PRC “state-run” company that appears to be “national policy” oriented.⁵ Investments by CHYL in North Korea include an oil refinery at Najin-Sonbong Free Trade Zone for \$12.1 million, with a capacity to process 2 million tons of oil; construction of apartments for foreigners for \$12.1 million; 156-mile road construction from Sinuiju to Anju for \$31.2 million; a power plant renovation in Najin for \$600 million for four generating units with China and North Korea operating two units each (each unit produces 25,000 kilowatts and unused electricity will be exported to China).⁶

Increasingly, evidence indicates that a real competition for dominance in the North Korean economy is emerging, and the other competitor is South Korea. Chinese businessmen have been investing heavily in the last year in Pyongyang, opening restaurants and small factories, expecting it to be a market in 10 years. Chinese businessmen with investment experience in North Korea, however, express deep concerns citing serious risks. Given the nature of the investments—for industrial rather than commercial uses—this seems to indicate that Chinese investments are being pursued for strategic as much as economic gains.

Admittedly, Chinese economic engagement of North Korea does produce economic gains for China. Chinese access to North Korea’s minerals such as coal—North Korea has the second largest coal reserves in North Asia—other minerals, and labor, would help to fuel China’s endless appetite for accelerated economic growth.

Officially, China has been North Korea’s largest trading partner for some time, recording a historic high in bilateral trade in 2004 of \$1.2 billion—a 35 percent increase from the previous year. More notably, bilateral trade is becoming more balanced. Until recently, China had tolerated a “one-way” trade street, tolerating a large deficit, but in 2004, North Korea’s exports rose by 7 percent from the previous year to \$535 million while its imports grew by 18 percent to \$649 million.⁷ The growth in North Korean exports to China mainly reflected the latter’s voracious appetite for industrial raw materials to fuel its booming economy.

In contrast, North Korea’s trade with South Korea and Japan both declined by 3.8 percent to \$697 million, and 4.8 percent to \$251 million respectively.⁸ Yet, these numbers are misleading in that the South Korean figures do not include aid assistance and loans; in 2004, they amounted to \$416 million, making the total volume of economic exchanges between the two Koreas nearly \$1.1 billion.⁹ In November 2004, China began to permit border trade with North Korea to be conducted in renminbi; hitherto such trade was carried out using either U.S. dollars or letters of credit from banks in third countries. Renminbi usage allows for far greater transactions as well as overcoming North Korea’s foreign exchange scarcities.

One may thus consider that China’s active support of North Korea’s economy is not just an effort to prevent collapse but to actually dominate the economy. China has stated its desire to strengthen economic cooperation with North Korea for development of China’s Dandong Port and the Tumen River regions, as well as remodeling of industrial facilities in its three east and north provinces.

⁵ Yonhap, July 7, 2004.

⁶ FBIS Report, “PRC Firm Said to Attract Chinese Investors to North Korea,” December 4, 2004.

⁷ The Economist Intelligence Unit, Country Report: North Korea, February 2005.

⁸ http://global.kita.net/kita/kitanews_viv.jsp?back=true&no=438&page=1&searchKey=&searchField=title.

⁹ Export Import Bank of Korea.

Some have even gone so far as to argue that if Pyongyang remains recalcitrant, or crosses a “red line” such as testing a nuclear device, China may take the initiative to trigger an internal coup that would overthrow the Kim Jong Il regime and maneuver the installation of a Beijing-friendly military dictatorship, allowing China to establish hegemony over North Asia.¹⁰ Such ambitions to dominate Asia are evident in state-sponsored “academic” projects that purposefully distort histories around its borders in order to justify any future possible Chinese territorial take-over, as in the so-called Koguryo incident with Korea.

The Chinese-North Korean relationship is complex and murky. The two countries may be like lips and teeth, but we are reminded that lips without teeth cannot eat, and teeth without lips will freeze.

Conclusion

While I remain cautiously optimistic about the Six-Party process—because I unequivocally believe that any solution must be multilateral in nature and should be carried out through its conclusion—one negative outcome of this process has been the elevation of China’s status and role. I believe putting China in the leadership position in the nuclear talks produces negative consequences that are counter to the regional interests of the United States and its allies, the ROK and Japan.

With all due respect to my colleagues who dedicate their work on nonproliferation issues, I submit that far more is at stake here than the specter of North Korean nuclear weapons: It is the very future of the balance of power in Northeast Asia and whether or not the United States will be a Pacific power in the 21st century.

Recommendations

Given that the process has not yet been concluded, I would like to make the following recommendations for the United States to mitigate some of the negative effects that I have discussed.

- In order to end the internal debate amongst the five parties over North Korea’s pursuit of an enriched uranium program, the United States should respond to skepticism by publicly releasing evidence instead of pursuing private, closed-door efforts, which have essentially proved futile. Otherwise, Washington will have to abandon the uranium program as part of a multilateral solution, which is in North Korea and China’s interest, but is an unacceptable outcome for the United States.¹¹
- Convene the next round of the Six-Party Talks as soon as possible. If North Korea does not attend, the remaining five parties should issue a statement declaring that North Korea is responsible for the impasse and proposing concrete next-step actions. These actions should include expanding the focus of diplomatic efforts from regional to international. The U.S. should also urge countries that currently have diplomatic ties with North Korea—including some European Union countries, Australia, and Canada—to sign a resolution condemning North Korea’s nuclear weapons program as a dangerous and destabilizing activity and to suspend their diplomatic ties with Pyongyang until it agrees to return to the negotiation table. The U.S. should also push for a U.N. Security Council resolution condemning North Korea’s nuclear activities.
- Initiate immediate and concerted efforts on strengthening the bilateral U.S. alliances with the ROK and Japan. With the ROK, the United States must develop a common vision for the future of the alliance as well as the role of the U.S. Forces and Korea beyond any unification scenario. Both Pyongyang and Beijing benefit from, and have employed strategies to drive wedges between the United States and its allies and the best panacea to such tactics is to reduce if not eliminate their ability to do so. As such, the trilateral coordination among Washington, Seoul and Tokyo are imperative.
- Given Beijing’s most recent statements on March 8 that essentially ignored the role of South Korea in the negotiations, the United States should consider proposing Three-Party Talks with Pyongyang, which would be comprised of Washington, Seoul and Pyongyang. Nothing will get Beijing’s attention faster and spur it to action faster than the possibility that it might be left out of strategic decisions in Northeast Asia.

Thank you again for your time and consideration of my views.

¹⁰Jason Lim, *The Washington Times*, December 18, 2004.

¹¹For further elaboration of this argument, see Larry Nicksch, “Does North Korea Have a Uranium Enrichment Program?” (Draft article).

Panel V: Discussion, Questions and Answers

Cochair BARTHOLOMEW. Wonderful. Thanks so much. I think we'll start with questioning and we'll fold Mr. Sokolski in when he gets here. I have a feeling he won't have any difficulty holding his own.

Commissioner Wortzel, you start.

Cochair WORTZEL. Thank you, Sig and Balbina, for taking the time to be here and testify. Sig, I have an article here authored by Wang Jisi, who is the head of the America's Department at the Chinese Academy of Sciences and concurrently a fellow at the China Reform Forum of the Communist Party Central School in Beijing, and he lays out in here what he sees as the strategic relationship between the United States and China.

The article is about a year old. In any case, he's very clear in here that there are only some coinciding interests on the Korean Peninsula between China and the United States. He says that the coinciding interests are that neither China nor the United States wants a nuclear peninsula and that both sides benefit from stability on the Korean Peninsula.

Now there's the big "but." But China's main interests in the stability part of the equation is only stability. While the United States' interest in this equation is that the United States cares deeply about nuclear proliferation and doesn't want to see nuclear proliferation.

Now I infer from that that China doesn't much care about nuclear proliferation. That's a point I made earlier this morning actually. But that stability matters. China doesn't care about cheating on whether it turns over all the plutonium that the IAEA can't find or doesn't find, nor does China much care about the United States conceding on some very fundamental principles of its own foreign policies.

If that's the case, assuming this very authoritative official of the Chinese Communist Party and government has laid out what he sees as Chinese interests, it's going to be really hard to come out of this with a deal that does not result in the United States literally conceding everything that it needs to be able to do in terms of verification. If the only Chinese interest is in stability, it seems to me the United States needs almost to go to what Ash Carter suggested this morning, and suggest that instability and war becomes a very high likelihood if we can't get to an agreement.

Now, that's what I read as the implications of his article and I'd invite either of you to comment on that because it's very different from what your official of the Chinese Communist Party had to say.

Mr. HARRISON. Can I go first? I did have a long session, almost a day with people from the China Reform Forum. I don't think that Mr. Wang was among them but a number of others who they nominated to talk about North Korea. I think you have to look at these objectives as in many things, people have mixed objectives. So you can't say they have one to the exclusion of the other.

I think China would not minimize the development of operational nuclear weapons by North Korea, does not minimize the danger and the importance of that, because I think China is very concerned about the possibility of a nuclear armed Japan, and cer-

tainly if you look at Japan's nascent capabilities for a nuclear weapons program and the space program, they could quickly convert to very classy missile capabilities with long delivery systems.

So I think China is every bit as much concerned about that as it is about Taiwan. I heard many people say that they don't want to see a nuclear state, North Korea that has operationally deployed nuclear weapons because that would almost certainly strengthen the nuclear hawks in Japan, but the point here is, and neither Balbina nor I have touched on this, that North Korea swaggered the other day and issued a statement that they were nuclear, they had nuclear weapons.

They were, quote, "manufacturing" nuclear weapons. Now, I have said from the beginning since that story first broke that we shouldn't assume that that's the case. They may very well be bluffing to strengthen their bargaining position in the negotiations. They felt they were under pressure in advance of the anticipated round of Six-Party talks, that we were mobilizing diplomatic pressure against them, and in that kind of a climate they responded the way they will always respond when they feel they are under pressure and that is by talking tough, and so I think it's far from clear that North Korea is anywhere near operationally deployed nuclear weapons.

They have some plutonium. They may have the capability to conduct some kind of a test, but that doesn't necessarily mean they have the capability to make air-deliverable nuclear weapons light enough to be used in the aircraft they have or to miniaturize missile warheads.

So this is a distinction our media doesn't make. There is a difference between having a nuclear deterrent, which they were saying for some time, which is fairly accurate—they have capabilities, which do constitute a nuclear deterrent against our adventurism in North Korea, and having operational nuclear weapons. The point I'm making is simply that China from all the discussions I've had definitely doesn't want a North Korea armed with deployable, with militarily operational nuclear weapons.

At the present time, they don't believe that is a near-term prospect. They know the North Koreans. They know that bluff and bluster are something that result from their deep-seated insecurity, from their feeling of vulnerability in the post-Cold War environment. It's not a question of feeling sorry for North Korea. This is just objective political science. The North Koreans had Russian and Chinese subsidies during the Cold War. They lost them at the end of the Cold War. They have felt vulnerable ever since and they feel particularly vulnerable now that we have a President who has tried to legitimize, as part of American policy, the right to stage preemptive wars and is conducting one and has conducted one in Iraq for the purpose of overthrowing a dictatorial regime.

It's perfectly logical that North Korea would view all this and attempt to have a nuclear deterrent in response to that, and the Chinese know that, but they also know that North Korea has limitations technically on this uranium issue, and then I'll conclude my answer.

I think the point that needs to be made is that we have to look at the specifics of this for a minute to understand why China and

South Korea and Russia are skeptical about the intelligence we've presented. The accusation made in October of 2002 was that the North Koreans were building a centrifuge facility that would be able, could make, might be able to make, two or more nuclear weapons, uranium based, per year by mid-decade.

We're now at mid-decade. Nothing more is heard about this. Nothing was heard about it in Porter Goss' testimony the other day. He just talked about North Korea, quote, "continuing to pursue a uranium enrichment program," unquote. That was all he had to say in spite of the many questions that are being raised about this. And the reason is that A.Q. Khan, what A.Q. Khan gave to North Korea we don't know yet. We don't know whether he just gave them some designs and some prototype centrifuges or he gave them thousands of already manufactured centrifuges as he did to countries that could pay cash—Libya, Iran.

It's quite clear that they were making thousands of centrifuges in Malaysia and they were sending them to Libya and now we're learning more about what they might have done in Iran, but the Malaysian police report that A.Q. Khan operation is very clear that nothing was sent to North Korea from that Malaysian plant.

So, the point is simply that unless the Administration has other evidence, has evidence either from A.Q. Khan that they haven't leaked yet or any other kind of evidence, that North Korea has received more than prototypes and designs for uranium enrichment centrifuges, one must be very realistic about whether North Korea is in a position to make thousands of centrifuges which is what you need to make weapons-grade enriched uranium.

The Chinese know that. The South Koreans know that, and we have not presented them, Balbina, to the best of my knowledge, talking to people in those countries in the system, intelligence that goes beyond evidence of efforts to procure equipment. Sure, they've been trying to procure equipment.

Cochair BARTHOLOMEW. Mr. Harrison, sorry, I'm afraid I'm going to have to—

Mr. HARRISON. Yes. I'm sorry. That's the end of the answer.

Cochair BARTHOLOMEW. Ms. Hwang, did you have a brief response or rebuttal? Then we'll move to Mr. Sokolski, his testimony, and we'll wrap him into the discussion. Thank you.

Ms. HWANG. Yes, I do. Thank you. First, let me commend the Commission for brilliantly putting together two people that will continue to disagree and provide very different and opposite points of view. Regarding Dr. Wortzel's statement, I think he's absolutely correct, and actually I don't think China cares whether or not North Korea has nuclear weapons.

Of course they care and it may be important to them, but I don't think their goal is to prevent North Korea from obtaining them. Preferences are different from strategic objectives and goals. They may prefer that North Korea doesn't have them, but I don't think that that is their main or fundamental goal.

Stability is also important to China. I think China's definition of stability is quite different from ours and certainly very different from South Korea's or Japan's. Their tolerance for the level of risk that they're willing to incorporate into maintaining stability I think is much higher than for us. China's stability I think very much in-

cludes strategic control of the Korean Peninsula or its influence in the region.

I think that their tolerance for risking other aspects to maintain that is certainly much higher. I think you're right, fundamentally, China will not press North Korea to give up its nuclear weapons. So how do we get around this? Once the Six-Party process is ended and we try to internationalize it, another way to do so as a rather bold proposal, is to turn to China and say, fine, then we don't need your help, why don't we have a three-party talk with North Korea and South Korea, or maybe a four-party to include Japan.

One way to get China to move is get China out of the picture and then they'll start getting nervous, I think, very nervous.

Cochair BARTHOLOMEW. Wonderful. Thank you. Mr. Sokolski, as you can see, we've got rather a dialogue going on already, but we welcome you, look forward to your testimony and look forward to your joining the conversation.

**STATEMENT OF HENRY SOKOLSKI, EXECUTIVE DIRECTOR
THE NONPROLIFERATION POLICY EDUCATION CENTER
WASHINGTON, DC**

Mr. SOKOLSKI. Thank you. It's an honor to be here. I see familiar faces. I guess this is what happens when you stay in Washington for a long time.

Cochair BARTHOLOMEW. Either that or you just never really go away. You always come back.

Mr. SOKOLSKI. Okay. I don't know how much I can contribute immediately in my prepared comments about what China genuinely wants or exactly what the state of play of North Korea's various nuclear weapons program efforts are, although I think it would be fun to talk about them afterwards.

What I'd like to talk about today, and was asked to talk about, is how the North Korean threat may not be just a regional one any longer, and that if it isn't, how that might change how we might approach China in dealing with North Korea.

As the testimony I've prepared lays out, it really is the case that if you had China on your side in leveraging the behavior of North Korea, it would be a big help. I think everybody is pretty much convinced of that. The problem with this insight is that it hasn't helped much. Whether they want to or they don't want to or they can or they can't, it hasn't appeared as though the Chinese have done very much that's been very helpful.

I think we need to take a different approach. We keep coming to Six-Party Talks and regional discussions, and I think that's all to the good. I can see there are variations that might actually be more playful—maybe Five-Party Talks or whatever, but I'd like to try to highlight that the North Korean nuclear problem is changing to a global threat and, therefore, the opportunities to change China's behavior might be broader than just the regional approaches we have tried.

You may be able to go out of the region to get China to do the right thing. By the way, I hope there is no dispute that they're in violation of their IAEA safeguards obligations and that they have withdrawn from the treaty. That is not an intelligence matter, but I think we are very caught up in other issues besides the ones that we clearly have agreement and knowledge about.

That set of facts, that they have violated the NPT and withdrawn with impunity, is not one that we have focused enough attention on, even though I think everyone here knows these facts are true. This is not even in dispute by the South Korean Unification Minister, unlike everything else. And the importance of those two facts have not been laid out. I'd like to do that shortly because I think that is they are very important. The other thing I'd like to do is explain that others outside of the region are beginning to be worried about those two facts in a way that they weren't, and in fact there are proposals now by governments to do something in a country neutral way about this behavior which weren't available or even backed by anybody a little more than a year ago.

Finally, I'm going to talk about a sensitive issue, and that is that the United States and another country, France, now have leverage of a sort that's reasonably related to nuclear matters, and that is that they are the only countries that are selling attractive advanced reactors to China, and I'll come back to why I think that's important.

Now, there are Russian reactors, but I don't think the Chinese are that interested in buying those reactors except to keep the prices down on the French and the American ones.

First, a comment about why the threat from North Korea ought to be thought about, at least as much as a global one, not as just a regional one. In the testimony, you'll notice that there are two pictures. I always like putting pictures in now because it gives you something to look at other than dense text. Things right now, if it wasn't for North Korea and Iran, might be tolerable.

We've arranged the world and the independent nuclear forces roughly British and France—you call that NATO—and all the others, Pakistan, Israel, India and Russia. We've coped with it. Our diplomats have been very able and very thoughtful in trying to identify all those states as either NATO allies or non-NATO allies or strategic partners. So the world looks okay when you look at this picture because the United States is so important and the only relationship that seems to matter is our connection to these independent forces.

So it's as if we're the center of a hub of strategic relationships and so it looks manageable, I would say, all things being equal. I would love it if we could keep the world this way, as bad as it may seem.

The next picture, however, is where we're headed. And we're headed there, not inevitably, but we're headed there if we allow a country to violate the nuclear rules, as North Korea has, and to be able to withdraw with impunity from the Nuclear Non-Proliferation Treaty (NPT) and claim that it had a right to all the dangerous nuclear activities that brought them to the verge of having nuclear weapons, as a proper reading of the nuclear rules, the NPT.

North Korea has done this, and we now have Iran, who has sent many of their foreign ministry officials back and forth to Pyongyang to get pointers on how they might handle resistance to their program. In its essence, Iran's nuclear program is not dissimilar to North Korea's in that they're doing nuclear bulk handling activities that bring them within days of having nuclear weapons materials usable for bombs.

And they're arguing that they have a right to do this, and they're also claiming that they want to withdraw from the NPT if they don't get their way with their uranium enrichment program.

Now, it turns out that that is new, that is worrisome because it produces a world that looks like this picture, which I call the nuclear 1914 scenario. This is the scenario in which you have lots of countries that are nuclear-ready. You know who your friends are and who your enemies are, but you don't know whether they're going to be with you or against you like France clearly was in the case of Iraq.

And you don't really know how capable your enemies are to really do you harm. Roughly, that's what the situation was before the First World War, except the difference now is if war breaks out, and by the way, it might not take very much terrorism—it could take an assassin's bullet to set this off—you will have a war fought perhaps with nuclear munitions.

This scares me more than nuclear terrorism. It ought to. Now, luckily it's a problem that's a little more distant but not if we let the North Koreans have their way with the rules, and are letting them have their way with the rules because we're not thinking globally enough on this.

Now, this is going to sound strange, but there are other countries that have thought about this, and have actually begun to persuade our government to go along. One of them is France. They have put out a non-paper which I would ask, if it's at all possible, to be submitted into the record, because it's very short.

Cochair BARTHOLOMEW. Of course.

Mr. SOKOLSKI. Which propounds that countries should not be able to withdraw from the NPT if they violated it without first surrendering what they gained from others under the treaty. Sensible contract. Maybe hard to pull off, but a good idea. They've also said that the idea that you have a per se right to get right up to the brink of having nuclear fuel for weapons, as a right of peaceful nuclear energy development, is not right. It depends on a number of other factors, not the least of which are economic and technical.

This is common sense, I think. It now is backed by not only the French, but IAEA Director General ElBaradei, and even by our government insofar as roughly this has been the argument against Iran's program, that it's not economically imperative. Also, we have actually come forward and said that we don't think countries should be able to withdraw from the treaty with impunity if they violated it.

Now, the question is how do you leverage China to participate in this country-neutral proposition, as the French hope to get the U.N. Security Council eventually to do? It seems to me that one thing that has not been tried is to approach the French. Now, the French and the United States have something in common: we are both in a bidding war to supply nuclear reactors to China. We just gave a \$5 billion Export-Import Bank loan to Westinghouse. We have spent over a quarter billion dollars supporting the Westinghouse design, paying for it. Taxpayers have done that.

The French government, of course, is entirely behind Areva. It's a wholly owned subsidiary of the French government. Why we and the French cannot simply tell the Chinese we'd like to hold off in

our bidding war to talk to them about another matter, which ultimately is critical to maintain peaceful nuclear energy around the world is something which we should think about.

It turns out the French also are somewhat beholden to us on nuclear matters because we are spending \$4 billion to have them build a facility at Savannah River that goes directly to the French nuclear industry. And it is probably going to bail them out in a big way in the short term.

It's France's proposal. I think we need to approach the Chinese about this because frankly if we can get China to support a country-neutral rule and at least lay down a marker to isolate the behavior of North Korea, at least we can keep other would-be bombmakers from following in North Korea's footsteps on the basis that, well, nothing will happen to them and that they won't be isolated and that they can do it with impunity.

I think that bottom line approach is something that we need at least to try. I don't think we're thinking about it.

[The statement follows:]

**Prepared Statement of Henry Sokolski, Executive Director
The Nonproliferation Policy Education Center, Washington, DC**

Treating the DPRK as a Global Nuclear Challenge

In thinking about the North Korea nuclear threat, there is a natural tendency to focus on the immediate effects Pyongyang's possession of nuclear weapons might have on its closest neighbors. It is this instinct that has prompted our diplomats to work most with Russia, China, South Korea, and Japan to influence North Korea. This regional focus is also why so much attention has been focused on China, North Korea's staunchest ally and strategic supplier of much of the food and fuel that Pyongyang needs to survive. As our diplomats have repeatedly noted, China is the key to getting North Korea to behave. With China we gain leverage needed to make North Korea heal. Without China little or no progress with Pyongyang is likely.

There is only one problem with this insight: So far, it has not helped us much. China, for a variety of reasons, has not leaned much on North Korea. What's unclear is whether this is because China has been unwilling to leverage North Korea or because China is unable to. My own view is that we don't clearly know what China is capable of doing vis-à-vis North Korea if only because after nearly two years of Six-Party regional nuclear talks, we seem reconciled to the meager influence China so far seems to have had on Pyongyang.

If the security stakes of North Korea cheating on the Nuclear Nonproliferation Treaty (NPT) and withdrawing from it with impunity were low or if we already had made every reasonable attempt with our allies to leverage China against North Korea's continued nuclear misbehavior, such resignation might be acceptable. Neither point, however, is right. Certainly, the security impact of Pyongyang's actions when combined with that of Iran's latest nuclear maneuvers, threaten nothing less than a total breakdown of the nuclear rules and a world crowded with North Koreas and Irans. More important, several opportunities to leverage China on North Korea have recently arisen that have not yet been exploited.

Certainly, North Korea's bad nuclear behavior is no longer merely a regional problem. North Korea is the only nation the International Atomic Energy Agency (IAEA) has twice reported to the United Nations Security Council (UNSC) to be in non-compliance with its NPT safeguards obligations. The last IAEA noncompliance report was filed in early 2002 shortly after North Korea announced its withdrawal from the NPT. The UNSC has not yet taken action on this report. A key reason why is that North Korea's neighbors, including China, Japan, South Korea, and Russia, wanted to first see what regional Six-Party Talks might produce. North Korea has since announced that it has nuclear weapons and that it is making more bombs.

These developments have produced a worrisome precedent that now threatens international security at least as much as North Korea's actual nuclear capabilities might threaten its regional neighbors. In North Korea we now have a former NPT member that accumulated the means and materials to make nuclear weapons under the guise of developing peaceful nuclear energy. It then violated the treaty by not

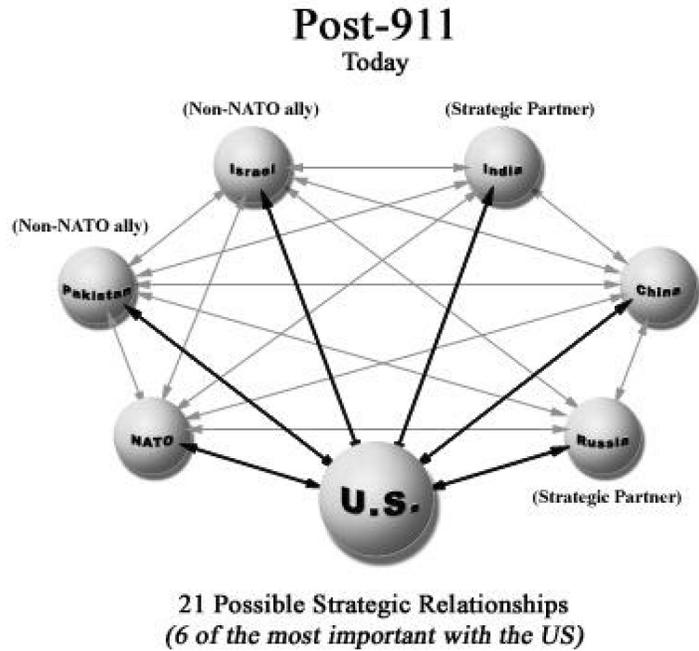
living up to its safeguards pledges, and finally withdrew; announcing it had weapons, and managed to get away with this with impunity.

This, then, raises the question, who's next. The immediate answer probably is Iran, which has already threatened to withdraw from the NPT if it is not allowed to proceed with enriching uranium (a process that Iran could quickly manipulate to produce bomb grade uranium). Like North Korea, which insisted that it had a right to make weapons usable plutonium, Iran claims that its reading of the NPT is that the treaty guarantees Iran an "inalienable right" also to come within days of having a bomb so long as Iran claims that the nuclear activities it is pursuing are for peaceful purposes.

The U.S. Government and allies of the U.S., have challenged Iran's claim. Our argument is that if you violate the NPT, you forfeit your right to have free access to nuclear technology for "peaceful" purposes. Unfortunately, so far, the IAEA has not yet determined that Iran is in noncompliance with the NPT. There also is another difficulty with our argument against Iran: It presumes that if other countries do not make the mistake Iran did of failing to declare all of their significant nuclear activities to the IAEA, they could then legally come within days of having nuclear weapons.

Several weeks ago I testified before the House International Relations Committee that the U.S. needed to read the NPT in a more hard-headed fashion. Certainly, if we do not do a better job in challenging Iran's and North Korea's liberal interpretation of the NPT and, further let them violate the treaty and then withdraw with impunity, we risk setting the stage for a veritable cascade of proliferation. This situation would amplify the North Korean and Iranian regional nuclear threats several fold.

Consider the relatively small number of independent nuclear forces we currently have—Britain, France, China, Russia, the U.S., Israel, Pakistan and India. U.S. diplomats have tried to make the best of this number by identifying all of them but China as being a strategic partner of the U.S., a member of NATO, or a non-NATO ally. Because the U.S. was and remains the only nation that can project massive conventional power unilaterally, this approach has made these independent nuclear actors appear as though they are spokes in a U.S. security hub.

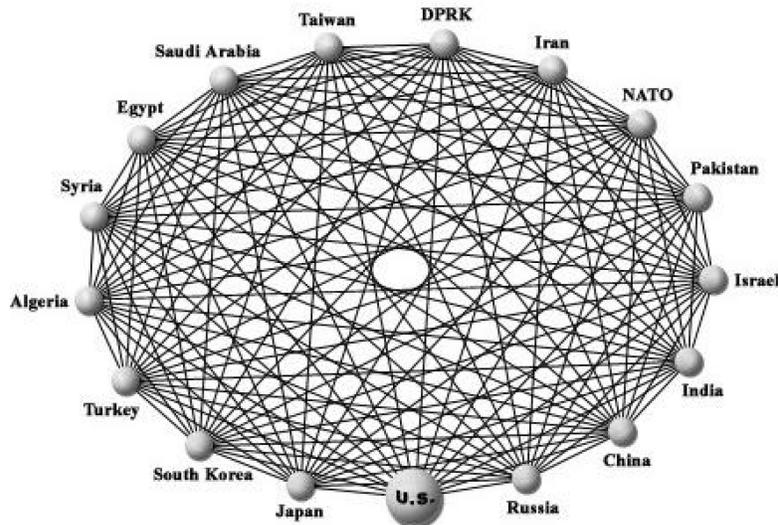


With North Korea's declaration that it has nuclear weapons and the legal claims it and Iran have made about what is legal under the NPT, this picture of relative

nuclear stability is not likely to last. Algeria has a worrisome, large, militarily defended reactor in the Atlas region (one that was only discovered after our intelligence satellites found it by accident in the early 1990s). It has just come to the defense of Iran's nuclear program and recently expressed an interest in closer scientific ties with Tehran. Saudi Arabia, meanwhile, has let it be known publicly that it is reviewing its options to acquire nuclear weapons either from China or Pakistan (something it can do legally as an NPT member so long as China or Pakistan retain "control" of the weapons they base there). Egypt was just reported by the IAEA to have received some of the nuclear technology Libya received from A.Q. Khan and to have failed to report a variety of uranium-related experiments. Then there is South Korea, which revealed it had experimented recently with laboratory efforts to make nuclear weapons usable materials as well. Syria has been reported to be interested in enriching uranium. The list goes on.

Assuming these and other neighboring states conclude that it would be useful and legal to hedge their nuclear bets with "peaceful" nuclear programs of the sort Iran and North Korea have, the world will soon be filled with nuclear-ready states. The U.S. would still have friends but it would be far more difficult to determine if they would be with us if we needed them or would instead go their own way as did France over the war against Iraq. We also, of course, would have enemies except now we would be even more perplexed as to how well armed they might be if we went to war. Finally, this would be a world in which the least provocation—perhaps as little as an assassin's bullet—might be sufficient to ignite a war that could go nuclear and spread quickly.

Possible Proliferated Future



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How do we avoid this nuclear 1914 scenario? Clearly, we need to do all we can to prevent North Korea from having its way with the NPT and thereby enabling Iran and others to do as they please. How might we do this? First, we need to recognize that North Korea presents a global nuclear challenge that will require more than a regional solution. The worry now, in short, is not limited to the immediate concern of North Korea having or keeping nuclear weapons. In addition, it has expanded to the worry that North Korea's nuclear actions will serve as a legal model

for many other would-be bombmakers. Certainly, it would be helpful if we could get agreement that the NPT provides no per se rule for any member to acquire the entire fuel cycle. Also, members of the NPT need to understand that they will be held accountable should they violate the treaty and, then, try to escape by withdrawing.

Until recently, these sound ideas had no serious political backing. That changed last year with the French government's publication of a white paper proposal it submitted before the NPT Preparatory Review Conference in New York and the European Union. Now both the IAEA director general and the U.S. Government back the French position that "a state that withdraws from the NPT remains responsible for violations committed while still a party to the Treaty and should return, free, or dismantle all nuclear materials facilities, equipment and technology it acquired from other states before withdrawal." The French also contend that members of the NPT have no per se right to import the means to enrich uranium, separate plutonium, to produce heavy water or related technologies. Instead, they argue that right depends at least on whether or not there is a clear economic case and sufficient nuclear infrastructure to justify such projects. In Iran's case, the U.S. and the European Three (Britain, Germany, and France) have already clearly agreed on this point.

If the Permanent Three members of the UNSC—France, Britain, and the U.S.—agreed, all that would be required to make this view of the NPT binding would be the support of either China or Russia. The assumption here is that if you had Moscow's backing, Beijing would go along to avoid being the odd man out and that Moscow would do likewise if China joined the U.S., France, and Great Britain. The question is, is it possible to secure China's support? If we go directly and ask Beijing, the answer is likely to be no. Given the global threat the North Korean program along with Iran is beginning to pose, though, we can and ought to seek others' help first.

France, who authored the proposal and who has considerable influence in Europe, would be a good place to start. This is particularly true regarding nuclear issues. China recently opened bidding on several urgently needed new nuclear reactors. The only two serious bids came from the French government-run firm Areva and the U.S.-Government subsidized reactor effort of Westinghouse. The Westinghouse bid just received an Export-Import Bank guaranteed loan of \$5 and Westinghouse's advanced light water reactor design was supported with over a quarter of a billion dollars of U.S. taxpayer dollars.

If we and the French joined forces and told the Chinese that we decided to hold off making the sales for the moment because of our concerns about nuclear proliferation, we could probably get Chinese officials' attention. We could then talk to them about the value of backing the country-neutral French resolution at the U.N. Of course, some French nuclear officials, anxious to secure China's favor, might not want to work so closely with the U.S. They, however, are likely to be overruled: The U.S. Government, after all, is cooperating very intensely with the French nuclear industry and paying out several billion U.S. taxpayer dollars to France to complete a controversial, large U.S. Department of Energy-run nuclear fuel fabrication plant in Savannah River, South Carolina.

All of this suggests that the U.S. Government could do more with the French to get China to do the right thing not just to isolate North Korean nuclear misbehavior, but to make sure no one, including Iran, concludes that Pyongyang's nuclear moves constitute a model worthy of emulation. Right now the U.S. taxpayer is being asked to spend billions to subsidize nuclear sales to China and nearly as much to France for nuclear construction in the U.S. Neither of these projects, however, is likely to do much good promoting peaceful nuclear energy unless we first neutralize the global nuclear threat that North Korea together with Iran is clearly posing. This will, ultimately, require first reaching outside of the region in order to secure critical Chinese support.

Panel V: Discussion, Questions and Answers—Continued

Cochair BARTHOLOMEW. Thank you very much. Commissioner Donnelly, you're next with questioning.

Commissioner DONNELLY. Thank you. This may be more by way of a statement than a question, so I apologize in advance. This set of testimony summarizes for me something that I've been brewing on all day, and that is we're putting a whole lot of carts before the strategic horse, particularly when it comes to China.

I think Henry began to get at this a little bit. I'm sorry I wasn't here on time to finish. But when you start looking at the world through the telescope that is the North Korean nuclear crisis, you end up with some pretty distorted conclusions. You end up trusting Chinese intelligence assessments or Chinese evaluations of our intelligence assessments more than we trust our own intelligence community. That is not a vote of confidence for our intelligence community, just a suggestion that a Chinese interpretation of it might be somewhat less trustworthy.

You put the question of North Korean nuclear weapons before the question of political stability in the region on the peninsula. North Korea and the peninsula were unstable before North Korea had nuclear weapons. If North Korea has not got nuclear weapons now, it's still unstable. And if we find a way to get rid of them, the peninsula is still unstable.

Finally, it seems to me we've totally been duped into playing the game according to Beijing's desires. We make our goals China's goals by trying to buttress the Kim regime in Pyongyang, and certainly to back away from regime change if North Korea has no nuclear weapons doesn't strike me as particularly logical, except that there are risks to regime change, but to preempt ourselves, particularly if we're uncertain about whether North Korea actually has the things that we're really spooked about, again seems to me to be kind of looking at things in a backwards perspective.

As I think Henry began to get at, these issues do have regional and global reverberations, too. Again, to acquiesce in a process that ends up legitimating the North Korean regime seems to me incentivizes other questionable regimes like the Iranian regime to pursue exactly the same course with the idea that they'll get exactly the same reward from it.

In particular, to prefer stability over either, to use the pejorative term "regime change," but one can also say democratization also undercuts our overall grand strategy not only in East Asia, but around the world. So again, I don't know that I have a question here. I am as disturbed as the next guy about North Korea's nuclear weapons.

But to go back to the question that's been kind of bugging me all along, is that the most dangerous thing, as Ash Carter said, the most important strategic challenge that the United States faces today. And particularly, vis-à-vis China, I think that may be a bridge too far.

So end of statement. Thank you for indulging me.

Cochair BARTHOLOMEW. Would any of our panelists like to comment?

Mr. HARRISON. I might just quickly say that with respect to your rapier like thrust that I wasn't suggesting that we should trust Chinese intelligence assessments more than our own. On the contrary, what I'm saying is that we went out in 2002 with an assessment of the uranium program that we have not yet backed up, and we've been quite willing to put forward all kinds of things to justify assessments in Iraq, but we haven't been willing to put forward this evidence in the case of the North Korean uranium program and, thus, we have, it's not that the Chinese have an assessment. Their assessment is simply that we haven't made our case to them.

So I certainly would, we have the intelligence capabilities to make a much more effective assessment. We haven't been able to get A.Q. Khan to talk to us yet. Pakistan won't let us do that. So all I'm saying is the United States should put forward, and Balbina said this, and I think on that we agree, that it would be in everybody's interest if the U.S. would put forward what it knows about the uranium program and thus put North Korea on the defensive in the negotiations, more effectively mobilize a united front in the negotiations.

Your other question really is very interesting. Why back away from regime change if North Korea has no nuclear weapons? Now, it seems to me I certainly was not saying that North Korea won't ever have nuclear weapons. What I'm saying is that to assume that they now have or are at the stage of having militarily operational nuclear weapons seems to me to be getting ahead of the game, but we do face an ongoing danger the longer this drags on, and I agree, time is not on our side, and therefore I think that this danger will grow, and it should be nipped in the bud through more effective negotiating posture that will get results.

Cochair BARTHOLOMEW. Mr. Sokolski, you had a comment?

Mr. SOKOLSKI. Having worked in the Pentagon at the Deputy Assistant Secretary level and having had access to massive amounts of intelligence, I would warn everyone here not to think that releasing what we know will convince people of a lot.

It is the nature of nuclear weapons programs to be very difficult to discern as to where they are and what the state of play is. We have done one thing consistently—gotten it wrong high and low, over the last half century. I don't think what we think we know should be revealed. I think what we know we know should be emphasized, and what we know is that the rules have been broken. We know that Pyongyang has withdrawn from the NPT contract, and we know that they've gotten away with this with impunity.

We know that the regime is unbelievably obnoxious and I think we need to act on what we know.

Cochair BARTHOLOMEW. All right. Commissioner Mulloy, your questions.

Commissioner MULLOY. Thank you. Mr. Sokolski, I agree with your point about what we used to call the "nth country nuclear proliferation issue." And when you've got more and more people, then there's going to be more and more danger of some miscalculation somewhere along the line.

I'm not an expert in this area, but I do teach public international law, and I think this whole idea of a regime change outside an internationally legal framework like the U.N. Charter that was cited here earlier by one of our witnesses as why we would be restrained from attacking North Korea, but if you have a policy of regime change that goes outside of that legal structure that you've signed as a legal commitment, then it creates problems for you elsewhere.

From what I can see, we've got a problem with North Korea because they seem—at least this is the record that's been put forth—they're worried about whether we have a policy of regime change? Now, Mr. Harrison, you say in your study on page ten, the way to get around that is to say to them—get rid of the nuclear weapons

and we make a pledge that we're not interested in regime change anymore, and that this should be done simultaneously.

Mr. HARRISON. Right.

Commissioner MULLOY. Now, the question for me is do we do that in the Six-Party framework? You also talk about the need for separate bilateral negotiations between the United States and Korea on that same page ten. So I think we've created a problem with this regime change maybe, that then catches us when we want to go after this proliferation issue with North Korea, and Mr. Sokolski says we've got to get it with North Korea, because then if we don't, then it sets a precedent for the "nth country" program, then South Korea, Japan, others.

I think this is very serious business to get the North Korean thing right. Mr. Harrison, is this all tied up with the regime change issue as part of the problem?

Mr. HARRISON. Yes, as I said in my prepared testimony, I think that we have to address that problem at two levels. First, the United States itself, our leaders, have to say things that redefine goals with respect to North Korea as being goals based on peaceful coexistence.

And, then, in the Six-Party Talks, we do have to have a declaratory posture on the part of all the six countries that has to do with respect for sovereignty and no overturning of governments, and that this has to be put together with what we call multilateral security guarantees.

No U.S. Government is going to tie its hands and take away the ability to attack North Korea under all circumstances. So a security guarantee—

Commissioner MULLOY. We're entitled to attack someone for self-defense under international law.

Mr. HARRISON. Yes. What's important to North Korea, I think, is they recognize as Congressman Weldon says—it's not going to be a congressional treaty that's going to bind our hands in that respect. So you have to have the language of multilateral security, multilateral security environment, but the key part of the language in the Six-Party negotiations, as we spell out, would have to have to say in whatever language you're prepared to accept that we're not seeking regime change.

But that also has to be said at the bilateral level and bilateral negotiation—in declaratory posture, just as we've said that we don't like tyranny, as a declaratory posture, we should be able to say that we're prepared for peaceful coexistence while we seek to promote the values that will erode tyrannical regimes. Engagement with North Korea will erode that regime and gradually lead to less human right abuses, less repression and a changing regime as distinct from regime change.

Cochair BARTHOLOMEW. Mr. Sokolski.

Mr. SOKOLSKI. I don't want to be misunderstood. By the way, if I could get the regime to change tomorrow, I'd be for it. Okay, fine. I wasn't making quite that point though. Whatever the regime is, it has to be held responsible for its behavior, lest it become a model for others.

Whether or not the United States can change the regime in North Korea, and if there was some way that we could do it peace-

fully, as we've just heard, that would be our preference, and so I'd be all for that. But separate from that is you have to stigmatize the behavior of the existing regime for breaking the rules. We have chosen to push back away from doing that, not in any serious way.

There is a report, after all, sitting at the U.N. Security Council that's been sitting there for nearly two years. I think we need to start thinking creatively how to take those due diligent steps necessary to at least fail at working at that problem and that report. We have treated this as a regional problem to such an extent, we haven't chosen to do that. I think now that we've had a bit of a try at the regional approach, we should continue it, but try something else in addition.

Cochair BARTHOLOMEW. Ms. Hwang, you had a comment?

Ms. HWANG. Yes, I did. Back to Commissioner Mulloy's point. I think the fundamental problem with tying together, as Sig has suggested, North Korea's giving up its nuclear weapons in the U.S. exchange for U.S. security guarantees based on a fundamental misunderstanding.

There's an underlying assumption there that is completely wrong, and that is that North Korea is pursuing nuclear weapons as a deterrent against U.S. hostile intent or U.S. intent to broker a regime change, and therefore if we somehow convince the North Koreans that the U.S. has no hostile intent, and wants peaceful co-existence, North Korea would give up its nuclear weapons.

North Korea trusts us even less than we trust them, if that's at all possible. North Korea will absolutely be unconvinced no matter how many assurances, how many statements, treaties, whether it's multilateral or not that we give them. The North Koreans will not be convinced that the United States has no intent to change their regime.

They simply won't, and the idea that we will be able to give them such a statement, I think, is just wrong. It's a wrong assumption. We shouldn't even be going down that road.

Mr. HARRISON. One quick comment, if I may, and that is, I think that it's very important what she just said because I think the underlying assumption of Administration policy is that North Korea will not give up its nuclear weapons for various reasons, and that it has reasons for nuclear weapons program other than deterring the United States.

This is written in the work of Robert Joseph, who is likely to be our new Under Secretary of State for International Security. So that's why the Administration's posture requires North Korea to give up everything at the beginning of negotiations, because the Administration doesn't trust North Korea to carry out any negotiation. It will just use the step-by-step process that I'm supporting to cheat and to delay and so forth. So she's identified what I think is the principal issue. I wish we had time to talk about it.

Commissioner MULLOY. I agree with you. Thank you.

Cochair BARTHOLOMEW. Commissioner Thompson.

Cochair THOMPSON. Yes, I think the Administration's assumption, if that's their assumption, is pretty well founded in view of history and having violated every agreement that I've known that they've made, with the South Koreans, with the Agreed Framework, all along. To me the real question that I'm trying to get at

is whether or not I see absent the threat of United States attack or invasion because they have nuclear capability and nuclear weapons, what motivation does either China or North Korea have to give up those nuclear weapons?

From China's standpoint, sure, they want stability, but what is going to make the situation unstable? They almost single-handedly can economically make sure that the regime doesn't collapse if they don't want it to collapse.

In terms of North Korea, this is the only reason we're talking about them. The whole world is talking about that little guy and what they have and don't have, and what possible way could he get any attention other than by doing what he's doing?

Also they've had a pretty good track record of getting concessions and getting aid and civilian nuclear considerations from us, and so the Agreed Framework, is just one instance. They make these deals and they get some concessions and they get some help and some aid and then they violate the deal and they go back to the next one around again.

They've done pretty well by claiming they have stuff, whatever the extent that they have it, and not giving it up, and not agreeing to give it up. I don't see any real reason, absent ultimately their fear of being attacked which I agree with Ms. Hwang, I don't think they have any fear of being unilaterally attacked for any reason other than a nuclear one.

Ms. Hwang, the one thing that I do wonder about in terms of motivation, in terms of China—it's been mentioned by several people—is China's concern about what Japan might do in terms of gearing up their nuclear program.

In the first place, I'm curious as to why Japan—and clearly they could do that in short order—why they haven't already done it, if they haven't? How much more does Korea, unless they agree that they don't have anything or don't have what they say, and they have no intention of developing, I find that hard to believe that the Chinese think that. But it looks to me like the Japanese have already made a decision not to gear up. To what extent do you think that would motivate the Chinese to press for a deal, their concern about the Japanese gearing up the nuclear capabilities?

Ms. HWANG. Everybody brings up this prospect of the potential for Japanese becoming a nuclear power. First of all, I don't think it's quite as easy as people make it out to be. Japan is undergoing profound transformation, especially thinking about its military, its security, its foreign policy roles in the region, just in the last year, 18 months. It's rather amazing the revolution that's been going on in Japan.

But I do think there are fundamental inherent aspects of an anti-nuke or anti-nuclear allergy that is pervasive in the society that would prevent Japan from going nuclear overnight, as people have suggested.

On the other hand, I'm not so sure if that is China's worst specter or the worst nightmare for Japan to do so. Possibly it isn't. In fact—

Cochair THOMPSON. From both the standpoint of Japan and China, the United States plays into that. They're going to be there for them presumably in a worst-case scenario.

Ms. HWANG. That's exactly right, and I think that China is, as I suggested earlier in my testimony, very concerned about the strategic outlook of the region. And one country that really has not been mentioned is South Korea. Earlier, people have mentioned that China would never allow the North Korean economy to collapse.

Actually, China can make that decision, but I don't think the North Korean economy would collapse if China pulled everything out because South Korea would never allow it to collapse. I mentioned that China was North Korea's largest trading partner officially. Unofficially, there's probably a lot more money going in. But the numbers are misleading because South Korea's official trade with North Korea is listed at about half, \$536 million last year.

But South Korea accounts for its official aid and loans completely separately from trade. If you add that up, it's very close to the Chinese numbers and it's ever increasing. There is a competition in North Korea for the domination of that economy, and it is occurring between China and South Korea. You will see it everywhere and you hear this from people that are there.

So I think that what complicates this is not just Japan, but South Korea and what South Korea's strategic considerations will be.

Cochair THOMPSON. Mr. Sokolski.

Mr. SOKOLSKI. In some respects, it could be argued that the nuclear overhang of plutonium separation and enrichment capacity plus space program development including reentry vehicle research and development in Japan has roughly been a counterweight to the modernization but not expansion of the strategic deployments in China, and so the question would be, is this working, why take the additional step and risk more intense competition. And I suspect that that calculation is operating in some level in the Japanese policy planner's mind, and so too in the Chinese planner's mind.

Mr. HARRISON. One word answer to Senator Thompson: money. He said why would North Korea give up its nuclear weapons? They have tremendous economic needs and we've outlined in our task force a program that would help to give them energy security with the cooperation of all the countries of the region and other economic inducements.

Cochair THOMPSON. I may ask, how do you think the North Koreans viewed the Agreed Framework back in the '90s? Why when they were on that track, why did they jeopardize that and go another direction?

Mr. HARRISON. I wish we had more time than we do. There's a great deal of misunderstanding of what happened. The United States did not carry out most of the commitments it made under the Agreed Framework. We provided the oil.

Cochair THOMPSON. You're right. We do need a lot more time on that. I'm familiar with that argument.

Mr. HARRISON. Yes. I didn't even want to bring that up because that's a really slippery slope.

Cochair BARTHOLOMEW. Okay.

Cochair THOMPSON. Am I through?

Cochair BARTHOLOMEW. You are done, sir. Sorry. Commissioner Wessel.

Commissioner WESSEL. Thank you to the panelists. Unfortunately in many of these hearings, I look near the end of the day to have our questions answered, and I find I'm somewhat more confused with more questions than when I started the day.

Ms. Hwang, just to use your testimony as a teeing off point, we seem to have a crisis of confidence in the region that there are questions about the veracity of our intelligence and the underlying assumptions about what's going on in North Korea, at least from my point of view. You challenged my assumptions that China had a real interest in dealing aggressively with the North Korean problem, and you raised the issue of the status quo, et cetera.

I think it was Mr. Harrison who talked about China having too many fish to fry—I think that was the term you used. I come to this in part and as I said earlier today, I think many of our fish have already been fried in this relationship.

We have received no real economic progress on issues like intellectual property or currency. We've seen the trade deficit skyrocket by 30 percent in the last year. Assuming we believe our own intelligence, assuming we want to deal with the North Korean problem in the context of the Six-Party Talks without going to some more creative approach—I think you said mischievous or creative, can we put enough pressure on China to get them to believe that the status quo situation needs to change because of their relationship with us? I'd ask this of each of the panelists. Ms. Hwang first.

Ms. HWANG. Again, one of the assumptions that we should challenge first, is that China is the only one that can get North Korea to act. But secondly, it's that the United States is the only one that can get China to put pressure on North Korea, and I think Henry has actually challenged that. I think the idea about France is a very telling example.

But let me point out that in Northeast Asia right now, China has surpassed the United States as both South Korea and Japan's largest trading partners. So the United States is not the only one that can put pressure on China to do this. Why isn't Japan and South Korea putting more pressure on China and getting other countries to do so as well?

So I think that we need to start moving out of this trap where it's the United States that has to induce China to induce North Korea to do something.

Commissioner WESSEL. It seems in many situations with China that other countries are willing to hold our code as we bloody our nose. If we were to move to that situation, how do you think we'd pivot to it? If we were to do a stand-down, would the others take up the mantle fairly quickly? I hate to say I don't have a lot of confidence in France or Japan's willingness to take more of a leadership role.

Ms. HWANG. Right.

Commissioner WESSEL. Do the others have confidence?

Mr. SOKOLSKI. May I comment? It's very important not to have confidence in others in order to figure out how to get it. I think your cynicism is well taken. Not everybody is our buddy, even our friends have different views of what should be done, but let's take the example of France.

Sometimes they like playing the rogue in playing China off. They had military exercises with the Chinese. This is pretty sporty. Okay. I don't know what they were thinking this would accomplish, but it was a little upsetting and kind of weird. The fact of the matter is, fine, but we are paying out of the taxpayers' pocketbook \$4 billion on a MOX plant that the French firm, Cogema is going to build. I think we can at least probably get into the front office to have a conversation.

It seems to me that we act like on these issues as if we're cockroaches up on our backs and our legs are flailing. Now, there's another thing. I notice a lot of people here want to make sure that North Korea doesn't have nuclear weapons. Let me just say good luck. Maybe the way to treat it is to deny that they have them. I don't recommend that, but it's one way to go.

Another way to go is to realize that getting them to give them up is going to be a long time coming. It's going to take something like a South African conversion, I won't use the regime change word—but something big that we may not have control over.

I am only concerned right now about the bigger problem; don't let this cancer spread because then you're going to have a world full of North Koreas, and there aren't enough diplomats or enough cables to keep track of that. I can assure you of that.

So it seems to me that if we can at least move a country-neutral appeal, which might make it a little bit easier for not only the French but even the Chinese to work, you might get some traction. I think if you're asking countries to beat up on one another, and particularly when we want them, as you said, hold the code, they're not going to do it.

It has to be something that appeals to a higher point that everyone wants to participate in. I think we need to move there first.

Mr. HARRISON. Very briefly. I think that we cannot get China to cooperate with us vis-à-vis North Korea on the basis of our present posture in the Six-Party negotiations. So as I said at the beginning of my testimony, if we were to change our policy with respect to how to get a denuclearization agreement, go to a step-by-step approach, go to a plutonium first policy, China would cooperate with us. So we can't discuss this in the abstract. It has to be related to how close the positions of the two sides are with respect to the terms for a denuclearization agreement.

So mine is not a counsel of despair. I think that the Chinese are prepared to cooperate for the reasons I've indicated. They don't want a nuclear North Korea so they're ready to cooperate if they think we're putting forward terms that make sense and which can be accepted by North Korea.

Cochair BARTHOLOMEW. Commissioner Dreyer. Just one comment, Mr. DeTrani is running a little bit late, so if our panelists have the time, it actually gives our Commissioners a little more time to ask questions.

Great. Thanks. Commissioner Dreyer.

Commissioner TEUFEL-DREYER. Yes. We've been talking most of today, even before you all got here, about how to get the Democratic People's Republic of North Korea and China to agree with us on a settlement to the Korean problem. The underlying assumption of all of this is that China and the DPRK want a solution to this

problem. I would like to throw out a radical hypothesis for you to think about.

And that is suppose they don't want a solution. Let me just say that, from several points of view, the status quo is, although not perfect, reasonably comfortable for both of them for a number of reasons. From the point of view of the North Korean leadership—we're not talking about the point of view of the average person, who may be starving—from the point of view of the leadership, perhaps what they really want is to keep these negotiations going ad infinitum because in the interim they can keep on doing what they've been doing, working on their weapons program and their proliferation sales to other countries, and meanwhile they're also getting sufficient amounts of, quote, "humanitarian aid" from various countries at various different times to keep them from collapsing.

Mr. SOKOLSKI. Okay.

Commissioner TEUFEL-DREYER. Okay. And meanwhile, China is also getting certain things out of the status quo. For one thing, North Korea is not collapsing, which means that there is not a massive influx of refugees into China, and for another, it means that the Korean Peninsula stays divided. This is good for China, because for one thing they get to keep playing North Korea off against South Korea to their own benefit, and for another, they don't have to face the possibility of a unified Korea. If you talk to their people after a few beers, they will tell you something like, "These Koreans are 'lihai'; they're fierce."

The cliché is that China really wants a unified Korea but one that is under their control. There is no Chinese leader I know who seriously thinks the PRC can keep a unified Korea under its control. It's always amused me that although the Koreans typically describe themselves as the nut in between the nutcracker of China and Japan, the Chinese and the Japanese typically describe Korea as the thorn in their side, or a dagger pointing at them.

So there is concern there, and of course, the Chinese government can't come out and say they prefer a divided Korean Peninsula because that has ramifications for their desire to unify with Taiwan: others might respond that they prefer the political division in the Taiwan Strait.

Meanwhile, both the DPRK and China can use this argument, "you might lure us into a solution if you'll give us enough." Congressman Weldon said, well, if we would just give in on Taiwan, maybe the Chinese could give us a deal on that.

Chairman D'AMATO. He didn't say that.

Cochair BARTHOLOMEW. He said that he thought that perhaps the Chinese thought that.

Commissioner TEUFEL-DREYER. No, no. He said that the Chinese, the Chinese told him that.

Cochair BARTHOLOMEW. But I don't think he characterized his own position that way.

Commissioner TEUFEL-DREYER. He did not. He absolutely did not. But he did say that the Chinese kept saying give us a deal on Taiwan. So, in other words, is it really the case that everybody wants a solution here? Or is it maybe just us?

Mr. SOKOLSKI. Again, what's the problem? If the problem is getting rid of any doubt that North Korea has nuclear weapons or nuclear weapons capabilities, I think everything you said struck me as very, very plausible and therefore trying to run up that hill with more bribes or some other favor might be a fool's errand.

If, however, you are shooting at other objectives, the ones I think are certainly important, I don't think even North Korea, but certainly more important, surely not China wants to be considered to be a nuclear outlaw. They think, even the North Koreans, that they have followed the rules or they argue this.

They claim they have followed the rules. We have not contradicted them quite yet on this point. The Chinese moreover say that they're for nonproliferation. It seems to me that hypocrisy is the price vice pays to virtue. We should exploit this.

I don't think it amounts to nothing. I think that if you do focus on that, you will get some traction, at least for the bigger problem, probably not about nuclear weapons in North Korea immediately, no. I don't think so. I agree with you.

Cochair BARTHOLOMEW. Ms. Hwang.

Ms. HWANG. Commissioner Dreyer, I think you're exactly right. I think both China and North Korea are completely benefiting from this process. And they are benefiting far more from dragging this out, but the reason is because they haven't been meted out a penalty for doing so.

If you look at the Six-Party process, I think this is one of the aspects that has essentially been a tremendous problem.

When the United States put a proposal on the table in June 2004, it was actually a rearticulation of a South Korean proposal in March. Then North Korea stopped attending. We had hoped that there would be a meeting in August or September of last year, and then they didn't come, and everybody assumed that the reasons were that North Korea was not ready; that they would have to think about it.

Then they had to wait to see what happens if there's a regime change in Washington in November. And then after there wasn't a regime change, then they thought, well, okay, now we have to wait for the inauguration speech to see if maybe the new Bush Administration's policies will shift. Maybe the United States will get friendlier. Then that wasn't enough, so then they had to wait for the State of the Union address. But that was not the reason that North Korea was stalling and waiting.

Kim Jong-Il is rational and he's smart enough; he can watch the polls on CNN, too, the day before the election. It was 50-50 and could have gone either way, and by the way, the idea that North Korea, Kim Jong-Il would love to have Kerry come in and he would suddenly be friendly is preposterous. Senator Kerry was making some very strong statements. Kim Jong-Il does not like any American leader.

So that was not the reason. The reason was simply this: after June 2004, not one of the other five parties including Washington, by the way, came out and publicly endorsed this proposal. They did so only passively. What should have happened is China, Tokyo, Seoul and Moscow should have gone out and said this is a very strong proposal and we encourage North Korea to take it.

They should have been out there doing that. They didn't. Instead, actually, you had the opposite. What you had was, very unfortunately, Beijing's leaders, Seoul, and even some in Japan coming out and saying, the U.S. needs to be more flexible, and the proposal wasn't enough. So I think that was the real problem. North Korea had everything to gain by sitting back. They're probably laughing that the other five parties were essentially not behind the deal and why should North Korea come back to the table?

Mr. HARRISON. I'd just like to read the first paragraph in my testimony: The most important Chinese objective is to forestall a war by keeping the United States engaged in Six-Party negotiations with North Korea of indefinite duration.

So I agree with you to the extent that China's point of view, they don't really believe we're going to be prepared for the policies that I've suggested we should adopt. So from their point of view, they have to keep us busy to make sure that we don't pursue steps, which they would consider provocative involving the PSI, the interdiction of ships, involving economic sanctions, involving U.N. action of the kind that Henry has been in favor of. I don't think you consider some of the possible results, reactions to the kind of punitive measures that you're talking about.

I think that you're right in the sense that the Chinese are very realistic and they don't really see much likelihood of this Administration changing to a policy that they would consider workable and realistic to get a real settlement. So their bottom line objective is to keep us busy at the bargaining table so we can't make what they would consider trouble.

Cochair BARTHOLOMEW. Thank you. Chairman D'Amato.

Chairman D'AMATO. Thank you, Madam Chairman. I just wanted to make sure that we put in the record the disclaimer of the Chinese Embassy of what was said. You referred to in your earlier remarks about The New York Times piece a couple of days ago, about the Foreign Minister's comment on the Six-Party Talks. They have disavowed everything in that article.

Mr. HARRISON. No, they just disavowed the part about bilateral negotiations. They reaffirmed their position in favor, I believe, of the Six-Party multilateral process. He didn't take back his first statement regarding the intelligence questions.

Chairman D'AMATO. Oh, yes, he did. Right here it is—"A resident journalist of The New York Times published an article on the nuclear issue in the Korean Peninsula at the paper's web site alleging that China questioned U.S. intelligence on DPRK's nuclear capacity and rejected the relevant U.S. request," was China's comment. And this is from the Embassy.

"We have taken note of this article. The report is not true." So they reject that. I think you have to discount that article. "We cannot understand why the author of the report took such an irresponsible attitude," so on and so forth. So they've disavowed that, but I just wanted to make that point for the record.

But more importantly, I think it's important for me, I think what I get out of this hearing is that we have to reevaluate China's intent and seriousness in these talks. That's what I get out of this. For the first time, it seems to me that we have a difference of perspective on proliferation with the Chinese that's very substantial.

For us, solving this problem is much more important than the North Korea situation. It's a worldwide question of proliferation. Even if they don't have uranium enrichment, if they say they do, and they go on for years in this situation, others like Iran and others will get the idea that it's a free game out there and all kinds of countries are going to start signing up to this and think they're going to get international credibility and stature through producing crude weapons. That's to me the stakes here.

From what I'm hearing, the Chinese don't share that. Therefore, it seems to me that if we were going to figure out where we're going from here in terms of these negotiations without Chinese support, which we have not had in terms of proposals coming from the Chinese, just a host of talks. That's not enough. If you thought that they took the same attitude toward proliferation that we did, they would be up there making proposals all the time to try to get this thing going. We don't see any of that.

So I personally am forced to reevaluate how you approach this problem. Let me ask the panel—it seems to me that the United States has got to look at taking a diplomatic offensive here without regard to the Chinese.

Forget the Chinese. Get everybody else involved. If they don't want to take a role, forget them. Let's us do it because the stakes are much wider. It's not a question of working with the Chinese on strategic relationship. It's a question of proliferation worldwide. That's what is at stake. Plus the question of stability in Northeast Asia over the long run, it seems to me.

Let me ask you your view, panel, on what I've just said. Do you think it's important enough at this point, given the questionable nature of Chinese commitment to this question that we've got to go forward with or without them? In these talks or otherwise?

Mr. HARRISON. All I can do is reaffirm what I tried to say in my testimony, which is I think that they are prepared to cooperate with us if we would modify the terms for a settlement that we have been putting forward. So I don't agree with you—you've listened to Henry and I don't disagree with his diagnosis. I'm not sure about his cure because I think it could lead to consequences that we can't predict and we have to consider how we deal with this reality he's described very, very carefully.

But I do believe that we can cooperate with China to deal with the North Korean nuclear problem if we modify the terms of a settlement that we are seeking in cooperation with what they consider realistic. They're sitting right there, right next to North Korea, so if we just say this is how we're going to solve the problem, and you guys line up with us, no, they won't cooperate. But if we want to cooperate, then I think the game is not up.

Chairman D'AMATO. Okay. My view is that if the Chinese really cared about it, they'd be making proposals rather than we're wrong in this way—the U.S. has got to do this. Where is their idea?

Mr. HARRISON. They're in a hot seat between the North Korean interest we've described on the one side and the interest, the fish to fry with us on the other side.

Cochair BARTHOLOMEW. Ms. Hwang.

Chairman D'AMATO. Yes, Ms. Hwang.

Ms. HWANG. I don't think they're in the hot seat. I think that's exactly it. And I think you're right. We need to go on the diplomatic offensive and put them on the hot seat. I think in the long run, an ultimate solution to the problem does require Chinese participation. I agree with you. But right now I'm sorry to disagree. I don't think they're willing to cooperate. I think they're very happy to pretend that they are.

So the only way to do is to force them to do it. How do you do it? Again, one of the ways is, is essentially, maybe is to exclude them. And I think they will get very nervous and upset if they feel that they are excluded. That might be one way to spur them on.

Chairman D'AMATO. Mr. Sokolski.

Mr. SOKOLSKI. I don't know that you want to forget China. I guess I'm seconding comments just made, but you do want to start remembering everybody else that you basically ignored, and I think the way we've gone about ignoring the others is denigrating the rules.

This idea that following the rules, enforcing the rules, have unknown consequences that we can't control strikes me as the prescription for the rule of disorder. And while I'm not a big one-worlder, these rules were laid down by the United States, for God sakes. They were for our benefit as well as the benefit of others. I think everyone knows that at some level. We need to remind them of that. And I think China finally does not want to be the odd man out.

We've let China fill a vacuum in the region by not making them the odd man out on the bigger NPT issues. We need to get back to that and I think you'll find maybe you can work with China better.

Chairman D'AMATO. Thank you.

Mr. HARRISON. One of the problems is that this discussion cannot be conducted—a global NPT question—without raising questions we don't have time to deal with, namely, Article VI of the NPT imposes obligations on us, that we have not taken seriously for many years, to join in the global reduction of nuclear weapons.

Most of the world thinks that we are not living up to the NPT. Therefore, its efficacy, and I still am a strong supporter of the NPT, is greatly diminished, and we don't have time to really argue that one out because that's a really big issue, but I think it certainly should be stated for the record that it's not a situation in which we are regarded by most of the world as honoring an effective NPT.

There are so many anomalies in our position having to do with Israel and so forth and so on.

Mr. SOKOLSKI. And North Korea.

Mr. HARRISON. Well, that's—

Mr. SOKOLSKI. That's my point.

Cochair BARTHOLOMEW. Okay. Thank you. Commissioner Becker, your questions?

Commissioner BECKER. Somebody almost stepped on my toes in suggesting that perhaps nobody wants a settlement on this, which drives me up a wall. We've been in these negotiations with North Korea, and with China at the table, for some time, and it's been an exercise in frustration. The diplomatic overtures, the delays, we break off, we go back, this is all reminiscent to me—I'm old enough

to have been in the service back then—of what happened at the end of the Korean War.

It took six months for the Koreans just to decide the shape of the table, not the negotiations, not who was going to sit there, but just how the table was going to be designed. In that exercise, we lost between 30 and 40,000 young American men in that war, and it's questionable as how all that turned out.

We have 37,000 troops that have been in the DMZ or right adjacent to it for half a century, and I see us walking down that same road. There are a lot of facets as to how we're proceeding on this. Korea has said back in the '90s, that if they go down, they're taking everybody down with them. They said if they're going down, it was a threat to South Korea, that they've got a million troops. Now, they're saying—and they've made these same threats and blusters at the turn of the millennium—and now we're hearing the same sort of thing.

The effort seems to be bail them out, bring them into the 21st century, and if you don't, everybody is going to pay. While we go down this road of delaying and diplomatic maneuvers, they're hell bent for producing more weapons and solidifying their position even more as they go along.

I don't know exactly where this thing is going to end, but I know that we can talk it to death and without a solution. There doesn't seem to be any end game on this as far as the Administration is concerned. I just see us just walking down this path without knowing where we're going, what we really want, whether we want a diplomatic settlement or whether we want to let them have the weapons of mass destruction, or whether we're drawing the line that they have to give them up. We seem like we're vacillating all over the place and we're doing that here now in discussions, too.

Mr. SOKOLSKI. I think the frustration level is very high because some of the objectives are very high. And I think the suggestion that we would go to war certainly isn't on the table in any palpable way.

The North Koreans, I think, are even more frustrated than we are, because I don't think pulling a war trigger is going to satisfy them very much either.

Commissioner BECKER. South Korea, I meant.

Mr. SOKOLSKI. Oh, the South Koreans would go to war?

Commissioner BECKER. No, no. I mean only for them crossing the line and going into South Korea and that's the pressure point.

Mr. SOKOLSKI. We shouldn't believe that even bullies don't have to worry about risks. The idea that everything is easy for them to go to war and tough for us doesn't sound right. They haven't gone to war for quite awhile.

Commissioner BECKER. 50 years ago.

Mr. SOKOLSKI. They've done military acts of war on the margin, but they have not gone to total war. So there is some reason to believe that might not change. We do work that problem militarily as hard as we can with the South Koreans and others.

I do think that we have got to make sure that, as you say, we don't let this become an example for everyone else in the world. At least that objective has to be focused on much more seriously than it has been to date, and I think there is moral hazard in cutting

certain kinds of deals with this regime with regard to that bigger objective.

So you need to be very careful. And that's the reason why the diplomats are so frustrated.

Cochair BARTHOLOMEW. Comments from any of our other panelists?

Mr. HARRISON. I'll just say that I think we shouldn't ever forget that North Korea really is afraid of a United States preemptive attack. I've been there eight times—there are many things I don't know about the place. It's not a nice place. It's a closed society, but I've talked to a lot of these guys for 30 years, and let me tell you, they genuinely are afraid of a U.S. preemptive attack. That's what it's really all about and the war in Iraq—we can't have this discussion in isolation. I'm not trying to bring in this contentious issue, but the fact is that in their eyes, if we're willing to expend nearly 11,000 young men wounded in action in Iraq, nearly 1,500 dead, many Iraqi civilian casualties, for the sake of our ideal and our moral commitment to overthrowing tyrannical regimes, and that's what this war is about. It's not about weapons of mass destruction—why wouldn't they think that this might be applied to them?

Ms. HWANG. I'm sorry. I have to disagree with that. This is again, one of the biggest assumptions that many people make, and I think it drives us in the wrong direction about policy towards North Korea, and keeps us mired in an endless debate of no solutions. Of course North Korea probably does fear a U.S. attack. But the reality is they also know that it's not easy for the United States just to attack.

For the last 50 years, they've known that United States has had the capabilities to attack North Korea any time it has wanted to. In fact, in 1951, we actually had completely conquered North Korea. But North Korea knows that there is another effective deterrent, one of them being its conventional forces that keeps Seoul hostage. The other one relates to their missiles, which keep Tokyo hostage.

So I don't think that is what is driving them. I think that is a very handy excuse that they will tell everybody.

Cochair BARTHOLOMEW. Mr. Sokolski.

Mr. SOKOLSKI. There is a third deterrent which is, if we ever attacked, we would be asked to leave South Korea and Japan probably in a New York minute.

Ms. HWANG. Exactly.

Mr. SOKOLSKI. The idea that it's a cakewalk for us to do that, and they can't figure out that it isn't, is I think slightly bizarre.

Cochair BARTHOLOMEW. Speaking of a New York minute, we have a New York witness who has just arrived. George, just a minute to wrap up and then we'll have to move to our next panel.

Commissioner BECKER. I wasn't suggesting that anybody wants to go to war. I'm just not minimizing the fact that 50 years ago they did.

Mr. SOKOLSKI. Right.

Commissioner BECKER. And we had a hell of a lot of problems, and we have a cease-fire; there's never been a real settlement to the Korean War. It's just hanging in limbo.

North Korea still probes South Korea with incursions into their country. They also make the same effort into Japan. This goes on I don't know how often, but every once in awhile I read about it in the paper. It's a fact of life that this is going on.

I'm responding to the point that was made that maybe nobody wants a settlement. I sure as hell want a settlement somewhere in there, but there is no doubt that the North Koreans have said that they won't let their country collapse economically, that they will move, they will do something. That something was aimed at that time toward South Korea. This was back in the '90s. And this type of threat has been reiterated many times.

That's all.

Cochair BARTHOLOMEW. Thank you very much to our panelists. It's been a very interesting dialogue. I would just note that despite the fact that you characterize yourselves as disagreeing, there were a number of times when you were actually shaking your heads positively when the other ones were speaking. So there's ground for continuing dialogue. Thank you very much.

Mr. SOKOLSKI. Thank you.

Mr. HARRISON. Good to see you all.

[Whereupon, a short break was taken.]

Cochair BARTHOLOMEW. Moving right along, it's our honor to welcome today Joe DeTrani, who is the Special Envoy to the Six-Party Talks. To explain my New Yorker connection, he is a New Yorker, got his education in New York and has had a very distinguished career in a number of different places in the United States Government, including the Air Force and serving in the CIA.

We understand he's been in some meetings. I don't know how much he can tell us about, but we certainly welcome you and look forward to hearing the up-to-date status of what's going on. Thank you very much.

PANEL VI: ADMINISTRATION PERSPECTIVES

STATEMENT OF JOSEPH E. DETRANI SPECIAL ENVOY FOR SIX-PARTY TALKS, U.S. DEPARTMENT OF STATE

Mr. DETRANI. Thank you. Thank you so much. I have a short prepared statement. Thank you for inviting me to speak on behalf of the Six-Party Talks and China's role as an intermediary in the process. I'll summarize where we are today in four points.

First, it is the clear, consistent and firm policy of the President and the Secretary to achieve denuclearization of the Korean Peninsula through peaceful means, through the multilateral diplomacy of the Six-Party Talks.

The DPRK's nuclear programs are a multilateral threat; we seek a multilateral solution.

Second, we have long believed North Korea has the capability to produce nuclear weapons. The DPRK's February 10 Foreign Ministry statement that North Korea had manufactured nuclear weapons does not change our perception of North Korea's capability, but deepens our concern about the potential to transfer nuclear materials and technology and underscores the North's challenge to the global nonproliferation regime.

Third, China has played a constructive role throughout the Six-Party Talks and we are appreciative of China's efforts to create the

conditions for a constructive multilateral discussion with the DPRK. We are at a critical juncture in the talks and it is all the more imperative that China as chairman of the talks use its influence and leverage to bring the DPRK back to the table and achieve our shared goal of a nuclear-free Korean Peninsula.

Fourth, the DPRK now has an historic opportunity to join the mainstream of its very prosperous region, to transform positively its relations with the international community and to benefit from that transformation in terms of enhanced trade, aid and investment opportunities.

But North Korea must meet the concerns of the international community and dismantle its nuclear programs, plutonium and uranium, in a manner that is complete, transparent and verifiable.

I'll speak in more detail now about the Six-Party process and the role China has played. After a round of trilateral discussions in April 2003, in Beijing, China, China hosted the first round of Six-Party Talks in August 2003. The other five parties all told North Korea very clearly in the plenary session at that time that they would not accept North Korea's possession of nuclear arms.

We held the second round of Six-Party Talks in February 2004. The parties agreed to regularize the talks and to establish a working group to set issues up for resolution at the plenary meetings.

At the second round of talks, the ROK offered fuel aid to the DPRK contingent on a comprehensive and verifiable halt of its nuclear programs as a first step toward complete nuclear dismantlement.

Other non-U.S. parties subsequently expressed a willingness to do so as well. Two sessions of the working group, running two to three days each, were held after the second round of talks. At the third round of talks, in June 2004, the United States tabled a comprehensive proposal.

The ROK and the DPRK also tabled proposals. The United States met directly with all of the parties over the course of the talks and held a two-and-a-half hour discussion with the DPRK delegation.

Despite the agreement of all six parties at that time to resume talks by the end of September 2004, the DPRK has not yet agreed to return to the table to discuss our or even its own proposal.

Under our June proposal, we and the other parties would be prepared to take corresponding measures as the DPRK dismantled its nuclear programs within the framework of the talks. Our proposal provides for multilateral security assurances and progress towards a new relationship with North Korea if it commits to and then follows through on completely dismantling its nuclear weapons and nuclear programs, including its uranium enrichment program, permanently and verifiably.

Other parties in the Six-Party process have indicated a willingness to provide energy assistance once North Korea commits to dismantlement. President Bush and Secretary Rice have made clear we have no intention of invading or attacking North Korea.

Diplomatic contacts among the six parties are continuing. You may have seen that Christopher Hill, U.S. Ambassador to Korea and representative for the Six-Party Talks, traveled to Beijing for talks with the Chinese, and subsequently, on February 24, held

talks in Seoul with China's Vice Foreign Minister Wu Dawei as well as South Korean and Japanese officials.

I've spent most of today with PRC Ambassador for Korean Peninsula Affairs, Ambassador Ning Fukui.

The visit late last month to Pyongyang of Wang Jiarui, Chairman of the Chinese Communist Party, International Department, and his meeting with Kim Jong-Il reflected the importance that China places on moving the process forward. Regarding the press stories earlier this week characterizing China's position in the Six-Party Talks, the PRC Foreign Ministry dismissed them saying, I quote—"the contents of the reports did not correspond to the facts."

We met with the North Koreans in New York twice late last year, to reiterate that we remain ready to resume the talks at an early date without preconditions and to ask them, the DPRK, to return to the table. We expressed our willingness to respond at the table to any questions the DPRK might have and indicated we have questions for the DPRK about its proposal.

We underscored that we are not prepared to negotiate conditions for a return to the table. We have also discussed with our North Korean counterparts the example of Libya, detailing the benefits Libya is now receiving for its transformed behavior.

Against the backdrop of the Six-Party Talks, the DPRK appears to be trying to undertake some measures in response to its disastrous economic situation. The door is open for the DPRK by addressing the concerns of the international community to vastly improve the lives of its people, enhance its own security, move towards normalizing its relations with the United States and others and raise its stature in the world.

The United States, working with our allies and others, remains committed to resolving the nuclear issue through peaceful diplomatic means. While we are not prepared to reward the DPRK for coming back into compliance with international obligations, we have laid out the path to a peaceful resolution of the nuclear issue.

What is needed now is a strategic decision by Pyongyang to recognize that its nuclear programs make it less, not more, secure, and to decide to eliminate them permanently, thoroughly and transparently, subject to effective verification.

We are working together with the other parties to bring the DPRK to understand that it is in its own self-interest to make that decision.

I thank you. This is the statement I have. I thank you for inviting me today to speak to this very important issue, and with that statement, I'm certainly prepared to engage in any discussion.

[The statement follows:]

**Prepared Statement of Joseph E. DeTrani
Special Envoy For Six-Party Talks, U.S. Department of State**

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The Six-Party Talks, and China’s Role

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North Korea's Opportunity

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Panel VI: Discussion, Questions and Answers

Cochair BARTHOLOMEW. Thank you, Mr. DeTrani. We've had rather a lively dialogue this afternoon on the topic so you'll be the beneficiary is the word I'll use, of some of the issues that have been raised.

Commissioner Dreyer.

Commissioner TEUFEL-DREYER. Let me reiterate the question I asked the previous panel. And that is that it's very easy when you're involved in this day-to-day negotiation, you are apt to get lost in the process, and perhaps lose sight of the end goals of the parties. In my case I often wonder if North Korea doesn't really want a solution, suppose they just want this dialogue to go on and on and on.

Commissioner Becker fought in the Korean War, and he points out that there has not yet been a treaty signed on this. In a way, it's still going on.

So meanwhile from the point of view of the North Korean leadership, they keep on doing what they're doing. They build their weapons, they proliferate, and they're also getting in the meantime sufficient amounts of humanitarian aid to keep them from collapsing. From the Chinese point of view, there are certain advantages as well. To be sure, the Chinese really don't actually want a nuclear North Korea, nor do they want the demonstration effect for Japan that it might produce, but nonetheless dragging the negotiations on has some value for them, too.

For one thing, North Korea doesn't collapse so they don't have the hordes of starving refugees flooding into China, and for another they get to keep playing North Korea off against South Korea. For a third thing, they don't have to face the possibility of saying we don't want a unified Korea—which they don't because it would cause a greater problem for them—but they can't admit it because it will have repercussions for their claim on Taiwan.

So meanwhile, we the United States keep begging them to come to a solution. As Professor Sokolski said, if people don't want a solution, you the United States have to keep running higher up the hill to give them something. And they can make more demands.

Do you ever find that that's true? Or do you really think that the North Koreans sincerely want a solution and the Chinese sincerely want a solution?

Mr. DETRANI. Commissioner, as I've indicated here, we've had three plenary sessions and two working group sessions, and in April of 2003, there was a trilateral with the PRC and the DPRK and the U.S., and then we went into the Six-Party process.

So, there have been three Six-Party plenary sessions and two working groups, but prior to that, also a trilateral. In our June session, 25 through 28 June of last year, we put a meaningful proposal on the table, but the DPRK also put a proposal on the table, as did the ROK, and in each of the proposals, and the consensus around the table, the six countries, is denuclearization of the Korean Peninsula is the objective.

We hear from the delegates from the DPRK that they are prepared to denuclearize if they can get the security assurances and the compensation, the word they use, that they require for that process to kick in and to succeed.

We also hear from China and other countries about the economic reforms that are going on in the DPRK, including the DPRK who speak about their reforms. So the sense we have as negotiators on the other side of the table, is there was a commitment to move forward with this process of a peaceful resolution to the nuclear issue, and the proposal we put on the table, which we believe is very viable proposal, would lend itself to the security assurances and where we speak of corresponding measures, they speak of compensation, economic reform that would lend itself to the economic reforms.

The long answer basically is what we're hearing from our counterparts at the talks is that the DPRK is committed to denuclearization with the security assurances and the compensation. What we're hearing from China and others is that the DPRK is very concerned about the economic situation and the need to reform their economic infrastructure and some of those reforms have kicked in already, and a resolution of the nuclear issue would lend itself to those economic reforms and it would benefit the country, certainly the people of North Korea.

So we're hearing positive things from those. What's negative is that they haven't been back to the table. After the third round in June, there was a commitment to come in September. We hear a number of reasons why they're not back at the table—China and we and others are in discussion with them about resuming those talks.

So my sense is, yes, there is a commitment to move forward with denuclearization, and they have viewed these talks as a serious attempt to get that as long as they could be assured of those security assurances and compensation.

We are at an impasse right now and that has to be resolved. That has to be, we're in very closed discussions—Secretary of State, President, State Department across the board—with our Chinese counterparts. As I mentioned Ambassador Ning Fukui is in town. Ambassador Chris Hill had meetings with Deputy Foreign Minister Wu Dawei in Seoul and before that in Beijing.

We just had a trilateral meeting with ROK and government of Japan counterparts in Seoul a week and a half ago. There has been

a great deal of activity and discussions with the Chinese sending Wang Jiarui to Pyongyang and others before him, CPC Central Committee Member Li Changchun and others, to get the North Koreans back to the table, so that we could resume these talks and move forward with the process. And once we're in that mode, we will better determine the sincerity, but all indications are that they went into the talks sincere in trying to find resolution.

Commissioner TEUFEL-DREYER. Thank you.

Cochair BARTHOLOMEW. Commissioner Becker?

Commissioner BECKER. Thank you. A point of special privilege: I was not a combatant in the Korean War. I don't want anybody starting to count the medals on my shoulder or my chest and taking me up on charges.

Cochair BARTHOLOMEW. Commissioner Wortzel.

Cochair WORTZEL. Thank you, Mr. DeTrani. I have two short questions. You described China as the chairman of the Six-Party Talks.

Mr. DETRANI. That's correct.

Cochair WORTZEL. A number of people that have been sitting at that table today describe China as the concierge of the Six-Party Talks. Now, chairman to me implies that they are actively suggesting things and pursuing solutions as opposed to being a great host and serving good meals. So I'd ask you which of the two it is?

Second, there has been some discussion earlier today about whether or not China accepts United States intelligence on the DPRK's nuclear capacity or have they pretty much rejected any presentations that we made?

We have one statement out of Beijing—The New York Times quote—that said you guys are all wet in the U.S. Government, and then Hu Jintao saying, no, that's not right. So I know you're over there. You have some experience with the Chinese intelligence apparatus. Which is it there? Thank you.

Mr. DETRANI. Commissioner, I believe China certainly is the chairman of the Six-Party Talks, certainly much more than a concierge. They have shown leadership. They are very active in speaking to the issues and trying to find common ground and working the particulars.

China has been very, very aggressive in approaching the issues. We continue to ask China to do more, especially now when North Korea has walked away from the table, given the very close relationship China has with the DPRK. So we are very appreciative of what China has been doing and is doing in this regard, and we're asking them to do even more so that we can move forward with this process.

As you correctly mentioned, Commissioner, Beijing indicated that the story that you referred to, there was a problem with that, and that does not square with the facts as they know them. And that is my understanding. I believe from my sense of the negotiations and discussions that China appreciates where the DPRK is with their nuclear capabilities. They have their own unique insights, but they do appreciate where they are with the nuclear capabilities and are as concerned as we are on the whole issue of a nuclear weaponized North Korea.

The 10 February statement from the DPRK made it very clear that they have nuclear weapons and so I think, I don't think there is much light between China and the other parties to the Six-Party Talks on the question of nuclear capable, nuclear weapons capable North Korea. I think they understand the situation.

Cochair BARTHOLOMEW. Other questions?

Cochair WORTZEL. No.

Cochair BARTHOLOMEW. Okay. Commissioner Wessel.

Commissioner WESSEL. Thank you for being here. I know you have a very busy schedule and we all are deeply appreciative of the time and effort you've put into the challenge you have. Clearly the issues that you're trying to grapple with and confront unite all of us. They united the Presidential candidates last year in terms of nuclear proliferation and the issues that we have to deal with as a nation.

I'd like to follow up, though, on what Commissioner Wortzel said in terms of whether the Chinese are playing an active role. I understand when you're in the room and discussions are occurring, that the sound may be deafening, but to those of us on the outside it sounds like China's role is the sound of one hand clapping.

We have seen, and I raised this earlier today, a number of irritants in the bilateral relationship with China: rising trade deficit that is ongoing; intellectual property right violations that exceed 90 percent; currency that needs to have its valuation reflect market realities more appropriately. Then against that backdrop, this enormous security concern about a nuclearizing North Korea and the view of many on the outside that China is not playing an appropriate and aggressive enough role.

Do they understand the rising frustration here that many of us view China as having enormous power and leverage in this relationship that they're not using. Again, in many people's estimation.

Mr. DEFRANI. Commissioner, I think China understands that they are—they read the press and they have a sense of, my understanding would be that they would have an appreciation of that sentiment as you so described.

We spoke of Ambassador Ning Fukui's visit here. He's been here all day. Good discussions. Further to the discussions that were had in Seoul with Wu Dawei and Ambassador Hill, and then before that in Beijing with Ambassador Hill and the Deputy Foreign Minister. A very active dialogue with the PRC, not only between the U.S. and the PRC, but also the ROK and the PRC and Russia and the government of Japan. China is very close to the DPRK and is working closely with the North Koreans. So I can appreciate what's in the press and so forth, but as negotiators and as people who work day-to-day with the North Koreans, they understand our frustration. They understand our frustration with the DPRK that walks away from the table after they've committed to a process that would keep them at the table, at least every three months and then with working groups and then unilaterally walking away.

Great frustration. I think they, I know they understand that frustration, and they say they are working with us on that. Wang Jiarui's visit to Pyongyang is indicative of that fact, and the report of the discussions he had at the highest levels of government with the DPRK are indicative of the fact that the PRC is seized with

this issue, wants to get it back on track so we can resume the talks.

I think China appreciates all that you said, Commissioner, and from where we sit, what we see, China is very receptive to our comments on asking them for more, because we are asking them to do more. We're saying this is not satisfactory, the situation right now, because it will not lend itself to resolution if the North Koreans are not back at the table.

They appreciate that and they are doing more. Hopefully the DPRK will understand it's in their interest—key point—to come back to the table. I think the sense is there's a sense out there that eventually, hopefully that the DPRK will see it's in their self-interest to come back and get the process back on track.

But China, again, I think China is very sensitive to and appreciative of what's out there. We see China doing some significant work on this issue.

Commissioner WESSEL. I certainly hope they respond to your pleas for additional help, as I know the public does. We've been around the country with field hearings and a large number of Washington-based hearings, and the frustration and impatience on the broader China problems and this as a specific issue is rising and at some point reaches a boiling point. So you have certainly our support and hopes for a successful conclusion.

Mr. DETRANI. Thank you, Commissioner.

Cochair BARTHOLOMEW. Commissioner D'Amato.

Chairman D'AMATO. Thank you, Madam Chairman. And thank you very much, Mr. DeTrani, for coming before us. We really do appreciate it. This is a very important issue. We keep hearing about China's role and we keep hearing that China's role in this strategic relationship with North Korea is a litmus test of our overall relationship.

In some ways I'm wondering whether or not we put too much on it. Correct me if I'm wrong, but as I understand it, the Chinese have never tabled a comprehensive proposal in these discussions. As I understand it, we have—I think you're saying that we have a fairly complete proposal or the ingredients of a comprehensive proposal on the table. My question is if the Chinese are so interested in this process, why have they not either tabled a proposal or made an active effort to support our proposal?

Because it seems to me that if I'm in North Korea and I'm having pressure from the Chinese, I'm not going to behave the way I'm behaving. North Korea seems to behave in a way that they know they've got some latitude with the Chinese here and they're going to dance their dance.

So my question is, if the Chinese do not offer a comprehensive proposal, and do not offer complete support for our proposal, does that cripple the negotiations or are we prepared to go with our other allies in the negotiations and just press forward?

Mr. DETRANI. Mr. Chairman, we briefed China on our proposal. We fully tabled the proposal in June of last year and China had some comments on it, and we think positive comments on the proposal, and they did support it. In principle, China supports our proposal. They have offered some suggestions on some aspects of our

proposal which we were prepared to pursue when we got into a working group session in the next plenary.

We tabled the proposal. We explained the proposal, but we really didn't get into the great details of the proposal because there is a road map there, a road map that lends itself to the issues that are of concern to the DPRK. So China has been very, if you will, responsive to our proposal, is prepared to engage on our proposal, has given us some insights on that, and again we were to pursue that accordingly.

The ROK and the DPRK put proposals, Mr. Chairman, on the table and you're correct, China has not put a proposal on the table. Mind you three proposals were put on the table in June. So there was a sense there to look at the U.S. proposal because the DPRK said the U.S. proposal was a serious proposal, one they would study closely, because it seemingly resonated with them.

So one had a sense there was a bit of momentum there and China was supporting that momentum and hoping that maybe it would move forward.

Chairman D'AMATO. Thank you. So I suppose that what we would look for in this context would be a level of energy on the Chinese side behind our proposal that might go up from let's say five to ten on the scale on that one. Are we looking for additional Chinese support for our proposal and is that what we hope to get?

Mr. DETRANI. Yes, sir. Additional support for the proposal, but indeed encouraging North Korea to resume the talks so that we can discuss the proposal.

Chairman D'AMATO. Right.

Mr. DETRANI. And move forward.

Chairman D'AMATO. Thank you.

Cochair BARTHOLOMEW. Commissioner Donnelly.

Commissioner DONNELLY. Thank you and thank you, sir. I know that it's been a long day and hopefully this is at least better than talking to the North Koreans. So I appreciate your hanging out.

Cochair BARTHOLOMEW. I don't think he should answer that.

Mr. DETRANI. That's right.

Commissioner DONNELLY. I associate myself with my colleagues' remarks. What we've been hearing today is, yes, sure, the Chinese are hearing your concerns and hearing your frustration, but the more they hear our frustration, the more they seem to like our frustration and try to promulgate our frustration with this process.

I have a different question. And that is the question of what the deal might be and in particular what security guarantees are appropriate in exchange for denuclearization? How far are we willing to go to guarantee the continuation and power of the regime in North Korea?

Mr. DETRANI. Commissioner, we've made it very clear to the DPRK representatives at these negotiations that we're talking about comprehensive denuclearization. We're talking about elimination of their nuclear programs and elimination that is irreversible, that's verifiable, and again I emphasize comprehensive denuclearization, the plutonium program and the uranium enrichment program.

And with that will come, and with that will come the multilateral security assurances and the economic benefits, certainly that speak to the energy issue, which is so critical for North Korea.

The infrastructure for the energy, the whole grid system, looking at that, what their energy needs are, and a plan to address their energy needs. Looking at the other issues, that those sanctions that are out there, lifting those sanctions. The DPRK is one of a number of states on the list of states that support terrorism, removing them from that list and moving forward.

We're talking about Nunn-Lugar where there is retraining of those scientists/technologists who are working in the nuclear field, moving them into the civil sector of their economy, and financing that element of dismantlement of their nuclear programs. It's a very meaningful program that eventually will lend itself to enduring security assurances and normalizing relations with the international community, state-to-state relations.

So it's a very powerful one. And I think it does address their needs, and I think that's the sense we get. That's why we were told the DPRK viewed our proposal as a serious proposal, one that could be studied.

But we needed very much so to get into the particulars of the proposal and to get into the particulars of what we mean by dismantlement, denuclearization, comprehensive denuclearization, what we mean by the plutonium program and so forth. So we needed experts to experts sitting around, across the table, getting into those areas so that there would be complete clarity on all issues and then decisions could be taken up at the plenary session. That was the purpose of the working group and then the plenary.

Again, they're not, they haven't been back to the table, so we've not been able to pursue those issues.

Commissioner DONNELLY. I would just say by way of follow-up, I certainly understand what we want from them and what we are willing to give them in terms of economic and energy development help, but what I'm a little bit less certain about is what these security assurances might be. I understand we need to talk about it, but, again, what we're actually talking about is very opaque, and frankly makes one nervous. Clearly, the North Koreans want something on the level of a non-aggression pact, to use kind of a shorthand term for it, and any insights you can provide about the particulars would be very useful.

Mr. DE'FRANI. Well, Commissioner, we have spoken about a multilateral security assurance, initially provisional, until there's verifiable dismantlement and they become enduring security assurances, and security assurances that speak to not attacking, invading and respecting the territorial integrity of the respective states sitting around the table.

That was the initial, that was the initial discussion, to be discussed, as you correctly stated, Commissioner, in greater detail with the experts, and we haven't had that meeting.

Cochair BARTHOLOMEW. Mr. DeTrani, I'm going to exercise my right and ask a few questions, too. One of the issues that I think you can hear a subtext among all of us, is this frustration. The Chinese government gets an enormous amount of credit every time it succeeds in getting North Korea to the table and some of us have

concerns that there are a number of other important issues in the U.S.-China relationship that are held hostage to the desire to get the Chinese government to bring the North Koreans to the table, issues relating to human rights, to proliferation, and issues relating to trade.

So I'm curious, has the Chinese government done everything that we have been asking it to do in order to bring the North Koreans to the table?

Mr. DETRANI. We haven't given China a road map as to what we expect them to tell the DPRK and the leadership in the DPRK. What we have been discussing with China and others is that the DPRK needs to be not only at the table, but needs to make a strategic decision to comprehensively denuclearize.

And that's the going-in position, get them back, certainly they're hosting the talks, they're facilitating and getting together and what have you, and then that we could get into the substance of comprehensive denuclearization and the other side.

We've asked China to convince North Korea that, or not to convince, but to speak to the issue so that North Korea sees that it's in their interest to do just that. And all indications are that China was doing that, is doing that. We certainly saw three plenary sessions and the prospects for working group—the proposal for a working group proposal was a Chinese proposal, who was a former Deputy Foreign Minister Wang Ye, who in a chairman statement said we should create working groups so that we can get the experts to sit around the table. And the six countries agreed.

It was Deputy Foreign Minister, former Deputy Foreign Minister Wang Yi, who said we should convene plenaries at least every three months and in the interim have work groups. We all agreed. There's leadership there. And there was a rich dialogue with the DPRK. We saw that with Kim Jong-Il's visit to Beijing and certainly Li Changchun and most recently Wang Jiarui's and other senior Chinese visitors to Pyongyang. So, yes, we haven't, to my knowledge, put a road map out for China to discuss with the DPRK, but they have certainly been engaging the DPRK on these issues.

Cochair BARTHOLOMEW. Do you believe that the Chinese government is doing everything it could be doing to get the situation resolved?

Mr. DETRANI. I don't feel qualified to answer that question. I don't know what the answer is to everything. So I don't have the insight into what that translates into. I think they're doing a lot. We're asking them to do more because even with the amount they're doing, North Korea is not at the table, and that's not sufficient. That's not satisfactory.

Cochair BARTHOLOMEW. Thank you. Commissioner Mulloy.

Commissioner MULLOY. Thank you, Madam Chairman. Mr. DeTrani, thank you for your long years of service to the Republic. Mr. Harrison testified earlier and headed a task force on U.S.-Korea policy.

That task force produced a report, which they submitted to the Commission. The former Ambassador to Korea, Donald Gregg, was a member of this task force.

As well as former Chairman of the Joint Chiefs of Staff, Admiral Crowe. They list the U.S. proposal that was made in June of 2004, and they note that point one was that the DPRK have a unilateral declaration to dismantle its nuclear programs; point three, that we then have a detailed implementation plan including inspection to make sure; and then at the end of it, this proposal says even after dismantlement, a wholly transformed relationship with the United States would follow, only if the DPRK changes its behavior on human rights, addresses chemical weapons, et cetera, a number of other conditions.

They recommend that we propose that when we want them to denuclearize and get that pledge and a program to put it in place, that we commit that we're not going to invade them. They want more of a quid pro quo up-front in this program.

Mr. Harrison said you can't look at this outside of the context of Iraq because when the U.S. didn't get the Security Council resolution it sought, it proceeded ahead anyway, and that that sets a concern here when you're looking at the Korean problem, and you can't understand this without looking at that larger issue.

I'd like to know, why don't we have a more simultaneously tied approach; and, have the Chinese recommended there is something we should do to get the Koreans back to the table, the North Koreans?

Mr. DE'FRANI. Commissioner, I believe our proposal is one that speaks to simultaneous actions, words for words, actions for actions, and our proposal—I'm not very conversant with Selig Harrison's task force recitation on what our proposal was in June—but having been at the table in June when we presented the proposal, we made it very clear, and we also gave a Korean language text to the DPRK, that we would be speaking, once we had a declaration on the part of the DPRK as to their nuclear program, what they were in the process of dismantlement, with that declaration would come conditional multilateral security assurances.

So that they would get the assurances they need. They tell all of us very clearly that they need those assurances before they, one, halt their program and start dismantling it. They would get those multilateral provisional security assurances. So they would get that and they would move through the process, and with, with complete dismantlement, elimination of the program, everything else will kick in but everything else is happening as they're dismantling.

The energy surveys going on. The lifting of remaining sanctions is moving forward. A dialogue on removal of the list of states that support terrorism is moving forward. Nunn-Lugar is kicking in, looking at the elimination and financing that elimination of their program, but also the retraining and setting up an infrastructure to go to the civil side of the ledger.

So these things are simultaneously happening. It's moving forward until there is comprehensive, verifiable dismantlement, and that's very critical, verifiable dismantlement, and in a very transparent permanent way. And then with that will come enduring security assurances, multilateral. You've got five countries giving you those assurances and a process towards normalization of relations with those countries.

I don't know, I don't have the particulars on what was in the program that Mr. Harrison put forth, but we believe ours is words for words, actions for actions, and it speaks in terms of simultaneity.

Commissioner MULLOY. Yes. Here is what they say. I have a minute or two. North Korea would eliminate the nuclear weapons, that they commit to do that, and that we simultaneously explicitly rule out a military first strike or an economic embargo, and you say that is essentially what we're doing.

Mr. DETRANI. We're talking about multilateral security assurance of a provisional nature, as long as they give us a declaration, all parties, that's comprehensive and speaks to the whole program. Let me just mention on human rights, on ballistic missile, on illicit activities, of course we discussed these issues with them.

We speak to the values of the United States, the North Korean Human Rights Act that was passed by the Congress and signed by the President. These speak to the values of the United States, of course. We remind the DPRK that they have a dialogue with the European Union on human rights issues and we would want a similar type dialogue on that because we want to get a dialogue on human rights issues, ballistic missiles and so forth.

So we do get into those other areas, but the issue now is denuclearization, knowing that when we move towards ultimate normalization, and that's the road map moving forward, other issues will be discussed, indeed human rights. Human rights is part of the discussion here. It's a very integral part of it, as are ballistic missiles and illicit activities. So it's a very, it's very key to the whole process and what we would want is a process, some transparency, some milestones, in the sense that there is movement in those directions, that speak to who we are and what we represent.

Commissioner MULLOY. Thank you.

Cochair BARTHOLOMEW. Commissioner Becker?

Commissioner BECKER. Thank you. I think one of the reasons that we expect so much out of China is we've viewed North Korea as a client state of China. I would like your opinion on this, and let me tell you why. China has shielded North Korea from U.N. sanctions being brought up by the United States for human rights violations; they've been a buffer. The common feeling is that North Korea would collapse without the aid that they get from China—the oil, the food. And China may have indirectly supplied them with the nuclear technology through the Pakistani program. Also, the missile technology. It has been reported that China has permitted others to transit their territory when going to North Korea for missiles and missile parts. That's why we feel that they've got the clout to be able to call the shots with North Korea, and it's difficult for me not to think that myself.

I would like your opinion on that, and particularly on the statement of a client state. I don't know what the legal termination is of a client state, but if they don't fit it, I don't know who in the hell would.

Thank you.

Mr. DETRANI. Commissioner, there is no question they have a very close relationship with the PRC and they depend heavily on the PRC for energy assistance, for food, and for other areas of eco-

conomic support. They also have a peace and friendship treaty that goes back to 1961 that speaks to the relations, the close relationship they have.

I don't know that anyone in Beijing would say that North Korea is a client state. What I hear from many of my Chinese counterparts is North Korea has their own definite views on things, and they go about doing their things in their own way.

Having said that, obviously, they have a close relationship with China. I don't disagree with you on that close relationship. There is no question about that. They are close to China and they do rely very, very heavily on China and for that reason, we and others have continued to reach out to China. We say for that reason we're asking you, China, to get North Korea to understand it's in their interests to move forward with this process and to do what you need to do, to do what you need to do, to get them to understand that.

Commissioner BECKER. They're both communist countries, and there is no doubt that China bailed them out in the Korean War. Three divisions at least that's identifiable, PLA divisions, crossed over the Yalu and came in, and that relationship, it doesn't appear it has diminished. In fact, China has been the patron. Anyway, I just wanted your thoughts on that because it seems that others on the Commission share this view.

Mr. DETRANI. I will say there's no question that China has a very close relationship to the DPRK. The DPRK relies heavily on China for its economic assistance, but many would say the DPRK is a very independent nation state. Kim Jong-Il, although dependent heavily on China for the economic aspects, is an independent decisionmaker, and this is, certainly we hear this very clearly from the Chinese, and all indications are, given the high level of business and everything else, China has put a lot of energy into this whole issue of the Six-Party Talks, denuclearization of the Korean Peninsula, and trying to get resolution to this very, very critical issue.

I have to give them high marks in that regard, Commissioner.

Commissioner BECKER. Thank you.

Cochair BARTHOLOMEW. Thank you. Thanks, Mr. DeTrani, for being so generous with your time.

Mr. DETRANI. Thank you.

Cochair BARTHOLOMEW. We wish you every success in the work that you're undertaking.

Mr. DETRANI. Thank you, Commissioner. Thank you.

Cochair BARTHOLOMEW. It's very important to our nation.

Chairman D'AMATO. Thank you very much, Mr. DeTrani. This concludes today's hearing. The Commission will next meet on April 14 in the United States Senate on the issue of Chinese political reform.

[Whereupon, at 5:15 p.m., the hearing was adjourned.]

**Prepared Statement of Solomon P. Ortiz
A U.S. Representative from the State of Texas**

I thank the Commission and its Cochairs, Larry Wortzel and Carolyn Bartholomew for allowing us to testify today regarding the important issues of war and peace in Asia, specifically along the Korean peninsula. I am honored to be here today beside my friend, Curt Weldon, who is a visionary when it comes to the issues of finding a resolution to the nuclear issues we face in North Korea (DPRK). His peace initiative, a 10 point plan, should be adopted by our State Department.

We have 36,000 soldiers in South Korea, and some of their dependents, and it only takes five or six minutes for a North Korean missile to strike the middle of Seoul, so this is a pivotal issue for all of us.

As we talk about the issues of a solution to the nuclear conditions of the Korean peninsula, we must bear in mind how DPRK views us and the world. There are two major points to consider: one, the leadership there is sensitive to the things we say and do . . . they perceive us as antagonistic militarily, so they feel boxed in; and two, with our current ops tempo in Iraq, the DPRK views this moment in history as the optimum time to confront us militarily.

Chairman Weldon and I have been to the DPRK twice, both times were monumentally important visits. As a result of the last visit (in January 2005), the Korean Central News Agency issued a statement saying Pyongyang was "ready to resume the six-way talks. . . ." That was the very first time the DPRK had indicated they were interested in peacefully resolving this crisis.

The DPRK is walking a very delicate line, as are all nations involved in a peaceful resolution of this nuclear impasse. They are watching all that we do and say in the United States. While it was helpful that President Bush, in his State of the Union, did not refer negatively to the DPRK or their leaders, his history of doing so remains a matter of great anger and sensitivity with the DPRK.

Certainly, Secretary of State Rice's remarks at her confirmation hearing calling DPRK an "outpost of tyranny" were remarkably unhelpful. This week's nomination of Undersecretary of State John R. Bolton as U.N. Ambassador will be similarly unhelpful, given his history of strong statements on North Korea's nuclear program that has irked the leaders in Pyongyang.

In our talks with DPRK, we repeatedly assured them that the U.S. would not initiate a military attack on the DPRK. Yet they see our public comments and actions in Iraq and elsewhere as evidence of our desire to invade their country. They feel boxed in.

We asked them to look, instead, at our example in a new relationship with Libya as evidence that the U.S. can reach accommodation with countries with which it has strong differences without regime change.

I cannot emphasize enough that it is important to discuss other regional issues such as energy as a way to help the DPRK understand we want to find a peaceful way to denuclearize that peninsula.

More importantly than anything else, we must continue to put a human face on America, with the ultimate goal of avoiding war. Our discussions with their representatives were extremely positive, with openness and candor displayed on both sides. We spoke for ten hours with Vice Minister Kim Gye Gwan and held a 90 minute substantive, unscripted, cordial meeting with the North Korean head of state, Kim Yong Nam, President of the Presidium, Supreme Peoples' Assembly. The meeting with the President was his first meeting with a U.S. congressional delegation.

And these discussions were a valuable opening for people in the DPRK to understand that Americans are not warmongers, but peaceful people who want our children and grandchildren to live in a peaceful world.

With regard to the Six-Party Talks, Minister Kim said that the foundation is destroyed. Let me share what he said to illustrate the difficulty we face in persuading DPRK that our intentions are peaceful: **"There is no justification to be at the Six-Party talks. All the parties had agreed upon the principle 'word for word,' 'action for action.' However, since the June 2004 meeting finished, the U.S. delegation has said we should give up our nuclear program and the U.S. would think about what to do next. Technically the DPRK and the U.S. are at war. We cannot accept the demand to lay down our arms first. We believe that the only way that we can prevent war in this circumstance is to have a capable deterrence. . . . All agreed for the 4th round last September. However, as soon as the third round was over the U.S. delegation turned down everything it had said and assumed a hostile policy, saying it intended to invade our country. We would like the Administration to make clear whether there is any intent to change its policy on the DPRK.**

We will follow closely the State of the Union address and watch closely the appointments of top officials of the second Bush term and judge the likely policy of Administration.”

Those are precise, direct quotes from Minister Kim. It is important that we all understand the mindset of the DPRK officials as we navigate these delicate matters. Thank you.

**Statement of Oded Shenkar, Ford Chair
Fisher College of Business, Ohio State University, Columbus, Ohio**

Intellectual Property Rights

Honorable Members of the Commission:

The infringement of IPR by China, which takes the form of piracy, counterfeiting (trying to pass a pirated product as a genuine article), and related practices, is at the heart of the U.S.-China economic relationship, since, simply put, China is the world's number one violator while the United States pays the heaviest price of the infringement. The repercussions of IPR violations are not merely economic, but carry over to the strategic, geopolitical and national security arenas. The problem has repeatedly featured on the agenda of U.S. trade negotiators, but in my opinion does not receive the attention it deserves. From the perspective of U.S.' national interest, IPR violation should top the list of bilateral and global trade issues, ahead of exchange rate alignment, which seems to be the current focus of the U.S. administration efforts, or any other trade related items. IPR violations by China should also be of primary concern to U.S. policymakers, businesses, individual copyright owners, and U.S. taxpayers who have been funding a substantial portion of domestic R&D expenditure only to see a substantial portion "borrowed" without compensation.

That China violates IPR is well known, but many do not recognize the scope of the problem. China is not the first or only nation to violate IPR, but it dwarfs other contenders, such as India and Vietnam, in the scale, scope and range of IPR violating goods. While U.S. media continue to showcase the bootlegging of DVDs (obviously a huge problem to the movie industry), Chinese outfits routinely copy anything from razor blades and cigarette lighters to pharmaceuticals, automotive components and even entire cars. China is able to do that because it possesses a unique combination of advanced production capabilities *and* widespread disregard for IPR. Typically, nations with advanced technological capabilities respect IPR to a reasonable (though variable) extent, while violating nations lack the capabilities and infrastructure to replicate technology- and capital-intensive products. China is the only nation which is *able and willing* to make high quality copies of complex industrial designs within a short time of accessing the necessary information (often by reverse engineering).

Various estimates put IPR violating production at ten to twenty percent of Chinese output, though the phenomenon, by nature, defies accurate quantification. For example, China is the leading source of U.S. Custom seizures of counterfeit imports, but it is obvious that the goods apprehended represent a mere fraction of the actual volume of infringing products coming into the country, and that similar products routinely make their way into other markets, sometimes in broad daylight. Numbers are also difficult to come up with since many U.S. and other multinationals do not want to offend the Chinese authorities and are also fearful of repercussions should legitimate customers come to suspect their products as not being genuine.

The damage caused by IPR violations is enormous though often underestimated. Some of the costs include:

1. The substitution of a genuine product by a fake creates substantial revenue loss. The loss is not limited to the Chinese market (where it is estimated that almost half of foreign multinationals lose upward of twenty percent of local sales to violating products) as counterfeit and pirated goods are now exported en masse to global markets, especially (but not only) to those where IPR protection is lax. For U.S. carmakers, whose better margins on "after market" components compensate for very slim manufacturing margins, the damage can be quite salient. Obviously, the cost is born by stockholders, legitimate suppliers, employees, dealers and more.
2. The violation of IPR allows competitors to undercut the prices charged by legitimate producers because they do not need to pay for development expense (for pirated and counterfeit goods) and/or trademark promotion (for counterfeit goods). Since development represents a substantial portion of final product cost

in technology intensive industries, legitimate producers are placed at a significant disadvantage and may be pushed out of the market altogether.

3. When counterfeit product malfunction, as they often do, the reputation of the company and the brand associated with them suffer what might be irreparable damage. The damage here is almost incalculable as a company loses its pricing power and its long-term competitiveness erodes.
4. Pirated and counterfeit goods are often built to lower safety standards and understandably do not go through the rigorous standards required in the United States and other developed nations. The result is a substantial risk to consumers who might buy, for instance, a flammable toy, not to mention the risk represented by fake products such as pharmaceuticals, brake pads and the like.
5. IPR violating products increase the cost of doing business of legitimate players by necessitating legal and administrative expense in going after violators, not to mention the litigation risk involved in plaintiffs charging the legitimate producer in not preventing the sale of a counterfeit under its name. Legitimate players also spend considerable dollars in trying to engineer their products in a manner that will make copying more difficult.
6. IPR violating goods compromise U.S. export controls because the technology transfer does not go through the documentation and certification oversight. The result may be that security related technologies will find their way into the wrong hands.
7. IPR violating goods create an opening for criminal and terrorist activities, as the enormous profit margins available from their sale attract international crime syndicates and global terror groups who view this line of business as an ideal opportunity to fund their clandestine operations.

All developed nations should be concerned with IPR violations, and to some extent they are. The United States is however the most vulnerable to IPR violations for a simple reason: It is the world's leading owner of IPR assets, from patents to brand equity. The United States has a very substantial surplus in technology flows, that is, the payment it receives for technology owned by U.S. entities (e.g., as part of a licensing agreement by a foreign user) far exceed the payments U.S. entities pay for foreign technologies. This means that the U.S. is the most susceptible to Chinese IPR infringement. For the same reason, it will be difficult to build a global coalition to combat IPR violations as other developed nations suffer less and are more likely to sacrifice IPR on the altar of the promising Chinese market.

Common wisdom suggests that the problem is temporary, that once China's transitional economy matures and its legal system evolves, IPR compliance will naturally occur. I beg to differ. For two thousand years, legal responsibilities in China rested with the executive branch; today's system is very much the same, with no separation of powers to speak of. It is naive to assume that the system will change just because China is becoming a part of the global trading system. The country has already defied the economic presumption that it was impossible to attract substantial foreign investment without a proper IPR regime. The assumption that China will come to respect IPR because it will be in its interest to do so when it becomes an innovator may also be misplaced. I would argue that violating IPR rights enables Chinese companies to advance their competitiveness with minimal investment, in effect piggybacking on R&D investment made by foreign firms and governments (who in most countries carry much of the R&D expense directly, e.g., via government labs, and indirectly, e.g., via research funding). Put it another way, IPR violations constitute a direct subsidy enjoyed by Chinese manufacturers at the expense of U.S. taxpayers and stockowners. IPR violation are an oft neglected element in the so called China price mystery, namely the ability of Chinese firms to price their products well below the cost of production in other locations. While labor cost, exchange rates and the like also play an important role in the "China price," there is no question that especially for technology intensive products, obtaining free technology confers a substantial discount. Finally, even if the problem is temporary, it may last long enough for many U.S. businesses to lose market share or go out of business.

Why doesn't the Chinese government do more to curb the practice? First, because the violations enable Chinese companies to climb the technological ladder despite modest R&D expenditure (China spends roughly 1% of GDP on R&D versus close to 3% in the United States). Second, a sudden halt of IPR violating production would trigger economic collapse in those Chinese localities that have become addicted to fake production, and the regime can ill afford the resulting unemployment and social unrest. Third, given the tenuous control of the central government in many rural areas, it may be argued that Beijing is incapable of putting an end to the practice even if it wanted to. As a result, the Chinese government would rather take its chances with the United States (and, to a lesser extent, other foreign gov-

ernments), conducting occasional raids that don't get to the roots of the problem, rather than face angry local constituencies who may challenge its rule.

The problem therefore may get worse before it gets better. Note, for example, that while most developing nations have shown incremental improvement in software piracy rates in recent years, China's violation rates have actually been on the increase. Given the rapid globalization of fake production, the scope of the problem is expected to broaden, as bogus products make their way into more markets. Enhanced Chinese compliance, if it were to happen, may be directed at protecting nascent Chinese players rather than foreign multinationals, in effect strengthening their competitive advantage. Finally, with organized crime and terrorist groups getting into the game, the consequences of benign neglect of IPR violations by China and its trade partners can be ominous. It is my humble opinion that we cannot afford to look the other way.

**Testimony Before the Committee on Foreign Relations
United States Senate
Tuesday, February 4, 2003**

THREE CRISES WITH NORTH KOREA

**Ashton B. Carter
Co-Director, Preventive Defense Project
Professor of Science and International Affairs
John F. Kennedy School of Government, Harvard University**

Mr. Chairman and Members of the Committee on Foreign Relations, thank you for inviting me to appear before this Committee to share my recollections about two previous crises with North Korea, and my suggestions regarding the current crisis.

1994

I am not an expert on North Korea. I am fond of saying that there are no real experts on this strange place, only specialists, and they don't seem to have much expertise. I became acquainted with Korean affairs in seat-of-the-pants fashion when I was serving as Assistant Secretary of Defense for International Security Policy in 1994, when the first of the recent crises over North Korea sprang up.

That spring North Korea was planning to take fuel rods out of its research reactor at Yongbyon and extract the six or so bombs' worth of weapons-grade plutonium they contained. The United States was trying to deal diplomatically with this threat, but in the Pentagon we were also exploring military options. Secretary of Defense William J. Perry ordered the preparation of a plan to eliminate Yongbyon with an airstrike of conventional precision weapons. We were very confident that such a strike would eliminate the reactor and entomb the plutonium, and would also eliminate the other facilities at Yongbyon that were part of North Korea's plutonium infrastructure. In particular, we were confident that we could destroy a nuclear reactor of this kind while it was operating without causing any Chernobyl-type radioactive plume to be emitted downwind—obviously an important consideration. Such a strike would effectively set back North Korea's nuclear ambitions many years.

While surgical in and of itself, however, such a strike would hardly be surgical in its overall effect. The result of such an attack might well have been the unleashing of the antiquated but large North Korean army over the Demilitarized Zone, and a barrage of artillery and missile fire into Seoul. The United States, with its South Korean and Japanese allies, would quickly destroy North Korea's military and regime—of that we were also quite confident. But the war would take place in the crowded suburbs of Seoul, with an attendant intensity of violence and loss of life—American, South and North Korean, combatant and non-combatant—not seen in U.S. conflicts since the last Korean War.

Fortunately, that war was averted by the negotiation of the Agreed Framework. The Agreed Framework was and remains controversial, so it is important to know what it did and did not do. It froze operations at Yongbyon for eight years, verified through on-site inspection, until just a few weeks ago. The six bombs' worth of plutonium was not extracted from the fuel rods, and no new plutonium was created during that period. Had the freeze not been operating, North Korea could now have about fifty bombs' worth of plutonium. It is worth noting that under the NPT, North Korea is allowed to extract all the plutonium it wants provided it accounts for the amount to the IAEA. I felt strongly in 1994 that the United States could not accept an outcome of negotiations with North Korea that only got them back into the NPT, still letting them have what would be in effect an inspected bomb program. Our able negotiator's instructions in fact were to tell the North Koreans they had to close Yongbyon. If they asked, "Why can't we just abide by the NPT and make plutonium, inspected by the IAEA, like the Japanese do?" the U.S. replied, "Because you pose a special threat to international security." So the Agreed Framework went well beyond the NPT.

The Agreed Framework did not eliminate Yongbyon, but only froze it. In later phases of the agreement, Yongbyon was to be dismantled. But we never got to those phases. Nor could, or should, the Agreed Framework be said to have "eliminated North Korea's nuclear weapons program." For one thing, while the freeze was perfectly verified, there was no regular verification that elsewhere in North Korea there was not a Los Alamos-like laboratory designing nuclear weapons, or a hidden uranium enrichment facility—which North Korea has in fact recently admitted to having. In addition, way back in 1989 North Korea extracted plutonium from some fuel rods. The amount is unknown but could have been as much as one or two bombs' worth. No one outside of North Korea knows where that plutonium is. No technical

expert doubts that North Korea could make a bomb or maybe two out of it—a “starter kit” towards a nuclear arsenal. Again, later phases of the Agreed Framework called for North Koreans to cough up this material, but these phases were never reached. Finally, the Agreed Framework did not stop the development, deployment, or sale of North Korea’s medley of ballistic missiles.

So from a threat perspective, the Agreed Framework produced a profoundly important result for U.S. security over a period of eight years—the freeze that is disastrously thawing as we speak. But it was an incomplete result, as events four years later would show.

1998

In August 1998, North Korea launched a ballistic missile over Japan and into the Pacific Ocean. The launch produced anxiety in Japan and the United States and calls for a halt to the implementation of the Agreed Framework, principally the oil shipments that were supposed to replace the energy output of the frozen reactor at Yongbyon (in actual fact the Yongbyon reactor was an experimental model and was not used to produce power). If we stopped shipping oil, the North Koreans would unfreeze Yongbyon, and we would be back to the summer of 1994.

President Clinton recognized that the United States, relieved over the freeze at Yongbyon, had moved on to other crises like Bosnia and Haiti. Not so the North Koreans. The President judged, correctly in my view, that the United States had no overall strategy towards the North Korean problem beyond the Agreed Framework itself. He asked former Secretary of Defense William J. Perry to conduct a policy review, and Perry asked me to be his Senior Advisor.

We examined several options.

One was to undermine the North Korean regime and hasten its collapse. However, we could not find evidence of significant internal dissent in this rigid Stalinist system—certainly nothing like in Iraq, let alone Afghanistan—that could provide a U.S. lever. Then there was the problem of mismatched timetables: undermining seemed a long-term prospect at best, whereas the nuclear and missile problems were near-term. Finally, our allies would not support such a strategy, and obviously it could only worsen North Korea’s near-term behavior, prompting provocations and even war. Since an undermining strategy is precisely what North Korea’s leaders fear most, suggesting it is a U.S. strategy without any program to accomplish it would be doubly counterproductive.

Another possibility was to advise the President to base his strategy on the prospect of reform in North Korea. Perhaps Kim Jong Il would take the path of China’s Deng Xiaoping, opening up his country and trying to assume a normal place in international life. But hope is not a policy. We needed a strategy for the near term.

Summing up the first two options, our report—which is available in unclassified form¹—stated, “U.S. policy must deal with the North Korean government as it is, not as we might wish it to be.”

Another possibility was buying our objectives with economic assistance. Our report said the United States would not offer North Korea “tangible ‘rewards’ for appropriate security behavior; doing so would both transgress principles the United States values and open us up to further blackmail.”

In the end, we recommended that the United States, South Korea, and Japan all proceed to talk to North Korea, but with a coordinated message and negotiating strategy.

The verifiable elimination of the nuclear and missile programs was the paramount objective. Our decision not to undermine the regime could be used as a negotiating lever: much as we objected to its conduct, we could tell the North that we did not plan to go to war to change it. We could live in peace. But that peace would not be possible if North Korea pursued nuclear weapons. Far from guaranteeing security, building such weapons would force a confrontation.

We could also argue that since North Korea had enough conventional firepower to make war a distinctly unpleasant prospect to us, it didn’t need weapons of mass destruction to safeguard its security. This relative stability, in turn, could provide the time and conditions for a relaxation of tension and, eventually, improved relations if North Korea transformed its relations with the rest of the world.

After many trips to Seoul, Tokyo and also Beijing to coordinate our approaches, in May 1999 we went to Pyongyang. We presented North Korea with two alternatives.

¹“Review of United States Policy Toward North Korea: Findings and Recommendations,” Office of the North Korea Policy Coordinator, United States Department of State, October 12, 1999. [also available at: http://bcsta.ksg.harvard.edu/publication.cfm?program=CORE&ctype=book&item_id=6].

On the upward path, North Korea would verifiably eliminate its nuclear and missile programs. In return, the United States would take political steps to relieve its security concerns—the most important of which was to affirm that we had no hostile intent toward North Korea. We would also help it dismantle its weapons facilities. Working with us and through their own negotiations, South Korea and Japan would expand their contacts and economic links.

On the downward path, the three allies would resort to all means of pressure, including those that risked war, to achieve our objectives.

We concluded the policy review in the summer of 2000, and I stepped down from my advisory role. Over the next two years, North Korea took some small steps on the upward path. It agreed to a moratorium on tests of long-range missiles. It continued the freeze at Yongbyon. It embarked on talks with South Korea that led to the 2000 summit meeting of the leaders of North and South.

The North also began the process of healing its strained relations with Japan, making the astonishing admission that it had kidnapped Japanese citizens in the 1970's and 80's. And it allowed United States inspectors to visit a mountain that we suspected was a site of further nuclear-weapons work, a precursor of the intrusive inspections needed for confident verification. Whether North Korea would have taken further steps on this path is history that will never be written.

TODAY

Mr. Chairman and Members of the Committee, that brings us to today's crisis.

News reports late last week indicated that not only is the freeze no longer on at Yongbyon, but North Korea is trucking the fuel rods away where they can neither be inspected nor entombed by an airstrike. This is the disaster we faced in 1994. But as this loose nukes disaster unfolds and the options for dealing with it narrow, the world does nothing. This is especially ironic as the world prepares to disarm Iraq of chemical and biological weapons, by force if necessary. What is going on at Yongbyon as we speak is a huge foreign policy defeat for the United States and a setback for decades of U.S. nonproliferation policy. Worse, seventeen months after 9/11 it opens up a new prospect for nuclear terrorism. There are no fewer than five reasons why allowing North Korea to go nuclear with serial production of weapons is an unacceptable threat to U.S. security.

First, North Korea might sell plutonium it judges excess to its own needs to other states or terrorist groups. North Korea has few cash-generating exports other than ballistic missiles. Now it could add fissile material or assembled bombs to its shopping catalogue. Loose nukes are a riveting prospect: While hijacked airlines and anthrax-dusted letters are a dangerous threat to civilized society, it would change the way Americans were forced to live if it became an ever-present possibility that a city could disappear in a mushroom cloud at any moment.

Second, in a collapse scenario loose nukes could fall into the hands of warlords or factions. The half-life of plutonium-239 is 24,400 years. What is the half-life of the North Korean regime?

Third, even if the bombs remain firmly in hands of the North Korean government they are a huge problem: Having nukes might embolden North Korea into thinking it can scare away South Korea's defenders, weakening deterrence. Thus a nuclear North Korea makes war on the Korean peninsula more likely.

Fourth, a nuclear North Korea could cause a domino effect in East Asia, as South Korea, Japan, and Taiwan ask themselves if their non-nuclear status is safe for them.

Fifth and finally, if North Korea, one of the world's poorest and most isolated countries, is allowed to go nuclear, serious damage will be done to the global non-proliferation regime, which is not perfect but which has made a contribution to keeping all but a handful of problem nations from going nuclear.

Therefore, the United States cannot allow North Korea to move to serial production of nuclear weapons. As the U.S. attempts to formulate a strategy to head off this disaster, I would suggest that we keep five factors in mind:

1. It must be made clear to North Korea that concealment or reprocessing of the fuel rods at Yongbyon poses an unacceptable risk to U.S. security.
2. No American strategy toward the Korean peninsula can succeed if it is not shared by our allies, South Korea and Japan. Their national interests and ours are not identical, but they overlap strongly. They can provide vital tools to assist our strategy, or they can undermine our position if they are not persuaded to share it. Above all, we must stand shoulder-to-shoulder with them to deter North Korean aggression.
3. The unfreezing of Yongbyon is the most serious urgent problem. North Korea also reprocessed fuel rods at Yongbyon way back in 1989. In that period, it obtained a quantity of plutonium that it did not declare honestly to the IAEA,

as it was required to do. How much is uncertain, but estimates range as high as two bombs' worth. Whether North Korea has had a bomb or two for the past fifteen years is not known. But for sure it is today only a few months away from obtaining six bombs. The North Koreans might reckon that's enough to sell some and have some left over to threaten the United States and its allies. North Korea also admitted last October that it aims to produce the other metal from which nuclear weapons can be made—uranium. It will be years, however, before that effort produces anything like the amount of fissile material now being trucked from Yongbyon.

4. President Bush has indicated that he intends to seek a diplomatic solution to this crisis. It is possible that North Korea can be persuaded to curb its nuclear ambitions, but it might be determined to press forward. Therefore we need to view diplomacy as an experiment.
5. In any diplomatic discussion, the United States must ultimately obtain the complete and verifiable elimination of North Korea's nuclear program. There is much debate over what the United States should be prepared to give in return, and an aversion, which I share, to giving North Korea tangible rewards that its regime can use for its own ends. But it would seem to me that there are two things the United States should be prepared to do.

First, I earlier indicated that there is little reason to have confidence that North Korea will collapse or transform soon, and little prospect that the U.S. can accomplish either result in the timescale required to head off loose nukes in North Korea. That being the case, a U.S. decision not to undermine the regime could be used as a negotiating lever: Much as we object to its conduct, we can tell the North that we do not plan to go to war to change it. Only the U.S. can make this pledge, which is why direct talks are required. We can live in peace. But that peace will not be possible if North Korea pursues nuclear weapons. Far from guaranteeing security, building such weapons will force a confrontation. As noted above, we can also argue that since North Korea has enough conventional firepower to make war a distinctly unpleasant prospect to us, it doesn't need weapons of mass destruction to safeguard its security. This relative stability, in turn, can provide the time and conditions for a relaxation of tension and, eventually, improved relations if North Korea transforms its relations with the rest of the world.

Second, at some point Yongbyon must be dismantled, as must the centrifuges for enriching uranium, the ballistic missiles and their factories, and the engineering infrastructure that supports them. The U.S. can surely suggest to North Korea that we participate in this process, both to hasten it and to make sure it takes place. This assistance would be similar to the Nunn-Lugar program's historic efforts to prevent loose nukes after the Cold War.

Mr. Chairman and Members of the Committee, the terrorist attacks of Sept. 11 make clear that if nuclear weapons are controlled by a country enmeshed in social and political turmoil, they might end up commandeered, bought or stolen by terrorists. Who knows what might happen to North Korea's nuclear weapons as that state struggles to achieve a transformation, possibly violent, to a more normal and prosperous nation.

Once nuclear weapons materials are made—either plutonium or enriched uranium—they are exceedingly difficult to find and eliminate. They last for thousands of years. There is no secret about how to fashion them into bombs. They can fall into the hands of unstable nations or terrorists for whom Cold War deterrence is a dubious shield indeed. These facts describe America's—and the world's—dominant security problem for the foreseeable future. It is of the utmost importance to prevent the production of nuclear materials in the first place. Therefore the main strategy for dealing with the threat of nuclear weapons must be preventive. Our most successful prevention programs (such as the Nunn-Lugar program) have been done in cooperation with other nations, but in exceptional cases it may be necessary to resort to the threat of military force to prevent nuclear threats from maturing.

THE HONORABLE ASHTON B. CARTER

Ashton Carter is Co-Director, with William J. Perry, of the Preventive Defense Project, a research collaboration of Harvard University's John F. Kennedy School of Government and Stanford University and Professor of Science and International Affairs at Harvard University's Kennedy School of Government.

From 1993–1996, Carter served as Assistant Secretary of Defense for International Security Policy, where he was responsible for national security policy concerning the states of the former Soviet Union (including their nuclear weapons and other weapons of mass destruction), arms control, countering proliferation world-

wide, export controls, and oversight of the U.S. nuclear arsenal and missile defense programs; he also chaired NATO's High Level Group. He was twice awarded the Department of Defense Distinguished Service medal, the highest award given by the Pentagon. Carter continues to serve DoD as an adviser to the Secretary of Defense and as a consultant to DoD's Defense Science Board. From 1998 to 2000, Carter served in an official capacity as Senior Adviser to the North Korea Policy Review, chaired by William J. Perry.

Before his government service, Carter was director of the Center for Science and International Affairs at Harvard University's Kennedy School of Government and chairman of the editorial board of *International Security*. Carter received bachelor's degrees in physics and in medieval history from Yale University and a doctorate in theoretical physics from Oxford University, where he was a Rhodes Scholar.

In addition to authoring numerous scientific publications and government studies, Carter is the author and editor of a number of books, including *Preventive Defense: A New Security Strategy for America* (with William J. Perry). Carter's current research focuses on the Preventive Defense Project, which designs and promotes security policies aimed at preventing the emergence of major new threats to the United States.

Carter is a Senior Partner of Global Technology Partners, LLC, chairman of the Advisory Board of MIT Lincoln Laboratories, a member of the Draper Laboratory Corporation, and the Board of Directors of Mitretek Systems, Inc. He is a consultant to Goldman Sachs and the MITRE Corporation on international affairs and technology matters, a member of the Council on Foreign Relations, the Aspen Strategy Group, and the National Committee on U.S.-China Relations, and a fellow of the American Academy of Arts and Sciences.

Testimony Before the Committee on Foreign Relations
United States Senate
Thursday, March 6, 2003

ALTERNATIVES TO LETTING NORTH KOREA GO NUCLEAR

Ashton B. Carter
Co-Director, Preventive Defense Project
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Mr. Chairman and Members of the Committee, thank you for inviting me back to testify before this Committee on the loose nukes crisis in North Korea. In my last appearance I described why this was a crisis, how enormous the stakes are for our security, and my recollections of the last two crises in 1994 and 1998. This time you have asked me to analyze the prospect for direct talks with North Korea, and I am happy to do so.

Why Talk to North Korea At All?

When he appeared here before this Committee shortly before me on February 4th, Deputy Secretary of State Armitage indicated that the U.S. Government intends to conduct direct talks with North Korea. This is the right decision for the Bush administration.

But it is worth pausing to ask why.

After all, North Korea's record of honoring its agreements with us is, to put it charitably, mixed. While the North kept the plutonium-containing fuel rods at Yongbyon under international inspections and its reactor frozen for eight years, ending this freeze only a few months ago, we now know it was cheating on other provisions of its international agreements by enriching uranium. This means, at a minimum, that any future understandings with North Korea will need to be rigorously verified.

In addition, the government of North Korea is very far, once again to put it charitably, from sharing our values.

Still, one is led to direct talks by reasoning through the full range of alternatives and from seeing the relationship between them.

One alternative is to let North Korea proceed to go nuclear, but to isolate, contain, and await the collapse of the North Korean regime.

President Bush said in his State of the Union message that "nuclear weapons will only bring *isolation*, economic stagnation, and continued hardship" to North Korea. Isolation must seem like pretty light punishment to the most isolated country on earth.

Those who speak of *containment* envision a hermetic seal around North Korea, embargoing imports and interdicting shipments of exports, especially ballistic missiles. But the export we should worry most about is plutonium. After North Korea gets five or six more bombs from the fuel rods at Yongbyon, it might reckon it has enough to sell to other rogues or, far worse, to terrorists. It is entirely implausible that we could effectively prevent a few baseball-sized lumps of plutonium from being smuggled out of Yongbyon. Not only is a nuclear weapon-sized quantity of Plutonium-239 small in size, but it is not highly radioactive and does not emit a strong signature that could be detected if it were to be smuggled out of North Korea to a destination where terrorists could receive it.

The problem with *awaiting collapse* in North Korea's regime is that there is no particular reason to believe it will occur soon, and in the meantime North Korea can create lasting international damage—damage that will extend beyond the Korean peninsula and beyond the lifetime of the North Korean regime.

In my last appearance before the Committee, I cited the five reasons why *letting North Korea move to serial production of nuclear weapons is a disaster for U.S. and international security*:

First, North Korea might sell plutonium it judges excess to its own needs to other states or terrorist groups. North Korea has few cash-generating exports other than ballistic missiles. Now it could add fissile material or assembled bombs to its shopping catalogue. Loose nukes are a riveting prospect: While hijacked airlines and anthrax-dusted letters are a dangerous threat to civilized society, it would change the way Americans were forced to live if it became an ever-present possibility that a city could disappear in a mushroom cloud at any moment.

Second, in a collapse scenario loose nukes could fall into the hands of warlords or factions. The half-life of Plutonium-239 is 24,400 years. What is the half-life of the North Korean regime?

Third, even if the bombs remain firmly in hands of the North Korean government they are a huge problem: Having nukes might embolden North Korea into thinking it can scare away South Korea's defenders, weakening deterrence. Thus a nuclear North Korea weakens deterrence, thereby making war on the Korean peninsula more likely.

Fourth, a nuclear North Korea could cause a domino effect in East Asia, as South Korea, Japan, and Taiwan ask themselves if their non-nuclear status is safe for them.

Fifth and finally, if North Korea, one of the world's poorest and most isolated countries, is allowed to go nuclear, serious damage will be done to the global non-proliferation regime, which is not perfect but which has made a contribution to keeping all but a handful of problem nations from going nuclear.

It appears from reading the press that the path of letting North Korea go nuclear, coupled with isolation, containment, and awaiting collapse, is the path we are on at this moment. *This is the worst alternative.*

A second alternative is to use military force to arrest North Korea's race to nuclear weapons. I described previously the attack plan on Yongbyon we devised in 1994, the last time North Korea was moving towards reprocessing at Yongbyon. A strike with conventionally-armed precision weapons at Yongbyon's fuel rods and reprocessing facility would not eliminate North Korea's nuclear program, but it would set it back for years. If we were to strike Yongbyon, North Korea would have a choice. It could respond by lashing out at South Korea through an invasion over the DMZ, but that would precipitate a war that would surely mean the end of the North Korean regime. There is no guaranteeing that the North would not make such a foolish choice. But that is the risk we must run in this option; it is the risk worth taking to avoid the disaster associated with the first alternative of letting North Korea go nuclear. As a practical matter, we are in a much better position to threaten or conduct such a strike if we have previously made an effort to talk North Korea out of its nuclear programs. Even if you are a pessimist about the success of talks, therefore, they are a prerequisite for exercising this alternative.

The third alternative is to try to talk North Korea out of its nuclear ambitions. A year ago I would have assessed that it was likely we could reach an agreement on terms acceptable to us to stop North Korea's nuclear programs and ballistic missile programs in a verifiable way. Since then we have let our options narrow. Now I fear that North Korea might have concluded that it could dash over the nuclear finish line into a zone where it is invulnerable to American attempts to force regime change, since it suspects that is our objective. We must therefore view talks as an experiment. If the experiment succeeds, we will have stopped North Korea's nuclear program without war; if it does not, it was in any event the necessary step towards making the alternative of military force realistic.

How Should Direct Talks Be Conducted?

It is clear that the United States cannot conduct direct talks with North Korea while it is advancing its nuclear programs. We must therefore insist that during talks, North Korea reinstate the freeze at Yongbyon. In return the United States can refrain from any military buildup on the peninsula.

Secretary Armitage indicated that the U.S. would participate in *direct* talks, meaning that Americans and North Koreans would be in the same room. This is necessary. We cannot outsource our deepest security matters to China, Russia, or the United Nations. Only the U.S. can convincingly tell North Korea that it will be less safe, not more safe, if it proceeds with nuclear weapons—and this is the crux of the matter.

Others can be in the room at the same time, and having them with us in the room might be advantageous. Certainly we will have a richer set of sticks and carrots if our negotiating strategy is closely coordinated with our allies, Japan and South Korea—and coordination is necessary in any event to maintain the critical alliance relationships that buttress our entire strategy in the Asia-Pacific region. In the past we have conducted parallel bilateral negotiations—U.S.-DPRK, ROK-DPRK, and Japan-DPRK all in coordinated fashion—rather than meeting in one room with North Korea. But when we have done this, we have been careful to coordinate closely with Japan and South Korea.

China and Russia have also strongly supported the proposition that North Korea must not go nuclear. But their influence is not apparent, at least to me. They might be more willing to play a constructive role once we have set out a strategy into which they can play.

The United Nations can also play a critical role, particularly if North Korea were to agree to IAEA inspectors returning. We should continue to proceed at the U.N., but as a complement, not a substitute, for direct talks.

What Should Be the U.S. Position In Direct Talks?

We should enter direct talks with a clear sense of our objectives. At the top of the list, above all other objectives we might have with North Korea, should be the complete and verifiable elimination of North Korea's nuclear weapons (both plutonium-based and uranium-based) and long-range missile programs nationwide. This objective includes, but goes beyond, all the obligations contained in previous agreements made by North Korea.

The United States should also make it clear to North Korea that it cannot tolerate North Korean progression to reprocessing or any other steps to obtain fissile material for nuclear weapons, and that we are prepared to take all measures of coercion, including military force, to prevent this threat to U.S. security.

In return, there are two things that it should be easy for the United States to offer.

First, we should be prepared to make a pledge to North Korea that the U.S. will not seek to eliminate the North Korean regime by force if North Korea agrees to the complete and verifiable elimination of its nuclear weapons and long-range missile programs. Absent a realistic plan or timetable for regime change, we must deal with North Korea as it is, rather than as we might wish it to be. Turning a reality into a pledge should not be difficult.

Second, we should be prepared to offer assistance for weapons elimination, as the U.S. has done to the states of the former Soviet Union under the Nunn-Lugar program.

Over time, if the talks are bearing fruit, we can broaden them to encompass other issues of deep concern to the United States, such as conventional forces, avoidance of provocations and incidents, and human rights; and to North Korea, such as energy security and economic development. We should also offer a longer-term vision of gradual and conditional relaxation of tension, including the possibility of enhanced economic contacts with the United States, South Korea, and Japan.

The U.S. diplomatic position should be a component of a common overall position shared with our allies, in which we pool our diplomatic tools—carrots and sticks. In a shared strategy, we will also need to pool our objectives, so that we are seeking a set of outcomes that South Korea and Japan also share.

If an agreement emerges from direct talks, it will supercede and replace the 1994 Agreed Framework, which has been controversial in the United States and, it appears, not entirely to the liking of the North Korean leadership, either. As in 1994, the agreement must of course include the freezing and progressive dismantlement of the plutonium program at Yongbyon. We now know it must also include verifiable provisions for eliminating the uranium enrichment program. To the Agreed Framework's emphasis on nuclear weapons must also be added verifiable elimination of North Korea's ballistic missile program.

In return, the U.S. and its allies must make it convincing to North Korea that forswearing nuclear weapons and ballistic missiles is its best course—the only safe course.

Conclusion

Mr. Chairman and Members of the Committee, as I stressed earlier, I am by no means certain that a diplomatic approach including direct talks will succeed. But it is a necessary prelude to any military action, and it is far preferable to standing back and watching the disaster of North Korea going nuclear.

**Testimony Before the Committee on Foreign Relations
United States Senate
Thursday, July 15, 2004**

***IMPLEMENTING A DENUCLEARIZATION AGREEMENT
WITH NORTH KOREA***

**Ashton B. Carter
Co-Director, Preventive Defense Project
Professor of Science and International Affairs
John F. Kennedy School of Government, Harvard University**

Mr. Chairman and Members of the Committee, thank you for inviting me to appear before you to discuss the implementation of a possible agreement with North Korea for the complete, verifiable, and irreversible dismantlement (CVID) of its nuclear weapons program. I was deeply involved in the Nunn-Lugar program from 1991 to 1996, a very successful effort established by the Chairman of this Committee and Senator Nunn. The Nunn-Lugar program accomplished CVID in Ukraine, Kazakstan, and Belarus, as well as the dismantlement and securing of a large portion of Russia's nuclear weapons legacy from the Soviet Union. Currently the methods it pioneered are also at work in Iraq and Libya, and in securing highly enriched uranium around the world.

We all hope something similar can be accomplished in North Korea. I must begin, however, by warning that in my estimation we are a long way from an agreement with North Korea on CVID. I do not know whether at this point North Korea is susceptible to a diplomatic solution to the nuclear crisis at all. But President Bush is correct to give diplomacy a try before moving to other, more coercive paths. The alternatives to diplomacy are dangerous because they could spark a violent war on the Korean peninsula. Additionally, they cannot be fully effective unless others join us in implementing them. For example, economic penalties cannot be imposed on North Korea unless China, South Korea, and Russia agree not to undercut them. This needed international support is not a matter of a "permission slip," it is critical to making U.S.-led policy effective. We will not get this support unless the diplomatic path has been tried and been shown to have failed.

The last time I appeared before this Committee I called for an overhaul of U.S. counterproliferation capabilities. I argued that President Bush was dead on when he said that keeping the worst weapons out of the hands of the worst people was an American President's highest national security priority. The worst weapons are nuclear and biological; the worst people are rogue states and increasingly terrorists. But I also pointed out that U.S. policy in recent years has been focused mostly on the worst people and far too little on the worst weapons. We have waged a war on terrorism but have not yet begun a parallel war on weapons of mass destruction (WMD). The only major action taken against WMD was the invasion of Iraq, an action which I supported in the firm conviction that Saddam Hussein's WMD would be found after the war. But it turns out that pre-war intelligence falsely overstated Iraq's WMD capabilities. Meanwhile, as all eyes were on Iraq, North Korea and Iran plunged forward with their nuclear programs; efforts to secure nuclear materials in Russia and worldwide proceeded at their pre-9/11 bureaucratic pace; and the Department of Homeland Security, Department of Defense, and Intelligence Community continued to give inadequate attention to overhauling their counterproliferation programs to deal with the age of terrorism.

The most adverse of all these recent developments in counterproliferation has taken place in North Korea. The North quadrupled its stock of plutonium, in the most significant proliferation disaster since Pakistan went nuclear in the 1980s under the leadership of scientist A.Q. Khan. Letting North Korea go nuclear represents a security catastrophe in no fewer than five ways. First, it would weaken deterrence on the Korean peninsula and make war there both more likely and more destructive. Second, it could lead to a domino effect of proliferation in East Asia as South Korea, Japan, Taiwan, and others reconsider their decisions to forego nuclear weapons. Third, it would undercut the global Nuclear Nonproliferation Treaty (NPT) regime. Fourth, North Korea might sell plutonium, as it sells ballistic missiles. And fifth, if North Korea collapses we will need to worry about where its plutonium goes during the upheaval. These last two points alone illustrate why a North Korean nuclear program is unacceptable to U.S. and international security, because they show that proliferation to states is also a potential route to sub-state nuclear terrorism.

For these five reasons, the United States must put stopping the nuclear program first in its priorities when dealing with North Korea—above reducing North Korea's conventional forces, and above transforming its repressive political system and back-

ward economic system. Strategy is about priorities. These other objectives remain important U.S. goals, but the Bush administration is correct to put nuclear CVID at the center of its negotiating strategy.

Unfortunately, the U.S. negotiating position has deteriorated significantly since the crisis began in late 2002, when North Korea's plutonium program was unfrozen and its uranium enrichment program revealed. For the eight preceding years, the 8,000 fuel rods containing several bombs' worth of weapons grade plutonium were at Yongbyon, where they could be inspected (or, for that matter, destroyed) and were months away from being converted into bomb form. Now they are out of Yongbyon, location unknown, and presumably at least some of them have been reprocessed to extract bomb-ready plutonium.

The U.S. position among other parties in the region has also taken a turn for the worse. South Korea and China have the power to reward and coerce North Korea—they possess carrots and sticks—that are at least as potent as ours—if they can be persuaded to wield them in the nuclear diplomacy. But in the absence of a clear U.S. negotiating strategy, each of these partners has begun to go its own way.

In South Korea, a younger generation seems to have lost its strategic bearings entirely, wishing away the North Korean threat and even going so far as to make the astonishing suggestion that the United States is the greater threat. The older generation of South Korean leaders has done too little to educate the younger generation about the South's actual interests and responsibilities. The United States has exacerbated this situation through three and a half years of delay in formulating a negotiating strategy, and by its clumsy handling of its plans to rebase U.S. forces on the peninsula.

China should apply its full weight to pressuring North Korea to agree to a reasonable U.S. negotiating position. But in the absence of a clear U.S. position, China also has been looking the other way as North Korea advances its nuclear program. In fact, China and South Korea appear to be collaborating closely. This is a symptom of a larger trend in East Asia, where China's power and influence grow and regional states find themselves tempted to align with China and move away from the United States. Our government's near-total focus on the Middle East has kept us from countering this trend towards the erosion of the U.S. strategic position in East Asia.

Mr. Chairman and Members of the Committee, I therefore approach my assigned task in this hearing with grave doubts. But in a spirit of hope, allow me to make some observations on how the "Nunn-Lugar method" might be applied to implementing a denuclearization agreement with North Korea.

1. Nunn-Lugar assistance with CVID is a reasonable "carrot" for the United States to offer North Korea. This nation—always loath to "bribe" North Korea, and burned once in the Agreed Framework by North Korean cheating—can hardly be expected to give North Korea large tangible rewards for stepping back from the nuclear threshold. It is likely that South Korea, China, Russia, and Japan will do so, but not the United States. But the U.S. can reasonably offer two carrots. The first is an intangible: namely, a pledge not to attack North Korea if it foregoes nuclear weapons. This simply makes explicit what should be our policy anyway. The second is Nunn-Lugar-like assistance with CVID. Such assistance, like the Nunn-Lugar program in general, should be seen as an investment in our own security, not a reward to North Korea. Secretary of Defense Bill Perry used to call the Nunn-Lugar program in the former Soviet Union "defense by other means."

2. While CVID must be the end-state prescribed in any agreement, as a practical matter this state will be approached in stages. Recall that the Agreed Framework also prescribed CVID of North Korea's plutonium infrastructure (its uranium provisions were not verifiable, and sure enough North Korea cheated on them). The problem with the Agreed Framework's plutonium provision was not that it did not have the right goal, or that it approached that goal in stages. The problem was that implementation never progressed beyond the first stage, the so-called "freeze." We need to make sure any new agreement does not get stuck in an early stage of implementation. The agreement will need to build in penalties to North Korea for stalling. On our side, Congress especially will need to support the implementation of the agreement over time and over successive administrations until CVID is achieved. With the Agreed Framework, first Congress and then the Clinton administration betrayed signs of "buyer's regret" soon after the agreement was signed, and this played into the hands of North Korea's desire to stall at the "freeze" stage.

3. The United States should begin program design for CVID now. The program design should include technical objectives and milestones, supply and construction plans, estimated costs, and a program management structure giving clear authority and accountability to a single U.S. official. This last point is important. Over the history of the Nunn-Lugar program, its projects have been implemented by Defense,

State, Energy, and Commerce. These departments have developed expertise in these types of projects, and it would be imprudent not to exploit it for a North Korea program. But we cannot confront North Korea with the same bureaucratic chaos with which the states of the former Soviet Union still contend.

The program design should be shown to the North Koreans and their input solicited. Doing so will smooth things down the road if an agreement is reached, and it might whet their appetite for such an agreement in the first place.

4. Obviously a program plan can only be notional at this stage and will need to be refined as we learn more about North Korea's nuclear infrastructure. Without a program plan, it is impossible to estimate costs. A reasonable estimate would be that the North Korea Nunn-Lugar program would be a factor of ten smaller than the former Soviet Union program—that is, tens of millions of dollars per year for a ten year period.

5. By far the preferable role for Congressional oversight is to review the program plan in advance as it considers the overall wisdom of any agreement the Executive Branch reaches with North Korea. To the extent possible, we should avoid a situation in which every stage of implementation and every needed appropriation for assistance becomes a mini-crisis in U.S. politics. The North will exploit such crises to stall and re-bargain the agreement. The result will be to the U.S. disadvantage in the long run. Well-intentioned but totally counterproductive Congressional restrictions have greatly damaged the denuclearization effort in the former Soviet Union.

6. To yield complete (the C in CVID) and irreversible (the I in CVID) results, the "Nunn-Lugar" concept for North Korea, like those for Ukraine, Kazakhstan, and Belarus, should cover all portions of its nuclear infrastructure: weapons and materials, production and storage facilities, R&D centers, and the scientists and workers who populate it.

7. Verification (the V in CVID) will be aided by a Nunn-Lugar approach. A cooperative effort in which the United States is deeply involved, on the ground and in person with North Korean technologists, will give important insights and confidence to complement formal verification measures and national intelligence collection.

8. While in principle other nations in the Six-Party Talks could also provide Nunn-Lugar-type assistance to implement an agreement, it is probably preferable that the program to implement the agreement be U.S.-only. The United States has the experience of the existing Nunn-Lugar program under its belt, an enormous incentive to see CVID succeed, and a disinclination to provide the other types of assistance to North Korea that China, Russia, South Korea, and Japan might provide.

9. Elimination of chemical and biological weapons and ballistic missiles can be added to the agreement and to the resulting Nunn-Lugar-like program, though with lesser priority than nuclear weapons. Chemical weapons are not much more destructive, pound for pound or liter for liter, than conventional weapons and hardly deserve the "mass destruction" designation. Biological weapons are a true WMD, but the United States must formulate strong counters against biowarfare and bioterrorism irrespective of North Korea, and those countermeasures—if taken—will likely provide protection against North Korean bioweapons. Ballistic missiles are a poor way for an attacker to spend money unless they carry nuclear or biological warheads, so our concerns about missiles end up being derivative of these weapons.

Mr. Chairman and Members of the Committee, let me close by stressing that policymaking and implementation are different processes requiring different skills. Too often our policy is brilliant but when it comes to spending the taxpayers' money on complex and novel technical projects, especially in foreign lands, our performance is less than brilliant. (Joint military operations are fortunately an exception to this observation.) But when one considers the fumbling in the early years of the Nunn-Lugar program in the former Soviet Union (to which I can attest personally), the first year of the Coalition Provisional Authority and "stability operations" in Iraq, and the first three years of the U.S. Homeland Security program, one can easily see that successful implementation is not always assured even when the policy objectives are crystal clear. The complexity of a North Korea CVID program based on the Nunn-Lugar precedent, together with the inimitable qualities of the North Korean government, mean that implementation will require stamina and finesse on the part of both the Executive and Legislative Branches.

THE HONORABLE ASHTON B. CARTER

Dr. Ashton Carter is Co-Director (with former Secretary of Defense William J. Perry) of the Preventive Defense Project, a research collaboration of Harvard's Kennedy School of Government and Stanford University, and he teaches national security policy at the Kennedy School where he is Ford Foundation Professor of Science and International Affairs.

Dr. Carter served as Assistant Secretary of Defense for International Security Policy during President Clinton's first term. His Pentagon responsibilities encompassed: countering weapons of mass destruction worldwide, oversight of the U.S. nuclear arsenal and missile defense programs, arms control, controls of sensitive U.S. exports, policy regarding the collapse of the former Soviet Union (including its nuclear weapons and other weapons of mass destruction), and chairmanship of NATO's High Level Group. He oversaw military planning during the 1994 crisis over North Korea's nuclear weapons program; was instrumental in removing all nuclear weapons from the territories of Ukraine, Kazakstan, and Belarus; directed the establishment of defense and intelligence relationships with the countries of the former Soviet Union when the Cold War ended; and participated in the negotiations that led to the deployment of Russian troops as part of the Bosnia Peace Plan Implementation Force. Dr. Carter oversaw the multi-billion dollar Cooperative Threat Reduction (Nunn-Lugar) program to support elimination of nuclear, chemical, and biological weapons of the former Soviet Union, including the secret removal of 600 kilograms of highly enriched uranium from Kazakstan in the operation code-named Project Sapphire. Dr. Carter also directed the Nuclear Posture Review and oversaw the Department of Defense's (DOD's) Counterproliferation Initiative. He directed the reform of DOD's national security export controls. His arms control responsibilities included the agreement freezing North Korea's nuclear weapons program, the extension of the Nuclear Nonproliferation Treaty, the negotiation of the Comprehensive Test Ban Treaty, and matters involving the START II, ABM, CFE, and other arms control treaties.

Dr. Carter was twice awarded the Department of Defense Distinguished Service Medal, the highest award given by the Department. For his contributions to intelligence, he was awarded the Defense Intelligence Medal. In 1987 Carter was named one of Ten Outstanding Young Americans by the United States Jaycees. He received the American Physical Society's Forum Award for his contributions to physics and public policy.

A longtime member of the Defense Science Board and the Defense Policy Board, the principal advisory bodies to the Secretary of Defense, Dr. Carter continues to serve DOD as an adviser to the Secretary of Defense, a consultant to the Defense Science Board, and a member of the National Missile Defense White Team. In 1997 Dr. Carter cochaired the Catastrophic Terrorism Study Group with former CIA Director John M. Deutch, which urged greater attention to terrorism. From 1998 to 2000, he was deputy to former Secretary of Defense William J. Perry in the North Korea Policy Review and traveled with him to Pyongyang. In 2001–2002, he served on the National Academy of Sciences Committee on Science and Technology for Countering Terrorism and advised on the creation of the Department of Homeland Security. In 2003 he was a member of the National Security Advisory Group to the U.S. Senate Democratic Leadership, with William Perry, Gen. Wesley K. Clark, Madeleine Albright, and others.

In addition to his public service, Dr. Carter is currently a Senior Partner of Global Technology Partners, Chairman of the Advisory Board of MIT's Lincoln Laboratories, a member of the Draper Laboratory Corporation, and a member of the Board of Directors of Mitretek Systems. He is a consultant to Goldman, Sachs and the MITRE Corporation on international affairs and technology matters, and speaks frequently to business and policy audiences. Dr. Carter is also a member of the Aspen Strategy Group, the Council on Foreign Relations, the American Physical Society, the International Institute of Strategic Studies, and the National Committee on U.S.-China Relations. Dr. Carter was elected a Fellow of the American Academy of Arts and Sciences.

Carter's research focuses on the Preventive Defense Project, which designs and promotes security policies aimed at preventing the emergence of major new threats to the United States. Carter and former Secretary of Defense William J. Perry co-authored *Preventive Defense: A New Security Strategy for America*, which identified and prioritized the threats to U.S. national security in the 21st century.

Before his latest government service, Dr. Carter was Director of the Center for Science and International Affairs at Harvard University's John F. Kennedy School of Government, and Chairman of the Editorial Board of *International Security*. Previously, he has held positions at the Massachusetts Institute of Technology, the Congressional Office of Technology Assessment, and Rockefeller University.

Dr. Carter received bachelor's degrees in physics and in medieval history from Yale University, summa cum laude, Phi Beta Kappa. He received his

doctorate in theoretical physics from Oxford University, where he was a Rhodes Scholar.

In addition to authoring numerous articles, scientific publications, government studies, and Congressional testimonies, Dr. Carter co-edited and co-authored eleven books, including *Keeping the Edge: Managing Defense for the Future* (2001), *Preventive Defense* (1997), *Cooperative Denuclearization: From Pledges to Deeds* (1993), *A New Concept of Cooperative Security* (1992), *Beyond Spin-off: Military and Commercial Technologies in a Changing World* (1992), *Soviet Nuclear Fission: Control of the Nuclear Arsenal in a Disintegrating Soviet Union* (1991), *Managing Nuclear Operations* (1987), *Ballistic Missile Defense* (1984), and *Directed Energy Missile Defense in Space* (1984).

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A SHELL GAME IN THE ARMS RACE

By Matthew Godsey and Gary Milhollin

PRESIDENT BUSH has enjoyed a surprisingly jovial reception in Europe this week, but there has been a serious point of contention: The desire of European countries to lift the 15-year ban on arms sales to China. Given concerns that the Chinese are willing to sell military, and perhaps even nuclear, technology to the highest bidder, Mr. Bush's stance seems admirable. Unfortunately, his reasonable skepticism about China's intentions hasn't translated into a solid commitment.

For example, earlier this month Under Secretary of State John Bolton scolded China for allowing its companies to spread weapons technology, saying the embargo was just as important "today as it was in 1989." Yet such talk is undermined by the State Department's own failure to check Chinese companies' reckless sales, and by weaknesses in American trade laws. In the end, China knows it has little to fear from Washington.

Case in point: Sinopec, China's state-owned oil and gas giant, has subsidiaries that the State Department has hit with sanctions four times since 1997 for selling to Iran materials that could be used to make chemical weapons. However, because these subsidiaries do little or no business with the United States, the punishments—curbs on trade with America—were purely symbolic.

Sinopec itself has extensive ties with American companies, dealings Washington could block. Yet we refuse to punish it for anything its offshoots do. The reason is simple: American sanctions laws were written so that the government can hold a parent company responsible only if it "knowingly" assists a sale by its subsidiary, a burden of proof our intelligence agencies can rarely meet. Why? Because our government is largely unwilling to hurt the financial interests of American firms that do business with companies like Sinopec.

This laxity on our part leaves Sinopec free to sell whatever it likes to Tehran. In 1997, the same year the State Department first cited subsidiaries of Sinopec for "knowingly and materially contributing to Iran's chemical weapon program," Iran promised to increase oil exports to China by 40 percent. The following year, Iran chose the Chinese company over a host of European rivals to renovate oil refineries in Tehran and Tabriz, and to construct an oil terminal on the Caspian Sea. In 2001, when the State Department again censured a subsidiary for continuing sales to Iran of products useful for poison gas production, Sinopec won the right to explore Iran's Zavareh-Kashan oilfield.

Then, last October, Sinopec pulled off its biggest coup: A \$70 billion deal in which the Chinese company will buy hundreds of millions of tons of liquefied natural gas and will help Iran develop its Yadavaran oilfield.

The fact is, the United States could lower the boom on Sinopec by cutting its ties to the American economy. In 2000, Sinopec raised some \$3.5 billion by selling shares on the New York Stock Exchange, with Exxon-Mobil buying a large stake. Halliburton has since provided Sinopec a design for a new chemical plant; Bechtel has helped it build a petrochemical complex in China; and ConocoPhillips has aided it in oil and gas exploration.

And, believe it or not, in 2002 Sinopec received a \$429,000 grant from the United States Trade and Development Agency. The purpose was to help an import-export subsidiary to develop an electronic procurement system. No matter that another Sinopec subsidiary, the awkwardly named Jiangsu Yongli Chemical Engineering and Technology Import/Export Corporation, was under sanctions for sales to Iran, or that Sinopec ranked among the 100 richest firms in the world according to Fortune magazine. Uncle Sam still wanted to help it market its products.

Sinopec is hardly the only beneficiary of American kindness. Our weak laws have spared Sinosteel, China Aviation Industry Corporation I and II, and China North Industries Group Corporation, even though subsidiaries of these state-owned conglomerates have been sanctioned for selling missile technology to Iran and Pakistan. In large part, we can lay the blame for this charade on a compliant government and on political pressure from American companies, whose lobbyists work to

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ensure that Federal sanctions laws are written to protect their corporate interests. This is a travesty, because cutting off access to our economy is the most powerful leverage we have, and our failure to use it shows we aren't serious about punishing rogue states and their corporations.

Our laws need to be rewritten so that Sinopec and other companies that abet the spread of weaponry through their subsidiaries are kicked out of American capital markets, forbidden to deal with our companies and denied access to American goods and technology. Only then will they have an incentive to change their ways, and only then can our government honestly claim that it is trying to shut down the global arms bazaar.

**Preparatory Committee for the 2005 Review Conference of the
Parties to the Treaty on the Non-Proliferation of Nuclear Weapons**

Third session

New York, 26 April–7 May 2004

STRENGTHENING THE NUCLEAR NON-PROLIFERATION REGIME**Working paper submitted by France****4 May 2004**

The third session of the NPT Preparatory Committee takes place in a context characterized by several nuclear proliferation and non-compliance crises, which have left major questions unanswered, and emphasized new threats to international peace and security.

Cases of failure and non-compliance have been exposed over the past year, as well as the existence of an international network of trafficking in nuclear technologies; North Korea has expressed its intention to withdraw from the NPT. Corrective measures, in cooperation with the IAEA, have been taken in some cases.

The nonproliferation regime, and in particular the NPT Review Process, will have to demonstrate in the coming months its ability to adapt itself to such international security challenges while preserving the core principles of the NPT.

The constraints arising from the nonproliferation commitments of States Parties are balanced in the Treaty by the development of, and cooperation in, peaceful uses of nuclear energy. Civilian nuclear cooperation is only possible if States comply with all their obligations stemming from the Treaty. There is a risk however, that the recent proliferation and non-compliance crises may affect the confidence we put in the nonproliferation regime.

France reiterates its commitment to the right of all Parties to the NPT to civilian nuclear energy. France considers that a basic objective of the NPT is precisely to make the development of international cooperation in this field possible. Most analyses show that world energy needs will increase sharply in the coming years; nuclear energy will be in this context an essential contribution to sustainable development.

Given this background, France would like to share the views hereunder, which are based on the following principles:

- fostering the NPT and international institutions (UN, IAEA) through effective multilateralism;
- restoring the confidence of the international community;
- adopting an inclusive approach, and avoiding the creation of dividing lines among the international community.

I. Strengthening and universalizing the rules for sensitive equipment, giving new guarantees to States in good standing

Universalization of the Additional Protocol and Comprehensive Safeguards Agreements

France, along with the EU and the G8, has called for and worked towards the universalization of the Additional Protocol and of Comprehensive Safeguards Agreements. France ratified its own Additional Protocol on April 10th, 2003.

- Having such a Protocol in force should rapidly become a standard.
- In this connection, IAEA Member States have a responsibility to ensure that the Agency has adequate technical and financial means to carry out its statutory missions. The Agency should adapt and optimize safeguards implementation to fulfil its new missions.

Preventing the risks stemming from the dissemination of sensitive technologies

Developing peaceful uses of nuclear energy and setting up a nuclear power generation program does not require, in the large majority of cases, sensitive and potentially proliferating technologies. At the same time, recent crises have demonstrated the need for strengthened export controls on those technologies or materials (enrichment, reprocessing, heavy water production facilities, equipment or related technologies, HEU, separated plutonium).

- The export of such materials, facilities, equipment or related technologies should only be envisaged in the light of the existence of a set of conditions relevant to the global nonproliferation regime and NPT objectives:
 - an alleged energy need in the country;
 - a credible nuclear power generation program and related fuel cycle needs;
 - an economically rational plan for developing such projects;
 - an Additional Protocol brought into force and implemented before any physical transfer or transfer of know-how;
 - the highest standard of nonproliferation commitments;
 - the effective and efficient implementation of an export control system with adequate sanctions;
 - the highest standard of nuclear security and safety;
 - an analysis of the stability of the country and the region concerned.

Such criteria would only marginally increase the effectiveness of the nonproliferation regime if they are restricted to the member-States of the NSG and Zangger Committee, which already have strict export controls in force. They should be adopted by all states concerned.

The effect of technological progress (e.g. “closed cycle” reactors) on the aforementioned conditions would have to be assessed in due time.

Reinforcing States’ responsibility

In addition, it is essential that all governments concerned adopt responsible policies regarding nuclear exports.

- *Steps should be taken so that all potential suppliers of sensitive nuclear technology, equipment and materials adopt voluntarily robust export controls along comparable guidelines. Consideration could be given to universal control norms based on Zangger Committee Understandings.*
- In addition, suppliers should commit themselves to linking any transfer of sensitive items (see above) and major transfers of non-sensitive items to NNWS to the signature of an inter-governmental agreement, thus creating a legal base and framework for such cooperation. Any such transfer not covered by such an agreement should be considered illegal and legal action should be taken in accordance with national regulations.

Increased access to non-sensitive technologies; guarantees of access

Enhancing controls on exports of sensitive technologies should be balanced with an easier access, by States that may need them, in particular the developing countries, to non-sensitive equipment and technologies and nuclear cooperation.

- It would be appropriate, in this context, to review the balance of existing NSG rules with a view to avoiding unduly stringent rules on the transfer of non-sensitive equipment and facilities (e.g.: LEU reactors, control and command and other goods useful for the safety and security of nuclear power plants).
- Guarantees of access to services related to nuclear fuel, or to nuclear fuel, at market prices on a long term basis could also be given, through a collective declaration, or individual declarations, of supplying States back to back with commitments by the companies concerned, to countries that intend to pursue a nuclear power generation program for peaceful purposes without developing a comprehensive fuel cycle. Those countries should have a Comprehensive Safeguards Agreement and its Additional Protocol brought into force, with the cooperation of the IAEA. It would be made clear that such guarantees should avoid the creation of monopoly situations.

II. Taking action to prevent new breaches of confidence

Compliance and international cooperation

- In order to strengthen Article IV of the NPT, nuclear cooperation should be suspended with States for which the IAEA cannot provide sufficient assurances that their nuclear program is devoted exclusively to peaceful purposes, until the IAEA provides such assurances. Suspension could be called for by the Agency’s Board of Governors when, for example, the Director General reports, in a State:
 - a situation of “serious breaches”;
 - a situation of “non-compliance”;
 - an “unacceptable risk of diversion”;
 - the impossibility, for the Agency, to carry out its mission.

In the aforementioned cases, suspension—of all or part of the nuclear cooperation—would not be automatic when appropriate corrective measures are taken by the State, in cooperation with the IAEA.

- Suspension could be universalized and made mandatory for all States by a decision of the UNSC.

Withdrawal

- In accordance with international law, a State that withdraws from the NPT (Article X) remains responsible for violations committed while still a party to the Treaty. This principle should be reaffirmed. The UNSC is the relevant international framework for taking decisions in such a context.
- Without prejudice to other measures that the UNSC may decide, a State that withdraws should—in any case—no longer make use of all nuclear materials, facilities, equipment or technologies acquired in a third country before its withdrawal. Such facilities, equipment and nuclear material should be returned to the supplying State, frozen or dismantled under international verification.
- Inter-governmental agreements setting the framework for sensitive or major nuclear transfers (see above) should include a clause forbidding the use of the transferred nuclear materials, facilities, equipment or technologies in case of a withdrawal. The same clause should apply also for materials or NSG trigger list items produced from, or with the help of, materials, equipment, facilities or technologies originally transferred.

**STATUTORY MANDATE OF THE U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION**

Pursuant to Public Law 108-7, Division P, enacted February 20, 2003

RESPONSIBILITIES OF THE COMMISSION.—The United States-China Commission shall focus, in lieu of any other areas of work or study, on the following:

PROLIFERATION PRACTICES.—The Commission shall analyze and assess the Chinese role in the proliferation of weapons of mass destruction and other weapons (including dual use technologies) to terrorist-sponsoring states, and suggest possible steps which the United States might take, including economic sanctions, to encourage the Chinese to stop such practices.

ECONOMIC REFORMS AND UNITED STATES ECONOMIC TRANSFERS.—The Commission shall analyze and assess the qualitative and quantitative nature of the shift of United States production activities to China, including the relocation of high-technology, manufacturing, and R&D facilities; the impact of these transfers on United States national security, including political influence by the Chinese Government over American firms, dependence of the United States national security industrial base on Chinese imports, the adequacy of United States export control laws, and the effect of these transfers on United States economic security, employment, and the standard of living of the American people; analyze China's national budget and assess China's fiscal strength to address internal instability problems and assess the likelihood of externalization of such problems.

ENERGY.—The Commission shall evaluate and assess how China's large and growing economy will impact upon world energy supplies and the role the United States can play, including joint R&D efforts and technological assistance, in influencing China's energy policy.

UNITED STATES CAPITAL MARKETS.—The Commission shall evaluate the extent of Chinese access to, and use of United States capital markets, and whether the existing disclosure and transparency rules are adequate to identify Chinese companies which are active in United States markets and are also engaged in proliferation activities or other activities harmful to United States security interests.

CORPORATE REPORTING.—The Commission shall assess United States trade and investment relationship with China, including the need for corporate reporting on United States investments in China and incentives that China may be offering to United States corporations to relocate production and R&D to China.

REGIONAL ECONOMIC AND SECURITY IMPACTS.—The Commission shall assess the extent of China’s “hollowing-out” of Asian manufacturing economies, and the impact on United States economic and security interests in the region; review the triangular economic and security relationship among the United States, Taipei and Beijing, including Beijing’s military modernization and force deployments aimed at Taipei, and the adequacy of United States executive branch coordination and consultation with Congress on United States arms sales and defense relationship with Taipei.

UNITED STATES-CHINA BILATERAL PROGRAMS.—The Commission shall assess science and technology programs to evaluate if the United States is developing an adequate coordinating mechanism with appropriate review by the intelligence community with Congress; assess the degree of non-compliance by China and [with] United States-China agreements on prison labor imports and intellectual property rights; evaluate United States enforcement policies; and recommend what new measures the United States Government might take to strengthen our laws and enforcement activities and to encourage compliance by the Chinese.

WORLD TRADE ORGANIZATION COMPLIANCE.—The Commission shall review China’s record of compliance to date with its accession agreement to the WTO, and explore what incentives and policy initiatives should be pursued to promote further compliance by China.

MEDIA CONTROL.—The Commission shall evaluate Chinese government efforts to influence and control perceptions of the United States and its policies through the internet, the Chinese print and electronic media, and Chinese internal propaganda.

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