

**CHAPTER 2**  
**CHINA'S ACTIVITIES DIRECTLY**  
**AFFECTING U.S. SECURITY INTERESTS**  
**SECTION 1: CHINA'S PROLIFERATION**  
**POLICIES AND PRACTICES**

“The Commission shall investigate and report exclusively on—  
...  
“PROLIFERATION PRACTICES—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 action the United States might take to encourage the People’s Republic of China to cease such practices. ...  
“REGIONAL ECONOMIC AND SECURITY IMPACTS—The triangular economic and security relationship among the United States, [Taiwan], and the People’s Republic of China (including the military modernization and force deployments of the People’s Republic of China aimed at [Taiwan]), the national budget of the People’s Republic of China, and the fiscal strength of the People’s Republic of China in relation to internal instability in the People’s Republic of China and the likelihood of the externalization of problems arising from such internal instability. ...”

**Introduction**

Witnesses testifying at the Commission’s May 2008 hearing to examine China’s nonproliferation policies and its proliferation practices told the Commission that China has made progress in developing and refining a nonproliferation policy and establishing mechanisms such as an export control system to implement that policy. Some Chinese companies show evidence they are seeking to change their objectionable behavior, and the government of the People’s Republic of China (PRC) has taken steps to increase its capacity to control the flow of weapons and technology to external customers. However, problems remain in the effectiveness of China’s export control enforcement, in the continuing proliferation behavior of some Chinese companies, and in China’s actions that weaken international efforts to prevent the spread of nuclear weapons to non-nuclear states, particularly Iran. Some of China’s actions, or its failures to act, have directly affected U.S. security in Asia and the Middle East as well as the international security environment.

While witnesses concluded that China's behavior, compared to several years ago, has improved, they also expressed the judgment that China still has a distance to travel in demonstrating its full commitment to preventing the spread of weapons of mass destruction (WMD), WMD delivery systems, and the technologies that support them. Furthermore, it remains important for the United States to engage with China on this issue and, in some cases, to use diplomacy to encourage China to improve its behavior. This section of the Report addresses the proliferation of WMD, their delivery systems, and related technologies. It does not address China's conventional arms sales.

### **China's Nonproliferation Policy and Multilateral Nonproliferation Commitments**

Since the 1990s, the government of the PRC has been criticized for its proliferation of weapons of mass destruction, missiles, and WMD and missile technology. This Commission annually has held a hearing on this issue and since 2001 has observed a gradual improvement in the PRC's nonproliferation behavior. Principal Deputy Assistant Secretary of State for International Security and Nonproliferation Patricia McNerney acknowledged that this change has occurred in part because, "[t]he Government of China has come to recognize that it has a fundamental security interest in becoming a responsible nonproliferation partner."<sup>1</sup>

China's approach to nonproliferation is expressed in its government white paper on nonproliferation, published in 2005, which states,

*International arms control, disarmament and non-proliferation are closely linked with international security. . . . Currently, the international process of arms control, disarmament and non-proliferation is at a crucial crossroad. It is an absolute necessity for the maintenance of international peace, security and stability to seize fresh opportunities, meet new challenges and consolidate and constantly strengthen the existing international regime on arms control, disarmament and non-proliferation.*<sup>2</sup>

In that paper, China's government outlines its priorities to, first, guard national sovereignty and security and, second, enhance global stability. In addition, China proclaims a no-first-use policy with regard to its nuclear weapons, and a commitment not to use or threaten to use nuclear weapons against nonnuclear weapons states or nuclear-weapon-free zones.<sup>3</sup> This position was further clarified in China's defense white paper in 2006.<sup>4</sup>

As an indication of its commitment, China has signed a number of international nonproliferation agreements or instruments. Doing so has entailed acceptance of obligations to prohibit use of nuclear, biological, and chemical weapons and limit the export of materials that could be used to develop nuclear weapons. China also is a partner in the U.S.-led Container Security Initiative (CSI) that seeks to prevent shipment, especially to the United States, in shipping containers of weapons, especially WMD. Below is a summary of existing nonproliferation regimes and China's participation in them—broken into two tables: those regimes and agreements in

which the Chinese government is a participant, and those in which it does not participate.

### China's Nonproliferation Commitments

<b>Nonproliferation Regime</b>	<b>Description</b>	<b>China's Response</b>
Biological Weapons Convention (BWC)	Outlaws the production, development, storage and use of biological weapons.	China acceded to the BWC in 1984.
Chemical Weapons Convention (CWC)	Outlaws the production, storage, and use of chemical weapons.	China signed the CWC in 1993 and ratified it in 1997.
Nuclear Nonproliferation Treaty (NPT)	The five original nuclear states (France, China, USSR (now Russia), the United Kingdom, and the United States) agree not to use nuclear weapons against nonnuclear states except in response to a nuclear attack, and to prevent the transfer of nuclear weapons to nonnuclear 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.
Zangger Committee	Provides for maintenance of a list of equipment that may be exported by members only to facilities that have nuclear safeguards in place, and fosters coordination among states for the export of nuclear materials.	China joined the Zangger Committee in 1997.
Nuclear Suppliers Group (NSG)	Controls the export of materials that may be used for nuclear weapons development.	China joined the NSG in May 2004.
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." <sup>5</sup>	China signed the CTBT in September 1996 but has not ratified the treaty. (The United States is a signatory but also has not ratified the treaty).

### China's Nonproliferation Commitments—Continued

Nonproliferation Regime	Description	China's Response
Container Security Initiative (CSI)	Establishes port security programs with cooperating countries to identify and screen suspect cargo containers destined for the United States in order to prevent these containers from being used by terrorists to deliver weapons, especially WMD, to the United States.	Two ports in China, Shanghai and Shenzhen and also the port of Hong Kong, participate in the CSI.

### Major International Nonproliferation Efforts in which China Is Not a Participant

Nonproliferation Regime	Description	China's Response
Missile Technology Control Regime (MCTR)	Provides a "set of voluntary guidelines . . . 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 miles)." <sup>6</sup>	China affirmed its commitment to the MCTR with an October 1994 joint statement with the United States. China is not yet a member but applied for membership in 2004. <sup>7</sup>
Australia Group	Enables participating members to harmonize their export control regimes to "ensure that exports of certain chemicals, biological agents, and dual-use chemical and biological manufacturing facilities and equipment, do not contribute to the spread of [chemical and biological weapons]." <sup>8</sup>	China is not a member.
Proliferation Security Initiative (PSI)	Members cooperate to interdict and inspect any ship, aircraft, or vehicle suspected of transporting WMD or related goods.	China has not joined, voicing concerns about PSI's legality.

**Major International Nonproliferation Efforts in which  
China Is Not a Participant—Continued**

Nonproliferation Regime	Description	China's Response
International Code of Conduct Against Ballistic Missile Proliferation	This code is intended to supplement the MTCR but is not restricted to MTCR members. States commit to ending the proliferation of WMD-capable ballistic missiles, to exercise restraint in developing and testing such technology, and to participate in transparency measures such as annual declarations of missile and space launch programs. <sup>9</sup>	China has not joined.
Wassenaar Arrangement	Establishes lists of dual-use goods and technologies and conventional arms for which members are to develop export controls in order to promote transparency and greater responsibility in international transfers of such arms, goods, and technologies. <sup>10</sup>	China is not a member.

China is not a member of the Australia Group, the Missile Technology Control Regime (although it applied for MTCR membership in 2004), the International Code of Conduct Against Ballistic Missile Proliferation, and the Wassenaar Arrangement.<sup>11</sup> Principal Deputy Assistant Secretary McNerney noted that, while China is not a member of the Australia Group, it has adopted export control lists similar to those recommended by the regime; China is negotiating with the group regarding membership.<sup>12</sup> China still has not joined the Proliferation Security Initiative (PSI) five years after its inception. The PSI is a U.S.-led effort to obtain multilateral cooperation in interdicting WMD, their delivery systems, and related technologies, when those are being shipped in international waters or across land borders.<sup>13</sup> In certain instances, in response to U.S. requests, China has cooperated in some weapons or weapons materiel interdiction activities.<sup>14</sup> The *New York Times* reported in 2006 that China denied Iran the right to fly over its territory with a military aircraft on its way to North Korea to acquire missile parts, but the Chinese government has not confirmed this incident.<sup>15</sup>

To justify its decision not to participate in the PSI, the PRC government has stated its concern that the interdiction activities of the PSI might “go beyond the [sic] international law” and thereby violate the sovereignty of some nations.<sup>16</sup> The reluctance of China’s foreign affairs and defense community to participate may relate to China’s experience with the U.S. Navy and the Department of

State during the interdiction of a Chinese ship, the *Yinhe*, in 1993.<sup>17</sup> In a text written for the People's Liberation Army (PLA) National Defense University titled *On Maritime National Interest*, a PLA senior colonel protests about China's "embarrassment at the hands of the United States" during the *Yinhe* Incident. According to Wang Lidong, the boarding and searching of a Chinese ship by the U.S. Navy, even after the PRC Foreign Ministry officially denied to the United States that the *Yinhe* carried chemical weapons precursors, is "an example of [American] imperialism and power politics."<sup>18</sup> Wang, in a text used to train senior PLA officers about how to achieve flag rank, writes that the U.S.' actions indicate that at that time China did not have the capacity to protect its own maritime interests. As a result, he supports the development of a stronger Chinese navy able to protect those interests. If this attitude represents the dominant opinion in the PLA and the Central Military Commission, it is unlikely that China will choose to cooperate in the PSI, which involves the interdiction and inspection of ships and aircraft of sovereign states.

### **China's Nonproliferation Activities and Proliferation Practices**

#### ***Positive Developments in China's Nonproliferation Activities***

In addition to the international commitments it has made, China has taken other positive steps to strengthen its record on non-proliferation, most notably supporting several United Nations (UN) Security Council resolutions addressing Iran's and North Korea's nuclear programs, including resolutions imposing multilateral sanctions to pressure Iran to end its nuclear enrichment. However, the Commission notes that despite China's votes in favor of these resolutions, on several occasions prior to the votes China negotiated with other Security Council members to delay or water down their terms and to weaken the impact of the sanctions the resolutions imposed.<sup>19</sup>

Principal Deputy Assistant Secretary McNerney highlighted China's votes to support UN Security Council resolutions 1696, 1737, 1747, and 1803. Resolution 1737 required Iran to suspend uranium enrichment, imposed sanctions on nations transferring nuclear or missile technology to Iran, and froze assets outside Iran of key individuals related to its nuclear program.<sup>20</sup> Resolution 1747 prohibits member states from selling or transferring major weapon systems to Iran.

Resolution 1803, passed in March 2008, calls on member states to restrict entry or transit of individuals linked to Iran's nuclear activities and to "[avoid] financial support for trade with Iran ... contributing to proliferation of sensitive nuclear activities, or to the development of nuclear weapon delivery systems. ..."<sup>21</sup> The resolution also calls upon states to inspect air or ship cargos to and from Iran if there are reasonable grounds to suspect the shipments violate any of the resolutions.<sup>22</sup> Principal Deputy Assistant Secretary McNerney testified, "As a member of the P5 + 1 [United States, China, France, Germany, Russia, United Kingdom], China has reiterated that, should Iran continue to refuse verification and compliance negotiations, additional sanctions will be necessary to aug-

ment those already in place.”<sup>23</sup> Most recently, in July the United States, China, France, Germany, Russia, and the United Kingdom offered to Iran a package of incentives to halt its uranium enrichment that included formal negotiations regarding support to its civilian nuclear program.<sup>24</sup> Iran rejected the package and at the time this Report was completed, China is blocking talks about imposing new sanctions on Iran.<sup>25</sup>

In addition to supporting the multilateral steps noted above to induce Iran to halt its nuclear activities, China has played an important role as a member of the Six-Party Talks seeking to obtain North Korea’s agreement to dismantle its nuclear weapons and disable its nuclear production capabilities. Following North Korea’s missile tests in July 2006 and its test of a nuclear device in October 2006, China supported UN Security Council resolutions 1695 and 1718. In addition, it hosted the Six-Party Talks involving the United States, Japan, South Korea, Russia, and North Korea.<sup>26</sup>

The Commission’s 2007 Report to Congress acknowledged the February 2007 Initial Actions Agreement to fulfill the September 2005 agreement to denuclearize the Korean Peninsula and disable all existing nuclear facilities. Following this agreement, the parties agreed to a Second-Phase Actions Agreement in October 2007. According to Principal Deputy Assistant Secretary McNerney, China played a “constructive role” in hosting the Six-Party Talks and in creating and implementing both the Initial Actions Agreement and the Second-Phase Actions Agreement.<sup>27</sup> In a June 2008 speech at The Heritage Foundation on U.S. policy toward Asia, Secretary of State Condoleezza Rice stated, “Our decision to support China as the Chair of the [Six-Party Talks] has . . . been a strong incentive for Beijing to conduct itself responsibly on the North Korean issue.”<sup>28</sup>

In June 2008, North Korea submitted a declaration of its nuclear weapons activities.<sup>29</sup> China hosted the following round of Six-Party Talks, and the parties still are discussing a set of principles and steps for the verification process.<sup>30</sup> In August 2008, North Korea announced that it had halted the dismantlement of the Yongbyon reactor to protest that the United States had not yet removed it from a list of state sponsors of terrorism.<sup>31</sup> In October 2008, the United States removed the country from that list, and North Korea subsequently ended a two-month suspension of its implementation of the Six-Party Talks agreement and resumed dismantling the Yongbyon reactor.<sup>32</sup>

Another positive development in China’s support for non-proliferation efforts has been the strengthening of its own export control system. In her testimony, Principal Deputy Assistant Secretary McNerney commended China for approving new laws and regulations to establish comprehensive domestic export control regulations based on its international commitments.<sup>33</sup> China has indicated a willingness to engage in export control cooperation with the United States, including receiving U.S. technical assistance regarding administration of export control programs and training of China’s export control officials.<sup>34</sup> Such training and education are occurring through several cooperative efforts, including those under the auspices of the State Department, American universities, and U.S. national laboratories. For example, in June 2007, the Pacific

Northwest National Laboratory's Center for Global Security announced a partnership with Fudan University in Shanghai to incorporate export control education in the university curriculum.<sup>35</sup>

***Continuing Concerns about China's Proliferation Practices***

Despite the described progress that China has made in recent years in enhancing its involvement in nonproliferation activities and reducing the frequency and severity of its proliferation actions, real concerns remain about China's proliferation of prohibited weapons and technology and its failure to engage effectively in multilateral nonproliferation efforts. The concerns primarily relate to China's continued transfer of weapons and technology, its participation in the nonproliferation negotiations with Iran and North Korea, and the expansion of China's nuclear energy program and nuclear energy exports.

*Continued WMD and advanced conventional weapons transfers by Chinese trading companies*

Witnesses testified that some Chinese enterprises still are involved in various kinds of proliferation, and Principal Deputy Assistant Secretary McNerney stated, "... a number of Chinese entities continue to supply items and technologies useful in weapons of mass destruction, their means of delivery, and advanced conventional weapons to regimes of concern."<sup>36</sup> Henry Sokolski, executive director of the Nonproliferation Policy Education Center, told the Commission that Chinese companies are "getting smarter." They are not taking overt actions that would attract attention but are engaging in activities that are more covert such as the use of front companies to conceal parent company transactions.<sup>37</sup> Shirley A. Kan, an analyst at the Congressional Research Service and an expert on Chinese security affairs, writes, "PRC weapons proliferation has persisted, aggravating trends that result in more ambiguous technical assistance (vs. transfers of hardware), longer range missiles, more indigenous capabilities, and secondary (i.e., retransferred) proliferation."<sup>38</sup>

The extent to which Chinese government officials are aware of, and possibly approve of, these continued actions is a debated topic. Principal Deputy Assistant Secretary McNerney asserted that China's export control enforcement efforts lack transparency, which complicates assessment of the government's knowledge or control of the proliferating activities of Chinese companies. She stated that in some cases, even when the United States alerts the Chinese government that specific sales may result in the illegitimate end-use of weapons or technology, the trade deals continue—with Iran, for example. She elaborated, saying,

*A lot of times the Iranian entities, for example, will mask who they are when they approach these Chinese companies. Iranian entities will present different front names and will look like a legitimate transaction. But some Chinese companies continue to engage in prohibited sales with Iranian front companies even after being made aware of some of this information. That's when you know it's a willful ignorance in terms of what the end-use is.<sup>39</sup>*

She also noted that the Chinese government approaches alleged cases of proliferation differently than the United States, preferring to address the issue privately to avoid embarrassment.

Stephen Rademaker, a government affairs and strategic consultant who previously headed the State Department's bureaus of Arms Control and of International Security and Nonproliferation when he served as an assistant secretary of State, testified that when he worked with China on these issues he witnessed a disconnect between the Ministry of Foreign Affairs, with which the State Department primarily interacts, and other bureaucratic factions in the Chinese government. With some companies, such as China North Industries Corporation (NORINCO), Zibo Chemet Equipment Company, China National Precision Machinery Import/Export Corporation (CPMIEC), China Great Wall Industries Corporation (CGWIC), and Xinshidai—companies that the U.S. government has identified as “serial proliferators”<sup>40</sup>—progress on curbing proliferation was much more difficult to attain. Mr. Rademaker concluded,

*Whatever the reason, it appeared to me that stopping the proliferation activities of these companies was beyond the bureaucratic power of our counterparts in the Foreign Ministry. . . . [B]y the time I left the State Department I had come to the conclusion that the problem with the serial proliferators was not that our nonproliferation counterparts within the Chinese government were uninterested in reining in these companies, but rather that they were unable to do so.<sup>41</sup>*

Principal Deputy Assistant Secretary McNerney expressed the view that resolving this problem will require China to devote greater resources to enforcing its export control laws and to investigate and prosecute violators.<sup>42</sup> Above all, she noted that greater transparency in China's enforcement actions would demonstrate to the Chinese people and to Chinese trading companies the government's determination to control proliferation originating in China. Furthermore, it would demonstrate to the United States China's commitment to address enforcement problems.

*China's failure to participate or engage sufficiently in key multilateral nonproliferation and counterproliferation efforts*

In some cases, China's involvement in multilateral efforts to prevent the spread of WMD, WMD technology, and delivery systems is disappointing. In the UN Security Council, China's efforts to dilute resolutions aimed at curbing development of Iran's and North Korea's nuclear programs and its weak implementation of those resolutions have hindered progress in negotiating with these two countries.

In the case of Iran, a Center for Strategic and International Studies report entitled *The Vital Triangle: China, the United States, and the Middle East* by Jon B. Alterman and John W. Garver concluded, “In its handling of the Iranian nuclear issue, Beijing sought to prevent the United States from using the United Nations to implement strong economic sanctions or to justify military action against Iran.” Throughout the development of recent

UN Security Council resolutions targeting Iran's nuclear program, "China worked to limit and water down sanctions."<sup>43</sup> One news media reporter concluded that China is withholding its support for political and economic reasons: to display its influence in regional politics, to limit U.S. influence in the Middle East, and also to protect its economic investments primarily in Iran's oil and gas sector.<sup>44</sup>

Then-Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen testified to the Commission that China's December 2007 \$2 billion deal with Iran to explore the Yadavaran oil field "... sends a very wrong signal to the Iranian regime at a time when other oil companies are heeding their governments' wishes to forgo investments in Iran in order to press the regime to comply with [UN Security Council] resolutions and its obligations to the International Atomic Energy Agency [IAEA]."<sup>45</sup> UN Resolution 1803 was passed with China's support just three months after China inked the deal with Iran. The resolution calls on states to prevent public financing of new investments in Iran if revenues can support the development of Iran's nuclear program. As the Commission reads that resolution, at least the spirit, if not the letter, of the resolution is contravened by this financial engagement.

Dr. Alterman and Dr. Garver argue that China has shown restraint in pursuing energy cooperation with Iran so as not to provoke the United States, but they indicate that, ultimately, "China recognizes Iran as a durable and like-minded major regional power with which cooperation has [served] and will serve China's interests in many areas. For this reason, Beijing is especially loath to sacrifice Iran to Sino-U.S. cooperation"<sup>46</sup> and therefore will continue hesitating to use its influence to press Iran to agree to a diplomatic resolution to the Iranian nuclear challenge.

While the responsibility to comply with the UN Security Council and IAEA lies with Iran, both China and Russia have hampered U.S. and European Union efforts to persuade Iran to halt its nuclear program development.<sup>47</sup> According to multiple witnesses, because China is unwilling to support serious action against Iran, the effect of the sanctions now in place has not been as strong as it was intended to be, and China will protect Iran against harsher sanctions.<sup>48</sup>

Transfer of dual-use technologies by Chinese entities that may assist Iran's nuclear program is an issue of urgent concern.<sup>49</sup> Reuters quoted U.S. officials as saying that in early 2007, a Chinese company attempted to transfer to Iran chemicals used in the production of solid fuel for ballistic missiles but Singapore, working with U.S. intelligence agencies, intercepted the transfer.<sup>50</sup>

While China's recent role in the Six-Party Talks has been perceived as largely positive, Principal Deputy Assistant Secretary McNerney testified that China could do more. She stated, "China has made it clear that it does not condone Pyongyang's nuclear aspirations but admittedly has not actively cooperated to ensure closure of North Korean front companies inside China that facilitate proliferation or the Chinese companies that supply them."<sup>51</sup> These actions do not strengthen the multilateral negotiations and, in fact, have the potential to place China at odds with the other five par-

ties involved in the Six-Party Talks. For subsequent rounds of the Six-Party process, she noted, “[a]s we work to ensure that North Korea honors its commitments, continued Chinese support is pivotal in maintaining a united front.”<sup>52</sup>

*China’s nuclear energy program*

China’s decision to export nuclear energy technology and to provide assistance to other nations to develop nuclear energy capabilities has generated concerns because of the potential for proliferation of nuclear weapons and technology to result from these activities.<sup>53</sup> Pakistan intends to import Chinese-designed pressurized heavy water reactors, systems that Mr. Sokolski noted could be easily adapted to produce plutonium for nuclear weapons.<sup>54</sup> In October 2008, China and Pakistan concluded an agreement for China to supply two new nuclear reactors to be added to an existing power plant in Chashma in central Pakistan.<sup>55</sup> In the months prior to this agreement, Principal Deputy Assistant Secretary McNerney testified before the Commission that this partnership is an area of potential concern. Alluding to past proliferation that resulted from Sino-Pakistani nuclear cooperation, she stated, “. . . we continue to watch [this] closely to ensure both that China abides by its commitments to the [Nuclear Suppliers Group] and . . . that ongoing Chinese cooperation with Pakistan does not support Pakistan’s unsafeguarded nuclear weapons program.”<sup>56</sup> China also has extended offers of nuclear energy cooperation to Egypt and India.<sup>57</sup>

Domestically, China plans to expand its nuclear energy capabilities to supply 4 percent of its total energy needs by 2020 and to generate 20 percent of its electricity by 2030.<sup>58</sup> To accomplish this goal, China plans to build at least 160,000 megawatts of nuclear power by 2030. China has signed several agreements for the construction of new nuclear energy plants, including an agreement with Westinghouse to build four AP1000 nuclear reactors.<sup>59</sup>

Specifically referring to the Westinghouse sale, Stephen Mladineo, senior program manager at the Pacific Northwest National Laboratory, testified that the national security implications are negligible. The AP1000 reactor technology and design will not substantially aid China’s nuclear weapons program or naval nuclear program without the substantial reengineering of components. Furthermore, he noted that the sale provides substantial economic benefits for the United States.

In a paper they coauthored, Mr. Mladineo and Charles Ferguson concluded that these transfers could stimulate further growth in China’s uranium enrichment program. Mr. Ferguson commented that “. . . while the recent nuclear deal with China does not directly lead to an increased Chinese nuclear weapons capability, it could partially and intentionally offer China the means to boost that capability depending on political and strategic dynamics in the future.”<sup>60</sup> However, in his testimony, Mr. Mladineo stated that even with this increase in enrichment capacity, it is unlikely China will develop its nuclear weapons arsenal to parity with the United States or Russia.<sup>61</sup>

Regarding the nuclear balance in Asia, Mr. Sokolski noted that China currently is investing in the modernization of its existing strategic nuclear forces, and if it increases its nuclear weapons de-

ployment, this change would influence the nuclear weapons ambitions of East Asia, South Asia, and existing nuclear weapons states—thus fueling nuclear proliferation without actually transferring weapons or technology. Fear of China's arsenal could motivate Beijing's immediate neighbors, including Japan and Taiwan, to initiate nuclear weapons programs. He stated that if China were to agree to cap its production of fissile material and use it only for its civilian nuclear energy program, this could reassure China's neighbors that it intends to contain its nuclear weapons ambitions.<sup>62</sup>

### **Impacts on U.S. Security**

Recent developments in China's nonproliferation efforts—both positive and negative—have a direct impact on U.S. national security. For example, improved export control regulations in China provide the foundation for reducing the illicit transfer of weapons and technology to rogue states and nonstate actors who seek to injure the United States. U.S.-China cooperation regarding the U.S.-led Container Security Initiative is helping to prevent the transport of WMD or weapons of mass effect (WME) into the United States.<sup>63</sup> The Chinese ports of Shanghai and Shenzhen participate in this initiative, as does Hong Kong. Ports selected for this program have a high volume of trade with the United States and, overall, the 58 ports participating in the Container Security Initiative ship approximately 86 percent of all maritime containerized cargo imported into the United States.<sup>64</sup> Greater vigilance over the mechanisms by which weapons and technology are transferred can improve the overall security environment and will benefit the United States, along with other nations.

China's support for the Six-Party Talks also illustrates that U.S.-China cooperation on nonproliferation goals may produce positive results for U.S. security. As countries including the United States worked bilaterally with North Korea on the sidelines to address outstanding issues with North Korea, they collectively used their leverage to push forward the process which, so far, has resulted in North Korea submitting a declaration of its nuclear activities. Secretary Rice noted in her June 2008 speech at The Heritage Foundation that this process, after North Korea's complete denuclearization, could offer a platform for all the parties involved to continue their engagement on security issues in Northeast Asia.<sup>65</sup> In the short term, China's leadership as host for the talks has provided a forum for the parties, including the United States, to come together and continue pressing for North Korea's nuclear disablement and dismantlement of its facilities.

However, China's behavior toward Iran could help to catalyze the very kind of nuclear crisis the Six-Party Talks have tried to defuse. Refusal to help pressure Iran to accept a diplomatic resolution ending its uranium enrichment weakens the efforts of a large contingent of the international community, and Principal Deputy Assistant Secretary McNerney reiterated that the efforts stand a much better chance of success if all major national players remain united in their demands on Iran.<sup>66</sup>

### **U.S. Efforts to Influence Chinese Nonproliferation Behavior**

Given the long-term and far-reaching effects of China's proliferation practices, the United States has an interest in influencing and reinforcing China's commitment to nonproliferation. Currently, the U.S. government engages with China in several different ways to promote positive nonproliferation behavior. Principal Deputy Assistant Secretary McNerney indicated in her testimony that, at times, the U.S. government shares information with the PRC government about proliferation risks emerging from China. This level of cooperation is dependent upon mutual trust, and she noted that at times it is a "challenge" for Chinese authorities to accept U.S. information that a Chinese company is acting in an illegal fashion.<sup>67</sup>

The U.S. government is engaged in training Chinese export licensing and enforcement officials through the Export Control and Related Border Security (EXBS) Program. This interagency program managed by the State Department assists foreign governments in developing effective export control systems.<sup>68</sup> In the past two years, the EXBS program has conducted two training sessions for customs officials in China and has sponsored activities aimed at industry-related export control training. The EXBS program also is coordinating with the International Nuclear Export Controls Program of the Department of Energy's National Nuclear Security Administration to develop technical guides on nuclear and nuclear dual-use materials in China that can be used by export and border control officials to facilitate efforts to prevent export of such materials.<sup>69</sup>

Additional training and education on export controls occurs through university and research center exchanges and dialogues, such as the collaboration between the Center for International Trade and Security at the University of Georgia and China Foreign Affairs University in Beijing and programs through the James Martin Center for Nonproliferation Studies at the Monterey Institute for International Studies.<sup>70</sup> In programs such as these, Chinese officials who work on export control-related issues have the opportunity to engage in dialogue with their U.S. counterparts and also receive training on U.S. export control standards.

While genuine cooperation to prevent proliferation behavior is most desirable, imposition of U.S. sanctions remains an option to deter proliferation. Some sanctions imposed against Chinese companies in 2006 and 2007 remain in effect, but this year sanctions against some companies have been lifted. Sanctions imposed in 2005 under the Iran Nonproliferation Act of 2000 (which now bears the amended title of the Iran, North Korea, and Syria Nonproliferation Act) on the following companies expired at the end of December 2007 and were not renewed: NORINCO; LIMMT Metallurgy and Minerals Company, Ltd.; Ounion (Asia) International Economic and Technical Cooperation, Ltd.; Zibo Chemet Equipment Company; and China Aero-Technology Import and Export Corporation (CATIC). (Of note, some of these companies remain under sanctions under different U.S. laws and regulations.)<sup>71</sup> In addition, on June 19, 2008, the U.S. Treasury Department announced it was lifting sanctions imposed under Executive Order 13382 for assist-

ing Iran's missile program on the China Great Wall Industry Corporation and its U.S. subsidiary.<sup>72</sup> On October 23, 2008, the U.S. State Department announced sanctions against three Chinese companies for violating the Iran, North Korea, and Syria Nonproliferation Act. (See appendix V for a listing of sanctions imposed on Chinese entities since the Commission's 2004 Report and their status.)

Avoiding sanctions is a strong incentive for companies to enforce both national and the companies' internal nonproliferation regulations, according to Principal Deputy Assistant Secretary McNerney. Mr. Rademaker testified, "As far as changing the calculus of Chinese entities ... the record is clear that vigorous enforcement of U.S. sanctions laws and policies can make a big difference."<sup>73</sup> After companies are sanctioned, their international reputations are damaged, and they generally confront a loss of business worldwide, as companies and financial institutions are hesitant to engage with a sanctioned entity.<sup>74</sup> This effect has been enhanced; section 311 of the U.S. Patriot Act as amended in 2006 authorizes the U.S. government to freeze the assets of designated entities for proliferation-related transactions. Mr. Rademaker explained that this authority is powerful—extending to all financial transfers by these entities and not simply to those that were related to proliferation activities.<sup>75</sup> Principal Deputy Assistant Secretary McNerney testified, "We can leverage this desire by Chinese firms to come out from under sanctions and advertise the tangible benefits that can accrue to companies that wish to abandon proliferation."<sup>76</sup>

In fact, it appears this is what happened in the cases of NORINCO and CGWIC. Both companies, identified as serial proliferators for their past activities, have approached the U.S. State Department to discuss how to prevent future sanctions. The State Department told them that if they cease proliferation-related activities, their improved behavior would be recognized by the United States. Principal Deputy Assistant Secretary McNerney further explained, "A commitment to end their proliferation-related activity, and concrete, positive action towards this end, would likewise increase prospects that Western companies and international financial institutions would have no concerns in developing broad economic and trade ties with these Chinese companies."<sup>77</sup> While noting it is still early to evaluate whether these two serial proliferators have demonstrated a robust commitment to nonproliferation, Mr. Rademaker concluded that their steps serve as "the best advertisement" for the U.S.' sanctions policy against proliferation.<sup>78</sup>

## Conclusions

- China has made progress in developing nonproliferation policies and mechanisms to implement those policies. Although it is apparent that China is making some meaningful efforts to establish a culture and norms supporting some aspects of nonproliferation within its bureaucracy and industry, gaps remain in the policies, the strength of government support for them, and their enforcement.

- Although China has acceded to numerous international agreements on nonproliferation and has cooperated with the United States on some nonproliferation issues (e.g., the Six-Party Talks), China has been reluctant to participate fully in U.S.-led nonproliferation efforts such as the Proliferation Security Initiative and in multilateral efforts to persuade Iran to cease its uranium enrichment and other nuclear development activities.
- China's support for multilateral negotiations with North Korea can help to reduce tensions on the Korean Peninsula, open North Korea to dialogue, and improve bilateral relations among the countries participating in the process—which may be crucial ingredients for peace and cooperation in northeast Asia and beyond.
- Experts have expressed concerns that China's sales or transfers of nuclear energy technology to other nations may create conditions for proliferation of nuclear weapons expertise, technology, and related materials. These activities also could feed the insecurities of other nations and cause them to pursue their own nuclear weapons development efforts. This could lead to an increase in the number of nations possessing nuclear weapons capability.