

SECTION 2: CHINA'S PROLIFERATION AND INVOLVEMENT IN NORTH KOREA'S AND IRAN'S NUCLEARIZATION ACTIVITIES

The Commission shall investigate and report on “PROLIFERATION—The role of the People’s Republic of China in the proliferation of weapons of mass destruction and other weapons (including dual use technologies), including actions the United States might take to encourage the People’s Republic of China to cease such practices.”

Key Findings

- Chinese companies and government organizations continue to proliferate weapons, weapons components, and weapons technology. Some of these transfers violate China’s international nonproliferation agreements, harm regional security in East Asia and the Middle East, and are a measure of China’s failure to meet the threshold test of international responsibility in the area of nonproliferation. Given strong U.S. interests in both regions, Chinese proliferation threatens U.S. security and potentially could place at risk U.S. troops operating in those regions.
- China possesses the unique ability to influence North Korea’s actions, partly because of the great extent to which North Korea depends on it for consistent supplies of food and fuel. Notwithstanding its commendable efforts to persuade North Korea to remain involved in the Six-Party Talks seeking to obtain North Korean agreement to end its nuclear program, China has refused to use its leverage effectively to pressure North Korea to cease its nuclear and missile development activities and, in particular, not to conduct the nuclear test it conducted in October.
- Chinese companies and government organizations continue to assist Iran’s missile development program, and have aided Iran’s nuclear program. China also has refused to cooperate in the efforts by a number of nations to persuade or force Iran to halt its military nuclear program and instead has offered political and moral support for Iran and obstructionism in the United Nations.
- China’s continued frustration of nonproliferation efforts may precipitate additional nuclear proliferation, including nuclear weapons development and transfer of nuclear weapons to non-nuclear nations and terrorists, proliferation of other weapons of mass destruction, and conventional arms races.

China’s Proliferation Record

In testimony before the Commission, Assistant Secretary of State for Compliance, Verification, and Implementation Paula DeSutter acknowledged that the U.S. government has repeatedly engaged the Chinese government at its highest levels “to reinforce our message that the proliferation of WMD [weapons of mass destruction] and missile technology is a threat to our mutual security.”¹²⁷ Despite this effort and additional dialogues on missile modernization and nuclear policy,¹²⁸ the United States “remain[s] disappointed in the continuing proliferant behavior of certain Chinese entities, and ...

about the Chinese government's commitment towards its non-proliferation obligations.”¹²⁹

The following chart lists current multilateral nonproliferation treaties and regimes and describes China's status and level of participation with respect to them:

International Nonproliferation Agreements and China's Participation

Nonproliferation Regime	Description	China's Response
Biological Weapons Convention (BWC)	Outlaws the production, development, storage, and use of biological weapons	China acceded to the BWC in 1984 ¹³⁰
Chemical Weapons Convention (CWC)	Outlaws the production, storage, and use of chemical weapons	China signed the CWC in 1993. In 1997, China ratified the convention ¹³¹
Nuclear Nonproliferation Treaty (NPT)	The five original nuclear states (France, China, USSR (now Russia), United Kingdom, and United States) agree not to use nuclear weapons against non-nuclear states except in response to a nuclear attack, and to prevent the transfer of nuclear weapons to non-nuclear states; and affirm the right of states that do not possess nuclear weapons to use peaceful nuclear technology	China acceded to the NPT in March 1992 ¹³²
Zangger Committee	Maintains a list of equipment that may be exported only to facilities that have nuclear safeguards in place, and fosters coordination among states for controlling the export of nuclear materials	China joined the Zangger Committee in 1997 ¹³³
Nuclear Suppliers Group (NSG)	Controls the export of materials that may be used for nuclear weapons development	China joined in May 2004 ¹³⁴
Comprehensive Test Ban Treaty (CTBT)	Each party agrees to prohibit "... any nuclear weapon test explosion or any other nuclear explosion, and to prohibit and prevent any such nuclear explosion at any place under its jurisdiction or control," and to "... refrain from causing, encouraging, or in any way participating in the carrying out of any nuclear weapon test explosion or any other nuclear explosion." ¹³⁵	China signed in September 1996, but has not ratified the treaty. (The United States is a signatory, but also has not ratified the treaty)

International Nonproliferation Agreements and China's Participation—Continued

Nonproliferation Regime	Description	China's Response
Missile Technology Control Regime (MCTR)	A "set of voluntary guidelines that seeks to control the transfer of ballistic and cruise missiles that are inherently capable of delivering at least a 500 kg (1,100 lb) payload a distance of at least 300 km (186 mi), called "Category I" or "MCTR-class" missiles" ¹³⁶	China is not a member. However, it has made qualified commitments to "abide by various missile nonproliferation commitments." ¹³⁷ Under these commitments, China exempted certain missiles and grandfathered early transfers. Its most recent commitment in 2000 stated that it would not assist "in any way, any country in the development of ballistic missiles that can be used to deliver nuclear weapons (i.e. missiles capable of delivering a payload of at least 500 kilograms to a distance of at least 300 kilometers)." ¹³⁸ China has not committed to restrictions pertaining to other missiles. ¹³⁹
Proliferation Security Initiative (PSI)	An effort led by President Bush to prohibit and prevent the transfer of banned weapons and technology applicable to nuclear, chemical, and biological weapons	China has not joined, voicing concerns about the legality of the PSI
International Code of Conduct Against Ballistic Missile Proliferation	Intended to curb the proliferation of ballistic missiles and to support the implementation of the MCTR	China has not joined

China has not even fulfilled the nonproliferation obligations it has agreed to accept.¹⁴⁰ Evidence of recurring transfers of militarily-sensitive materials, products, and technologies by Chinese companies and government organizations suggests that some of these organizations are serial proliferators and have no fear of government controls or punishments.¹⁴¹ As Assistant Secretary of Defense for International Security Affairs Peter Rodman noted in his September testimony, these organizations, including state-owned enterprises (SOEs), continue to supply items and technology useful for developing WMD and delivery systems.¹⁴² Some of these missile technologies can be used in a variety of missile programs.¹⁴³ Additionally, the United States remains concerned that China is currently conducting biological and chemical weapons research in violation of its obligations under the Biological Weapons Convention and the Chemical Weapons Convention;¹⁴⁴ that it continues to expand its missile modernization program;¹⁴⁵ and that proliferating companies and government organizations in China could transfer the products of these efforts to North Korea, Iran, and other nations or to terrorist organizations engaged in various proliferation activities.

The United States has attempted to persuade China to step up its enforcement of its domestic nonproliferation laws and regulations, and to comply with its international nonproliferation commit-

ments.¹⁴⁶ Also, the United States has worked to deter Chinese companies and government organizations from proliferating by altering the incentive structure,¹⁴⁷ increasing the political and economic costs of proliferation. Sanctions are the primary vehicle for this effort. Below is a chart listing sanctions imposed on Chinese companies and organizations since the issuance of this Commission's 2005 Annual Report:

**List of Sanctions Imposed on Chinese Entities Since
November 2005**

Date	Entity/Person	Controlling Statute
December 2005	<ul style="list-style-type: none"> • China Aero-Technology Import/Export Corp. (CATIC) • North China Industries Corporation (NORINCO) • LIMMT Metallurgy and Minerals Company Ltd. • Ouinion (Asia) International Economic and Technical Cooperation Ltd. • Zibo Chemet Equipment Company 	Iran Nonproliferation Act: regarding missile and chemical weapons proliferation
June 2006	<ul style="list-style-type: none"> • Beijing Alite Technologies Company Ltd. (ALCO) • LIMMT Economic and Trade Company Ltd. • China Great Wall Industry Corporation (CGWIC) • China Precision Machinery Import-Export Corp. (CPMIEC) • G.W. Aerospace (a U.S. office of CGWIC) 	Executive Order 13382: regarding missile proliferation
August 2006	<ul style="list-style-type: none"> • Great Wall Airlines Company Ltd. 	Executive Order 13382: regarding missile proliferation and dual-use components.

In June 2006, as the chart indicates, the United States imposed sanctions on four Chinese companies plus the U.S. subsidiary of one of them, under Executive Order 13382¹⁴⁸ because the U.S. government determined that they provided, or attempted to provide, support for Iran's Aerospace Industries Organization (AIO), a key actor in developing Iran's missile program.¹⁴⁹ All of the firms subjected to sanctions in this round had been sanctioned previously under other U.S. laws.¹⁵⁰ Assistant Secretary Rodman's testimony indicated that one of these companies, China Precision Machinery Import-Export Corporation (CPMIEC), had transferred items controlled under the Missile Technology Control Regime (MTCR) and thus in violation of China's obligations and commitments to prevent missile transfers and technology.¹⁵¹ In August 2006, the Great Wall Airlines Company was designated as a proliferator; its parent company, China Great Wall Industry Corporation (CGWIC), was sanctioned in June. Great Wall Airlines had to suspend its operations after the designation because the Boeing Company, an American corporation, thereafter was prohibited from supplying to the firm technical assistance, parts, and aeronautical charts for pilots.¹⁵²

Although China has domestic legal mechanisms in place to support nonproliferation efforts, particularly an export control system, to date Chinese action against proliferating companies and government organizations has been “uneven” and “irregular.”¹⁵³ Thus, the question is whether China’s failure to cease proliferation results from the government’s inability to control actors within the country or from China’s unwillingness to enforce its own laws. It appears that China’s proliferation activities are facilitated by a “general willingness to transfer a wide variety of technologies to customers around the world, including to states of concern, not only Iran and North Korea, but [also] Sudan, Burma, Zimbabwe, Cuba, and Venezuela.”¹⁵⁴ These transfers may alter the balance of power in the regions in which these countries are located, or may be retransferred to non-state actors including terrorists. Assistant Secretary Rodman stated that Chinese leaders now acknowledge the danger of secondary proliferation and the potential for nuclear terrorism,¹⁵⁵ but China’s weapons transfers often occur in concert with Chinese attempts to improve economic and trade relations with certain countries, especially those with significant natural resources. In this respect, China permits its economic objectives and their political implications to trump its nonproliferation commitments.

China’s transfers of militarily-sensitive items, whether conventional arms or related to weapons of mass destruction, may spark regional instability and also harm U.S.-China bilateral relations¹⁵⁶ as the United States responds to proliferation threats around the globe. The propensity of China’s proliferation partners to retransfer items received from China could produce grave repercussions for China—for example, if it were established that a North Korean nuclear bomb traveled through China (as a result of lax customs controls and poor inspection policies) to a rogue nation or terrorist group¹⁵⁷ that detonated it on U.S. territory or that of a U.S. ally, or used the bomb to help it acquire its own nuclear capability.

Also among the consequences of North Korea’s nuclear capability and the possibility Iran also will acquire such capability is the possibility other nations in Asia and the Middle East will initiate efforts to obtain nuclear capability.

This section further examines China’s proliferation record in the context of its proliferation to North Korea and Iran. A more detailed understanding of the political and economic motivations behind the proliferation of weapons and technology can be gained from these two cases, as well as a deeper appreciation for the secondary consequences of such actions. Moreover, these cases will examine the extent to which China can be considered a responsible stakeholder with respect to nonproliferation.

China’s Proliferation to North Korea and Its Role in North Korea’s Nuclear Weapons Development

China has a history of assisting the North Korean regime in the development of weapons programs. As early as 1998, the United States publicly confirmed reports of China’s assistance to North Korea in developing missile capabilities and in supporting the transfer of missile components.¹⁵⁸ As recently as 2004, the Director of Central Intelligence reported that North Korea acquired missile-related assistance from China.¹⁵⁹

China has contributed at least indirectly to North Korea's nuclear weapons program. China was the "principal supplier" to Pakistan's nuclear weapons program, and several links have been identified between North Korea and Pakistan and its nuclear laboratories headed by A.Q. Khan.¹⁶⁰ *The Washington Post* reported in February 2004 that A.Q. Khan sold a nuclear bomb design to Libya that he obtained from China, and this raises concerns that Khan may have sold other Chinese-designed nuclear weapons technology to North Korea.¹⁶¹ In 2003, the Central Intelligence Agency estimated "that North Korea has produced one or two simple fission-type nuclear weapons and has validated the designs without conducting yield-producing nuclear tests."¹⁶² In October 2006, *The Washington Post* cited U.S. intelligence officials who estimated that North Korea might have as many as six nuclear devices, or more.¹⁶³

Since 1994, China has facilitated negotiations involving North Korea, the United States, and other nations concerning North Korea's nuclear program.¹⁶⁴ Princeton University Professor Aaron Friedberg testified that in 2002 China engaged more actively in this process due to the concern that the United States might use force against North Korea.¹⁶⁵ Between August 2003 and September 2005, China hosted four rounds of the Six-Party Talks that have included China, North Korea, South Korea, Japan, Russia, and the United States. During the last round, the parties agreed to a Joint Statement of Principles in which "[t]he [Democratic People's Republic of Korea—or North Korea] committed to abandoning all nuclear weapons and existing nuclear programs and returning, at an early date, to the Treaty on the Non-Proliferation of Nuclear Weapons and International Atomic Energy Agency (IAEA) safeguards."¹⁶⁶ Although the statement did not discuss a concrete timeline for dismantling North Korea's nuclear program and any weapons it had produced, it was widely recognized as a positive step forward in the negotiations, and China was credited with brokering the agreement.¹⁶⁷

Unfortunately, since that last round in September 2005, no progress has occurred with the Six-Party process. The Joint Statement had announced another round of talks to occur in November 2005, but North Korea boycotted the meeting. The reason North Korea gave was that it was protesting the United States freezing North Korean accounts worth \$24 million at the Banco Delta Asia in Macau.¹⁶⁸ The United States froze those accounts after obtaining evidence the bank was involved in laundering money from North Korean illicit trading activities and placing into circulation counterfeit U.S. currency made by North Korea.¹⁶⁹ North Korea refused to resume talks until the United States terminated its action against Banco Delta Asia and the stalemate has continued to the present.

In July 2006, North Korea test-fired seven missiles, including the long-range Taepodong-2 missile with a range estimated to reach the continental United States. After these tests, China and Russia urged the United States and Japan to respond cautiously and, in particular, not to rush to seek sanctions. North Korea threatened "all-out countermeasures" if the U.N. Security Council imposed sanctions.¹⁷⁰ On July 15, 2006, the Security Council passed Resolution 1695 condemning the missile launches; demanding that North Korea suspend all activities related to its ballistic missile program;

and urging North Korea to return to the Six-Party Talks without preconditions.¹⁷¹ The resolution imposed what are considered targeted, punitive sanctions against North Korea, requiring U.N. member states, consistent with their own laws, “to exercise vigilance and prevent missile and missile-related items, materials, goods and technology being transferred to DPRK’s missile or WMD programmes,” and to prevent “the procurement of missiles or missile-related items, materials, goods and technology from the DPRK, and the transfer of any financial resources in relation to DPRK’s missile or WMD programmes.”¹⁷² China voted for the resolution, but only after language imposing the sanctions under the authority of the U.N. Charter¹⁷³—which can be used to require U.N. member nations to institute sanctions and take other steps without regard to their national laws—was deleted from the text.¹⁷⁴

In early October 2006, Pyongyang announced that it had conducted a nuclear test, which was later confirmed by the United States. China has strongly criticized North Korea for conducting the test, and announced that it will support “carefully targeted” sanctions in the United Nations. However, as the Security Council crafted a resolution, China objected to sanction measures proposed by the United States and Japan.¹⁷⁵ After a series of negotiations, Beijing agreed to Resolution 1718, which then was adopted by the Security Council. Among other things, the resolution, under Chapter VII authority (removing discretion for member nations under their own laws), requires U.N. member nations to do the following:

“prevent the direct or indirect supply, sale or transfer to the DPRK, through their territories or by their nationals, or using their flag vessels or aircraft, and whether or not originating in their territories, of:

- (i) Any battle tanks, armoured combat vehicles, large caliber artillery systems, combat aircraft, attack helicopters, warships, missiles or missile systems as defined for the purpose of the United Nations Register on Conventional Arms, or related material including spare parts, or items as determined by the Security Council or the Committee established by paragraph 12 below (the Committee);*
- (ii) All items, materials, equipment, goods and technology as set out in the lists in documents S/2006/814 and S/2006/815 ... as well as other items, materials, equipment, goods and technology, determined by the Security Council or the Committee, which could contribute to DPRK’s nuclear-related, ballistic missile-related or other weapons of mass destruction-related programmes;*
- (iii) Luxury goods.”*

In addition, all Member States shall “freeze immediately the funds, other financial assets and economic resources which are on their territories at the date of the adoption of this resolution or at any time thereafter, that are owned or controlled, directly or indirectly, by the persons or entities designated by the Committee or by the Security Council as being engaged in or providing support for, including through other illicit means, DPRK’s nuclear-related, other

*weapons of mass destruction-related and ballistic missile-related programs—and ensure that any funds, financial assets or economic resources are prevented from being made available by their nationals or by any persons or entities within their territories ...”; and to prevent “illicit trafficking in nuclear, chemical, or biological weapons, their means of delivery and related materials” by taking “cooperative action including through inspection of cargo to and from the DPRK as necessary.”*¹⁷⁶

Despite China’s vote for the resolution (that had been somewhat diluted at its insistence), the United States has concerns about China’s willingness to fully support it and implement all its provisions, particularly the provision for inspection of cargo moving to and from North Korea. China has indicated it will not be involved in interdicting North Korean ships on the open sea, but did agree to inspect cargo passing through its territory.¹⁷⁷ The U.S. Department of State has acknowledged that China has begun inspecting trucks traveling across China’s border to North Korea.¹⁷⁸

In his testimony to the Commission, Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen stated that China’s cooperation with the United States, including China’s hosting of the Six-Party Talks, its brokering of the September 2005 Joint Statements, and its vote in support of Resolution 1695, are positive examples of China becoming a responsible stakeholder.¹⁷⁹ These actions produced a “qualitative and quantitative improvement” in U.S.-China dialogue and collaboration related to North Korea.¹⁸⁰ Yet, Christensen and others agree that China can and should do much more,¹⁸¹ especially as the nuclear crisis continues to unfold. For example, China could suspend its economic aid to North Korea, restrict trade, limit cross-border interactions, and stop illicit activities by North Korea that are conducted through or from China—not to mention it could threaten to cease relations with North Korea.¹⁸²

Of key importance to resolving the North Korean nuclear crisis is an understanding of the different objectives and strategies of each party involved. This analysis will only address the United States and China. In the view of Commission witness Dr. Friedberg, within the Six-Party Talks, the United States has focused on the process of the talks and on China’s participation in the process.¹⁸³ Sitting down at the negotiating table was perceived as an accomplishment. On the other hand, China deflected U.S. attention from the question of whether the process produced results.¹⁸⁴

China’s approach to the Six-Party Talks reflects concerns about the effects of economic and political instability on its border if the North Korean regime falls. Dr. Friedberg testified that since the United States confronted North Korea in October 2002 about its nuclearization activities, China has refused to exert economic pressure on North Korea; instead, it has actually increased its assistance and trade.¹⁸⁵ Beijing has encouraged North Korea to adopt economic reforms modeled on China’s policy of liberalization, in an attempt to integrate North Korea into the regional economy and to promote growth.¹⁸⁶ Thus, as noted by Dr. David Asher, Adjunct Scholar at the Institute for Defense Analyses and former senior ad-

visor to the U.S. State Department for East Asian affairs, "... China apparently believes that it can live with a nuclear-armed North Korea as long as the DPRK maintains its stability and is integrated gradually both economically and politically into the international community."¹⁸⁷ Its priority is to ensure that North Korea remains intact and is governed by a friendly regime.¹⁸⁸

China has improved its relationship with South Korea as a counterbalance to U.S. influence of South Korea's diplomacy and approach to the nuclear crisis.¹⁸⁹ As both China and South Korea place high value on stability on the Korean peninsula, they appear determined to cooperate on a similar approach of "inducements" for North Korea, instead of "punishments."¹⁹⁰

Experts agree that China's primary contribution to the Six-Party Talks has been bringing North Korea to the multilateral negotiating table, rather than producing any concrete movement by North Korea toward halting its nuclear development.¹⁹¹ China remains reluctant to exert any pressure on North Korea that would challenge the stability of the regime. Ultimately, this establishes a contradictory set of objectives to those of the Six-Party Talks and supports maintenance of the status quo.

It has been more than a year since the last session of the Six-Party Talks. Dr. Friedberg warned, "If the present standoff continues, and Pyongyang begins to accumulate a substantial stockpile of fissile material, the danger that it will be tempted to sell or transfer some of it to terrorists or other rogue states is likely to grow."¹⁹² Greatly complicating this picture, and threatening the continuation of efforts to rejuvenate the Six-Party Talks, is the low-yield nuclear test North Korea conducted in early October. As the figurative shock waves are fully felt in the power centers of Asia, one possible result is that other nations will conclude they now must obtain nuclear capability.¹⁹³

In light of these developments, Dr. Asher urged the U.S. government to rethink its strategy for addressing North Korea's nuclearization¹⁹⁴ and the roles it, the other nations that have participated in the Six-Party Talks, and the United Nations can play to mitigate the damage that has been caused already.

China's Proliferation to Iran and Its Role in Iran's Nuclear Weapons Development

China and Iran have had a long relationship. More recently, during the 1990s, in order to meet its domestic reconstruction needs after the Iran-Iraq war and to offset a deficiency in domestic investment, Iran increased oil production to generate export revenues and increase its holdings of foreign reserves. At the same time, China's requirement for imported petroleum was growing substantially (it became a net oil importer in 1993), and China began to explore relationships in the Middle East to enhance its energy security.¹⁹⁵ Dr. Calabrese, of the Middle East Institute claims that the U.S. arms embargo and economic sanctions on Iran following the U.S. Embassy hostage crisis of the late 1970's opened the door for greater Chinese involvement in Iran, because they forced Iran to seek alternative economic partners.¹⁹⁶

A significant aspect of China's current relationship with Iran is its continued support for developing Iran's weapons programs and

capabilities. Ilan Berman, Vice President for Policy at the American Foreign Policy Council, testified before the Commission that the trends in Sino-Iranian relations are toward a growing proliferation partnership and increasing security cooperation.¹⁹⁷

Chinese companies and government organizations continue to assist Iran in creating self-sufficient ballistic missile capabilities. In August 2006, the U.S. Department of the Treasury sanctioned the Great Wall Airlines Company Limited, a cargo airline jointly owned by Chinese and Singaporean firms, for transporting missile-related and dual-use components to Iran's military.¹⁹⁸ Assistant Secretary Rodman also mentioned that "a Chinese firm continued to supply probably MTCR-controlled items and dual-use items to an Iranian missile production organization in late 2005 and 2006 and has prepared other raw materials for shipment to Iran," and that a Chinese "serial proliferator" located in Beijing has supplied materials to Iran's missile industry since at least 2004.¹⁹⁹ China also has delivered missile guidance systems and solid-fuel missile technology to Iran.²⁰⁰

Additionally, China has allowed the transfer of weapons and technology across its territory from North Korea to Iran (and other locations). A Congressional Research Service report on China's proliferation record states that, "[f]rom April to July 2003, China reportedly gave overflight rights to Iranian Il-76 cargo planes that flew to North Korea at least six times to pick up wooden crates suspected of containing cruise missiles."²⁰¹ After U.S. protest in June 2005, China denied over-flight rights for an Iranian plane departing from North Korea.²⁰²

Furthermore, China has supported Iran's development of chemical weapons. On December 23, 2005, the Administration imposed sanctions on the North China Industries Corporation (NORINCO) and five other Chinese companies for missile and chemical weapons proliferation.²⁰³ Despite the sanctions, Mr. Berman testified that Chinese firms remain actively engaged in transferring dual-use items that could be used to develop a chemical weapons stockpile.²⁰⁴

A primary concern for U.S. security is that these transferred items and technology will in turn be transferred outside Iran to its proxy groups or to other rogue nations. Even if it desired to assert such control, it would be very difficult for China to control such third party transfers. The consequences of such transfers could seriously damage Chinese and American interests in the Middle East by threatening regional security. For example, Assistant Secretary Rodman confirmed that during July 2006, Hezbollah used Chinese-designed C-802 "SILKWORM" anti-ship cruise missiles,²⁰⁵ which Mr. Berman testified the Israeli government had no knowledge Hezbollah possessed,²⁰⁶ to attack an Israeli naval vessel. In this way, China's transfer of these missiles to Iran played a role in the conflict between Israel and Hezbollah.

Although China's missile sale was a conventional weapons transfer, the willingness of Iran to retransfer these items to a terrorist organization heightens U.S. concerns over China's willingness to provide arms to Iran. Not only could terrorist organizations use Chinese arms obtained from Iran to disrupt the region, but Iran itself could use Chinese arms against U.S. troops or our allies in the region.

Additionally, Dr. Ehsan Ahrari of Strategic Paradigms Consultancy testified that China's transfer of military items and technologies to Iran may affect U.S. relations with Taiwan. He argued that Beijing uses its transfers as leverage in negotiating with the United States concerning U.S. military transfers to and other support for Taiwan.²⁰⁷

While China suspended the sale of nuclear reactors to Iran and in 1997 secretly promised not to aid Iran's nuclear program, Director of Central Intelligence George Tenet said in 2003 testimony to Congress that Chinese firms might be involved with Iran's nuclear program; this statement was reaffirmed in 2004 by the Director of the Defense Intelligence Agency.²⁰⁸ Although China's missile proliferation to Iran has flourished, Assistant Secretary DeSutter noted in 2006 that China's nuclear activities with Iran have waned in response to the international attention paid to Iran's nuclear program.²⁰⁹ Despite the lack of evidence of direct transfers, some experts believe that China continues to support Iran's technological advancements and training of nuclear physicists.²¹⁰

In 2004, the International Atomic Energy Agency (IAEA) reported that Iran failed to disclose its nuclear programs and also failed to meet its obligations under its safeguards agreement.²¹¹ China wanted to resolve this issue within the IAEA and resisted referring the Iran case to the U.N. Security Council. It maintained this position even after it voted in February 2006 to support a resolution reporting Iran to the Security Council. In May, after China and Russia blocked a Security Council resolution under Chapter VII of the U.N. Charter, which could have authorized U.N. economic sanctions against Iran, the United States agreed to support a new diplomatic effort.²¹² This resulted in a presentation to Iran in June by the United States, the other permanent members of the Security Council, and Germany of a package of incentives to end its uranium enrichment program and allow IAEA inspections.²¹³ Iran announced that it would review the offer and respond in late August.

On August 1, with China voting in favor, the U.N. Security Council passed Resolution 1696,²¹⁴ demanding that Iran suspend enrichment activities and implement IAEA transparency measures; endorsing proposals by China and others for a "long-term comprehensive arrangement" intended to restore confidence in Iran's peaceful nuclear program; and expressing the intent of the Security Council to take additional measures if Iran does not comply with the resolution.²¹⁵ Although, on first impression, China's vote in favor of this resolution may seem inconsistent with its past positions concerning nuclear activity by both Iran and North Korea, in fact it is very much in character: typically China will endorse, or at least will not impede approval of, multilateral statements condemning internal actions of another country, but will not support the imposition of sanctions on the country. China has worked consistently to prevent multilateral sanctions against Iran because of its belief that sanctions violate state sovereignty.²¹⁶

Prior to the August 31 deadline set by the Security Council, Iran denounced the demands to abandon its nuclear work. China responded by reiterating both its desire for Iran to halt its program and its opposition to sanctions, saying, "China has always believed

that seeking a peaceful resolution to the Iranian nuclear issue through diplomatic talks is the best choice and in the interests of all parties concerned.”²¹⁷ Regardless of China’s support for Security Council Resolution 1696, Assistant Secretary Rodman concluded that China and Russia both have failed to “back up this vote with action.”²¹⁸

Mr. Berman testified that China’s obstructionism and moral support for the Iranian nuclear program have created “international deadlock” and allowed Iran to continue development of its nuclear capability.²¹⁹ Also China’s willingness to provide materials and technical assistance without political constraints and preconditions²²⁰ strengthens relations between the two countries and lends support to the argument that another significant motivation for Iran’s relationship with China is to diminish U.S. primacy in the Middle East and elsewhere.

On the other hand, China’s relations with Iran primarily are driven by its need for oil,²²¹ and concern that Iran could deny China access to oil there. (See this Report’s section on China’s energy activities [Chapter 2, Section 3] for more information on Sino-Iranian energy cooperation.) China does not perceive the possible development of Iranian hegemony in the Middle East as a significant threat as long as its ability to obtain petroleum from Iran remains stable.²²² Moreover, Mr. Berman testified that Iran’s nuclearization likely will instigate a new arms race in the region. China stands to benefit materially from purveying arms to the nations caught in such a race, especially if Saudi Arabia modernizes its ballistic missile arsenal; this may further impede efforts to enlist effective Chinese participation in multilateral efforts to slow or stop Iran’s nuclear development.²²³

As a result of the link between China’s economic diplomacy toward Iran and its political opposition to international efforts to limit Iran’s nuclear weapons development, the United States cannot rely on China to play a constructive role in the resolution of this crisis, especially if that resolution involves imposing sanctions on Iran.²²⁴

Mr. Berman concluded that China’s support of Iran is logical.²²⁵ He believes that China’s objectives in supporting Iran parallel U.S. objectives in supporting Saudi Arabia,²²⁶ in that the vital role Iran plays in helping to meet China’s energy needs takes precedence over China’s concerns and considerations in other areas.

Assistant Secretary DeSutter concluded that sanctions applied to Iran with the support of China and Russia are likely to produce the most desirable outcome to the Iran nuclear crisis.²²⁷ Moreover, Mr. Berman maintained that if the United States wants China to cooperate in approving and implementing multilateral sanctions, U.S. policy should “be aimed at providing the Chinese government with the proper information about the scope and maturity of the Iranian threat.”²²⁸ The United States should be demonstrating how Chinese interests will be severely damaged if China is not involved actively in sculpting a peaceful resolution to this crisis,²²⁹ and spelling out to Chinese officials how other options for pressuring Iran to stop its nuclearization would be more invasive and destructive to Iran’s economy,²³⁰ and potentially to China’s investments in Iran.

Becoming a Responsible Stakeholder in Nonproliferation

China has a history of proliferation, but since 1991 has made numerous nonproliferation commitments both in the form of multilateral agreements and in the form of domestic policies and laws.²³¹ Yet, despite China's enactment of export control laws and other domestic nonproliferation laws and requirements, and its accession to several multilateral nonproliferation treaties and regimes, China's proliferation activities continue to raise concerns, especially when they violate China's international agreements. China's laxity in this respect does not adequately support international peace and stability, diplomatic resolutions to proliferation challenges, or the improvement of U.S.-China relations.

The Commission believes that responsible stakeholders effectively participate in international efforts to prevent proliferation; ensure they are not themselves proliferation sources or being used as proliferation conduits; and honor the commitments they have made to multilateral nonproliferation treaties and regimes, agencies, and efforts.

The Commission believes that for a nation to combat proliferation activities effectively, it must establish strong export control and transit control laws and regulations;²³² ensure that manufacturers and merchants know and understand those laws and regulations; and impartially and consistently enforce those laws and regulations. China's record in this respect reveals many gaps and lapses, and these need to be called more forcefully to China's attention. Some of these are attributable to weak or ambiguous laws or regulations; some are attributable to weak support by the central government, sending the signal that violations may not be seen as serious infractions; some are attributable to insufficient penalties for violations, which proliferators simply accept as "a cost of doing business;" and some are attributable to inadequate commitment to enforce laws and regulations, including insufficient dedication of resources to border control and other enforcement efforts.

Assistant Secretary of State DeSutter stated that the role of the United States and its friends and allies is to monitor "the will of the Chinese government to take the concrete steps necessary to implement [its] regulations clearly and fully, with vigor and transparency."²³³ Deputy Assistant Secretary of State Christensen noted in his testimony that the United States needs to refer to China's own legal requirements to identify enforcement lapses.²³⁴ Additionally, Assistant Secretary of Defense Rodman asserted that China's domestic nonproliferation efforts should focus on tightening export control regulations to eliminate ambiguities, addressing deficiencies in criteria for licensing, improving mechanisms for identifying potential export control violators, and developing procedures for enforcing border controls.²³⁵ In this regard, China needs competent technical assistance in establishing and operating an export control system that meets international standards.

In addition to adhering to internationally-accepted rules and standards, responsible leading nations also must act to enforce those rules and norms when other states fail to comply.²³⁶ If it is to secure recognition as a responsible stakeholder, China not only must demonstrate its adherence to its international nonproliferation agreements and its own laws and regulations, it also must

align its interests with those of the international community and work constructively as a member of that community to obtain compliance with the community's standards and objectives rather than pursuing only China's unilateral advantage.²³⁷ China's actions to date with regard to the North Korean and Iranian nuclear crises suggest that it has not reoriented its policies or objectives in this way.

China has taken some favorable steps. In 2004 China joined the Nuclear Suppliers Group (NSG),²³⁸ a multilateral nonproliferation/export control regime. China also has supported U.N. Security Council Resolutions 1540, 1695, and 1696,²³⁹ all of which affirm the necessity of international cooperation to curb proliferation. However, China has continued to resist imposing sanctions on either Iran or North Korea for their nuclear proliferation activities (although after North Korea's October 2006 nuclear test China supported "carefully targeted" sanctions on North Korea). But to date, China has not effectively leveraged its position of power and influence with either nation to obtain a suitable resolution to those two crises. Further, China so far has been unwilling to join or participate in the multilateral Proliferation Security Initiative²⁴⁰ intended to strengthen efforts to prohibit and prevent the international transfer of banned weapons and technology.