

CHAPTER 3

CHINA'S FOREIGN POLICY

SECTION 1: AN OVERVIEW OF CHINA'S RELATIONS WITH NORTH KOREA AND IRAN

Introduction

Despite Beijing's stated claim to be a responsible major power, China continues to place its national interests ahead of regional stability by providing economic and diplomatic support to countries that undermine international security. In particular, China continues to have strong relations with two countries that have the most potential to destabilize their regions of the world, North Korea and Iran. Despite Pyongyang's growing isolation as the result of its recent provocative actions, Beijing continues to defend its long-time ally and provide it with much-needed economic support. China also continues to invest in and trade with Iran, despite Iran's support for international terrorism and pursuit of weapons of mass destruction. China's support for these regimes provides the two countries with resources that could be used to defy international sanctions and threaten the stability of the region. This section of the Annual Report provides an overview of China's relations with these nations in recent years.

China's Support for North Korea

Over the past year and a half, the Democratic People's Republic of Korea (or North Korea) has acted in a destabilizing fashion, increasing the chances for conflict on the Korean Peninsula. In 2010, North Korea attacked and sank a South Korean naval vessel, revealed a previously unknown uranium enrichment facility, and shelled a South Korean island. In response, most of the international community increasingly distanced itself economically and diplomatically from North Korea. China, however, has taken a different approach and instead continues to support its neighbor and ally, all the while refusing to criticize publicly the North for its actions.* China's continued support for North Korea reflects Beijing's

*It should be noted that in the past, China has pressured North Korea behind the scenes to refrain from overly destabilizing activities. For example, in 2006, media reports claimed that China shipped no oil to North Korea for an entire month. Although there was no formal announcement that China's action was an attempt to pressure North Korea, the embargo did occur one month after North Korea's October 2006 nuclear test. Although one Japanese expert claimed China cut off oil supplies to North Korea after North Korea shelled a South Korean island, Commission staff were unable to discover any confirmation of the oil embargo. Furthermore, a review of China's exports to North Korea showed that while China's oil exports to North Korea did drop in the third and fourth quarter of 2010, the decline is similar to previous declines in China's oil exports to North Korea in the latter half of 2006 through 2009. Joseph Kahn, "China

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desire to prevent the collapse of the North Korean regime and the negative impact this could have on China's economic and social stability. As a result, China is of its own volition in a "mutual hostage situation" where it feels forced to continue to support North Korea despite, and increasingly due to, the North's destabilizing activities.

China's diplomatic support for North Korea

Throughout 2010 and into 2011, China continued to support and defend North Korea against international pressure despite North Korean activities that had the potential to cause a war in North-east Asia. After North Korea torpedoed a South Korean naval vessel in March 2010, killing 46 sailors,* China refrained from condemning the attack or implicating North Korean involvement.¹ Instead, China waited a month to respond publicly to the sinking, at which time China simply referred to the incident as a "tragedy."² When a multinational report concluded a few months later that North Korea was indeed responsible, China refused to accept the findings and instead continued to call the incident a "mysterious naval tragedy."³ Beijing also used its position as a member of the United Nations (UN) Security Council to dilute a UN statement that would have condemned North Korea for the attack.⁴ †

In late 2010, China again defended North Korea from international criticism despite the North's provocative actions. On November 20, 2010, Pyongyang revealed a previously unknown nuclear enrichment facility, developed in defiance of UN sanctions.‡ In response to the revelation, Chinese Foreign Ministry Spokes-

cut off exports of oil to North Korea—Asia—Pacific—International Herald Tribune," *New York Times*, October 30, 2006. <http://www.nytimes.com/2006/10/30/world/asia/30iht-oil.3334398.html>; Sunny Lee, "China cut off oil to stop N. Korea from retaliating against South," *Korea Times*, January 19, 2011. http://www.koreatimes.co.kr/www/news/nation/2011/01/113_79966.html; and International Trade Centre, "Trade Map" (Geneva, Switzerland: September 30, 2011). http://www.trademap.org/light/Bilateral_TS.aspx.

* On March 26, 2010, North Korea torpedoed a South Korean corvette, the *Cheonan*, killing 46 sailors. Although not immediately identified as the perpetrator of the attack, a North Korean minisubmarine was implicated as the attacker by a multinational study released a few months later. International Crisis Group, "China and Inter-Korean Clashes in the Yellow Sea," *Asia Report 200* (Brussels, Belgium: January 21, 2011): 2–5.

† Beijing did protest loudly, however, when the United States and South Korea announced joint naval exercises, partially in response to North Korea's sinking of the *Cheonan*. Reacting to these exercises, China's Ministry of Foreign Affairs stated that "we firmly oppose foreign warships and military aircraft carrying out activities in the Yellow Sea and other Chinese coastal waters that affect China's security interests." China also subsequently held its own military exercises in the Yellow, East China, and South China seas. International Crisis Group, "China and Inter-Korean Clashes in the Yellow Sea," *Asia Report 200* (Brussels, Belgium: January 21, 2011): 1; Qin Gang, spokesperson for the Chinese Ministry of Foreign Affairs, July 9, 2010, cited in Bonnie Glaser and Brittany Billingsley, "US–China Relations: Tensions Rise and Fall, Once Again," *Comparative Connections* 12:3 (October 2010); and Chris Buckley, "China denies military exercise aimed at U.S.," Reuters, June 29, 2010. <http://www.reuters.com/article/2010/06/29/us-china-military-idUSTRE65S1YU20100629>.

‡ On November 20, 2010, North Korea surprised the international community by revealing a previously unknown uranium enrichment facility at the Yongbyon Nuclear Complex. According to North Korean engineers, this facility produces low enriched uranium for fuel in a still-under-construction nuclear power reactor. However, Siegfried S. Hecker, codirector of Stanford University's Center for International Security and Cooperation and the first outsider invited to visit the facility, stated that the facility could produce either fuel for the nuclear reactor or, with modifications, weapons-grade uranium. Both the newly revealed facility and the future nuclear power reactor violate UN sanctions. Siegfried S. Hecker, "A Return Trip to North Korea's Yongbyon Nuclear Complex" (Stanford, CA: Stanford University, Center for International Security and Cooperation, November 20, 2010), p. 1. <http://iis-db.stanford.edu/pubs/23035/HeckerYongbyon.pdf>; International Crisis Group, "China and Inter-Korean Clashes in the Yellow Sea," *Asia Report 200* (Brussels, Belgium: January 21, 2011): 11; and David E. Sanger, "North Koreans Unveil New Plant for Nuclear Use," *New York Times*, November 20, 2011. <http://www.nytimes.com/2010/11/21/world/asia/21intel.html>.

woman Jiang Yu simply expressed “that all sides should exercise calm and restraint, and maintain a responsible attitude to prevent tensions from escalating, playing a positive role in preserving the peace and stability of the peninsula.”⁵ China’s first official statement expressing concern over North Korea’s new enrichment facility occurred two months later, during Chinese President and Communist Party Secretary Hu Jintao’s January 2011 visit to the United States. The joint statement from that visit noted that “the United States and China expressed concern regarding the DPRK’s [North Korea’s] claimed uranium enrichment program.”⁶ Despite this statement, in the following month China maneuvered within the UN Security Council to block an expert report about the revelation of the new facility.⁷ Less than a week after revealing the nuclear enrichment facility, China again blocked international pressure on North Korea when the North Korean military shelled a South Korean island, killing four South Koreans.* Following the attack, China declined to criticize the North publicly and instead called for “emergency talks” between North Korea and South Korea.⁸ China also maneuvered within the UN Security Council to successfully block a statement condemning the shelling.⁹

China has also sought to protect North Korea in light of its continued proliferation attempts over the past year. Over the course of the past year, several accounts of North Korean attempts to defy international sanctions have come to light. According to a 2010 report from an expert panel established by the United Nations, North Korea may be involved in “nuclear and ballistic missile related activities in certain countries including Iran, Syria and Myanmar.”¹⁰ *The New York Times* reported that in defiance of UN Security Council Resolution 1874 North Korea smuggled, possibly through China, at least 19 intermediate-range ballistic missiles to Iran.¹¹ However, when the United Nations established an expert panel to investigate North Korea’s continued attempts to proliferate weapons of mass destruction, Beijing lobbied to delay the report’s release.¹² Ultimately unsuccessful, Beijing then switched tactics and attacked the authority of the report itself, stating that “[t]his does not represent the position of the Security Council, and nor [sic] does it represent the position of the relevant Security Council sanctions committee.”¹³

Besides defending North Korea against international pressure, Beijing also has sought publicly to portray its relationship with North Korea as strong and getting stronger. According to experts Scott Snyder, director of the Center for U.S.-Korea Policy at the Asia Foundation, and See-won Byun, a research associate at the same institute:

* On November 23, 2010, the North Korean military shelled South Korea’s Yeonpyeong Island, killing two South Korean civilians and two South Korean marines. This was the first artillery attack on South Korean territory since the end of the Korean War in 1953. On August 10, 2011, North Korea again fired live artillery rounds into South Korea, this time in the maritime territory around the same island. John M. Ghionna and Jung-yoon Choi, “North, South Korea Exchange Fire Along Tense Western Sea Border,” *LA Times*, August 10, 2011. <http://articles.latimes.com/2011/aug/10/world/la-fgw-koreas-exchange-fire-20110810>; and Peter Foster, “North Korean attack on Yeonpyeong Island is worst against civilians in 20 years,” *Telegraph* (United Kingdom), November 23, 2010. <http://www.telegraph.co.uk/news/worldnews/asia/southkorea/8153100/North-Korean-attack-on-Yeonpyeong-Island-is-worst-against-civilians-in-20-years.html>.

*China and North Korea took unprecedented steps to consolidate political ties through historic high-level party and military exchanges in October [2010] commemorating the 65th anniversary of the founding of the WPK [the Workers Party of Korea, North Korea's Communist Party] and the 60th anniversary of the entry of the Chinese People's Volunteers (CPV) into the Korean War.*¹⁴

During the 65th anniversary of the founding of North Korea's Communist Party, Zhou Yongkang, a member of the Standing Committee of the Politburo, led a delegation to China to meet North Korean leader Kim Jong Il.¹⁵ Later that same month, President Hu and Chinese Vice President (and likely future President and Communist Party leader) Xi Jinping celebrated the 60th anniversary of China's entry into the Korean War, noting that "[t]he Chinese people will never forget the friendship—established in battle—with the DPRK's [North Korea] people and army."¹⁶ In July 2011, at the 50th anniversary of the signing of the *Treaty of Friendship, Cooperation and Mutual Assistance between China and North Korea*, President Hu noted that "[i]t is the firm and unwavering strategic policy of the Chinese Party and Government to continue to strengthen and develop the traditional China-DPRK [North Korea] friendly and cooperative relations [and] boost high-level visits and exchanges and expand economic cooperation."¹⁷

Further demonstrating the heightened relationship despite North Korea's provocative activities is the number of high-level meetings between the two countries. For example, since May 2010, Kim Jong Il has made an unprecedented four trips to China.* In addition, the past year has seen a large number of exchanges between the Chinese and the North Korean governments. Table 1, below, lists some of the major exchanges.

Table 1: Timeline of Sino-North Korean Diplomatic Exchanges since the Attack on the *Cheonan*

Date	Event
Mar. 30–Apr. 3, 2010	An Yonggi, director of the North Korean military's Foreign Affairs Department, visits Beijing and meets with Xu Caihou, vice chairman of the People's Republic of China (PRC) Central Military Commission
Apr. 29–May 1, 2010	Kim Yong Nam, North Korean legislator and president of the Presidium of the Supreme People's Assembly, visits Shanghai for the World Expo and meets with PRC President Hu Jintao
Aug. 16–18, 2010	Wu Dawei, PRC envoy on Korean Peninsula Affairs, visits North Korea and meets Kim Jong Il and Foreign Minister Pak Ui-chun

*Mr. Kim's trips to China occurred in May and August 2010 and in May and August 2011. See Se Young Lee, "China Confirms Visit by North Korea's Kim," *Wall Street Journal*, May 22, 2011. <http://online.wsj.com/article/SB10001424052702304520804576339052444645420.html>; Evan Ramstad, "China, North Korea Tout Ties as Kim Exits," *Wall Street Journal*, August 30, 2010. <http://online.wsj.com/article/SB10001424052748703369704575461162930482200.html>; *Chosun Ilbo* (South Korea), "Cracks Open in N. Korea-China Ties," June 7, 2011. http://english.chosun.com/site/data/html_dir/2011/06/07/2011060701031.html; and Mansur Mirovalev, "Kim Jong Il, North Korea Leader, Visits China," Associated Press, August 25, 2011. http://www.huffingtonpost.com/2011/08/25/kim-jong-il-china_n_936054.html.

Table 1: Timeline of Sino-North Korean Diplomatic Exchanges since the Attack on the *Cheonan*—Continued

Date	Event
Sept. 30–Oct. 2, 2010	Choe Thae Bok, secretary of the Worker's Party of Korea Central Committee and chairman of the Supreme People's Assembly, leads delegation to China and meets with PRC President Hu Jintao
Oct. 9–11, 2010	Zhou Yongkang, member of the Chinese Communist Party's (CCP) Standing Committee, leads a delegation to North Korea and meets with Kim Jong Il
Oct. 14, 2010	Pyon In Son, vice minister of North Korea's People's Armed Forces, leads a military delegation to Beijing and meets with PRC Defense Minister General Liang Guanglie
Oct. 25, 2010	General Guo Boxiang, PRC vice chairman of the Central Military Commission, visits Pyongyang and meets with North Korean Premier Choe Yong-rim
Nov. 30–Dec. 4, 2010	Choe Tae Bok, chairman of the Supreme People's Assembly, visits Beijing and Jilin and holds talks with PRC State Councilors Wu Bangguo and Chen Zhili
Dec. 8–9, 2010	Dai Bingguo, PRC vice minister of foreign affairs, visits North Korea and meets with Kim Jong Il
Feb. 13–14, 2011	Meng Jianzhu, PRC state councilor and minister of Public Security, visits North Korea and meets with Kim Jong Il
Apr. 12, 2011	Zhang Mingqi, vice president of the All-China Federation of Trade Unions, visits North Korea and meets with Choe Ryong Hae, secretary of the Central Committee of the Worker's Party of Korea
Apr. 13, 2011	North Korea's first vice foreign minister, Kim Kye Gwan, visits China and meets with PRC Vice Foreign Minister Zhang Zhijun, Foreign Minister Yang Jiechi, and Special Representative for Korean Peninsula Affairs Wu Dawei
May 16–20, 2011	A delegation of the Chinese People's Political Consultative Conference (CPPCC) led by Chen Zongxing, vice chairman of the CPPCC National Committee, visits North Korea and meets Kim Yong Nam, president of the Presidium of the Supreme People's Assembly
June 9, 2011	Chen Deming, PRC minister of Commerce, visits North Korea and meets with Jang Song Taek, vice chairman of the DPRK National Defense Commission
June 10–14, 2011	A delegation led by Li Yuanchao, head of the CCP Organization Department, visits North Korea for a "strategic dialogue" with DPRK counterparts, meeting Kim Yong Nam, president of the Presidium of the Supreme People's National Assembly; Choe Thae Bok, chairman of the Supreme People's Assembly; and Kim Jong Il
June 24–28, 2011	Chen Zhenggao, deputy secretary of the Liaoning Provincial Party Committee and governor of Liaoning Province, leads a delegation to North Korea and meets North Korean Premier Choe Yong Rim in Pyongyang
July 9–12, 2011	Yang Hyong Sop, vice president of the Presidium of North Korea's Supreme People's Assembly, leads a delegation to China and attends a reception on July 10 hosted by Ji Jae Ryong, North Korea's ambassador to China, and attended by PRC State Councilor Dai Binguo

Table 1: Timeline of Sino-North Korean Diplomatic Exchanges since the Attack on the *Cheonan*—Continued

Date	Event
July 11–14, 2011	Zheng Dejiang, PRC politburo member and vice premier, travels to North Korea in celebration of the 50th anniversary of the Sino-North Korean mutual assistance treaty
July 9–12, 2011	Yang Hyong Sop, vice president of the Presidium of North Korea's Supreme People's Assembly, leads a delegation to China and attends a reception on July 10 hosted by Ji Jae Ryong, North Korea's ambassador to China, and attended by PRC State Councilor Dai Binguo
July 22, 2011	Foreign Minister Yang Jiechi and North Korean counterpart Pak Ui Chun hold talks on the sidelines of the Asian Regional Forum in Bali. The PRC Foreign Ministry spokesperson expresses support for bilateral talks held on the sidelines between ROK (South Korea) and North Korean envoys of the Six-Party Talks Wi Sung-lac and Ri Yong-ho
Aug. 4–7, 2011	Chinese Navy fleet visits Wonsan, North Korea, where Vice Admiral Tian Zong, commander of China's northern fleet, is received by North Korean Rear Admiral Kim Myong Sik
Aug. 25–26, 2011	Jon Chang Bok, chief of the General Logistics Bureau of the Korean People's Army Armed Forces Department, leads a Korean People's Army delegation to China and meets Liao Xilong, chief of the PLA General Logistics Department, and Defense Minister Liang Guanglie

Sources: Scott Snyder and See-won Byun, "China-Korea Relations," *Comparative Connections* 12: 4 (Honolulu, HI: January 2011): 112–16; Scott Snyder and See-won Byun, "China-Korea Relations," *Comparative Connections* 13: 1 (Honolulu, HI: May 2011): 116–18; and Scott Snyder and See-won Byun, "China-Korea Relations: A Fragile China-ROK [Republic of Korea, or South Korea] Strategic Partnership," *Comparative Connections* 13: 2 (Honolulu, HI: September 2011): 106–10.

China's economic support for North Korea

In addition to diplomatic support, Beijing also continues to provide Pyongyang with economic support that North Korea increasingly needs due to its growing international isolation. As the Congressional Research Service noted, "China, with its huge economy and rapid rate of growth, is the lifeline that keeps [North Korea] alive."¹⁸ Drew Thompson, former director of China Studies at the Center for the National Interest, wrote that:

*Chinese aid, trade, and investment are critical to North Korea's social stability and economic productivity and a key source of technology and hard currency. Presumably, without this trade and investment, Kim Jong Il would lack the means to secure the allegiance of elites that support his rule, making trade and investment with China particularly important for ensuring the regime's survival.*¹⁹

China is North Korea's largest trading partner.*²⁰ Although accurate trade values for Sino-North Korean trade are unavailable,

* In 2010, the top five importers of North Korean goods were (in order): China, South Korea, Egypt, South Africa, and the Russian Federation. The top five exporters to North Korea in 2010 were China, South Korea, Brazil, the Netherlands, and Egypt. International Trade Centre, "Trade Map" (Geneva, Switzerland: August 12, 2011). <http://www.trademap.org/light/Bilat->

international data estimate bilateral trade between China and North Korea in 2010 reached \$3.46 billion, an increase of 29 percent over 2009.²¹ In 2010, China exported to North Korea \$2.3 billion worth of goods and imported \$1.2 billion. China's top five imports from the North in 2010 included coal (33 percent of total imports); mineral ores (21 percent of total imports); apparels (14 percent of total imports); finished iron and steel (9 percent of total imports); and fish and seafood products (5 percent of total imports).²² China's primary exports to North Korea in 2010 were mineral fuels and oils (21 percent of total exports), followed by machinery (11 percent of total exports); electronics (8 percent of total exports); vehicles (7 percent of total exports); and plastics (4 percent of total exports).²³

Despite the large trade deficit with China, North Korea gains more from the trade, since it is desperately dependent upon Chinese imports. In 2010, 52 percent of North Korea's imports came from China, more than double the amount imported from South Korea, the North's second-largest import source.²⁴ Jayshree Bajoria, a senior staff writer at the Council on Foreign Relations, estimated that China may provide an estimated 90 percent of North Korea's energy, 80 percent of its consumer goods, and 40 to 45 percent of its food.²⁵ In contrast, bilateral trade with North Korea constituted less than 0.2 percent of China's 2010 total global trade.²⁶ North Korea's dependency on China likely has increased over the past year, since South Korea, the North's other main trade partner, began curtailing trade with the North after last year's sinking of the *Cheonan*.²⁷ In May 2010, South Korea took the unprecedented step of banning all inter-Korean trade, except for items produced at North Korea's Kaesong Industrial Complex, a North Korean-South Korean joint industrial park. As a result of the partial ban, inter-Korean trade, from imposition of the ban to May 2011, decreased by 54 percent, down to \$118 million (excluding Kaesong Industrial Complex trade).*

China also provides North Korea with much-needed foreign direct investment. China's investments in North Korea are concentrated in a few sectors. According to the Open Source Center, 43 percent of publicly listed Chinese-North Korean joint ventures were involved in some facet of natural resource production.²⁸ The two countries have established three joint special economic zones, all located in North Korea near the border with China.†²⁹ Chinese entities have also pledged to invest in several infrastructure projects. China's Shangdi Guanqun Investment Company, for example, is renovating North Korea's Rason port.³⁰ Of note, the announcement of the port project came just one month after North Korea's shelling of Yeonpyeong Island and the revelation of a sec-

eral TS.aspx; and United Nations, "United Nations Commodity Trade Statistics Database." <http://comtrade.un.org/db/>.

*Of import, trade through the Kaesong Industrial Complex actually grew for the same period, reaching \$1.44 billion in 2010, a growth of \$103 million (54 percent) over 2009. Evan Ramstad, "Strong Kaesong Boosts Inter-Korean Trade," *Wall Street Journal*, May 27, 2011. <http://blogs.wsj.com/korearealtime/2011/05/27/strong-kaesong-boosts-inter-korean-trade/>.

†The zones are in the North Korean cities of Rason and Sinuiju and on the North Korean islands of Hwanggu'mp'yo'ng and Wihwa. Xinhua, "China, DPRK [Democratic People's Republic of Korea] to develop two economic zones," June 9, 2011. http://www1.chinadaily.com.cn/china/2011-06/09/content_12667570.htm; and Jay Solomon and Jeremy Page, "Chinese Firm to Invest in North Korea," *Wall Street Journal*, January 19, 2011. <http://online.wsj.com/article/SB10001424052748704678004576090270026745368.html>.

ond uranium enrichment facility. Undisclosed Chinese companies are also investing in the construction of a highway from the port to the border with China and building a new bridge over the Yalu River, which separates China from North Korea.³¹ Other Chinese joint venture investments include mineral and metal extraction and processing and low-end manufacturing facilities.³²

Unlike in many other countries where China invests, the majority of Chinese investors operating in North Korea are not national state-owned enterprises but rather “privately owned companies and provincial, prefecture, and municipal-owned [state-owned enterprises],” according to Mr. Thompson.³³ Only four out of 138 known Chinese companies engaging in joint ventures in North Korea were national-level state-owned enterprises, and only two of the companies rank among China’s top 100.³⁴ According to an Open Source Center report, of 86 Chinese joint ventures in North Korea, approximately 65 percent originated from China’s northeastern provinces Heilongjiang, Liaoning, and Jilin, which border North Korea.³⁵ Explanations for the apparent lack of national-level investments are not clear, but it may provide China’s northeast provinces with some influence over China’s foreign policy (see sec. 2 of this chapter for more on provinces as foreign policy actors).

Unfortunately, accurate data on the amount of China’s investments in North Korea are unavailable. According to China’s Ministry of Commerce, China’s officially reported 2010 investments in North Korea totaled \$12.1 million, a 52 percent increase over 2009. China’s total investment in North Korea since 2004 equaled \$109.3 million.³⁶ Yet recent activities by China cast doubt upon these statistics or point to a recent radical uptick in investments. For example, a Chinese Foreign Ministry spokesperson stated that total investment in one of the special economic zones will be between \$300 million and \$500 million.³⁷ China’s funding for the Yalu bridge project is estimated at \$260 million.³⁸ The *Wall Street Journal* reported that China’s investment in the Rason port project is estimated at \$2 billion.³⁹ If the estimate is accurate, and the project is seen to completion, this will be China’s single largest investment in North Korea and nearly 20 times the size of China’s claimed 2004 to 2009 total investments in North Korea.

Although precise data are unavailable, China’s foreign direct investment in North Korea is substantial and provides the North with vital resources. Currently, excluding South Korea’s investment in the Kaesong Industrial Complex, China is North Korea’s largest foreign direct investor.⁴⁰ While figures for 2009 and 2010 are unknown, estimates indicate that in 2008 China provided 94 percent of all investments in North Korea.⁴¹ * Furthermore, while many nations are decreasing their investments in North Korea on account of its recent provocations,⁴² China appears to be increasing its investment in North Korea as the large high-profile projects detailed above demonstrate.

* By way of comparison, North Korea only receives a miniscule portion of China’s overall foreign direct investments: only .02 percent in 2010, according to China’s official statistics. Ministry of Commerce, People’s Republic of China, “2010 Niandu Zhongguo Duiwai Zhijie Touzi Tongji Gongbao” (Statistical Bulletin on China’s Outward Direct Investment, 2010) (Beijing, China: 2011), p. 82.

China also provides economic support to North Korea by only loosely implementing international sanctions against North Korea. According to a Congressional Research Service study, despite China's publicly strong support for UN sanctions against North Korea for its nuclear program, China takes a "minimalist approach" to enforcing those sanctions. The study continues, noting that China persists in allowing North Korea trade and financial transactions to transit Chinese territory without rigorous inspections, contrary to UN sanctions.⁴³ According to media reports, China has also been complicit in allowing North Korea's continued support of Iran's nuclear program by permitting cargo to transit through China unchecked and failing to act on U.S.-provided intelligence toward this end.⁴⁴ In addition, China continues to allow luxury goods, banned by UN sanctions, to flow unobstructed to North Korea.⁴⁵

UN Sanctions against North Korea

Currently, the United Nations has two main sets of reinforcing sanctions against North Korea for Pyongyang's illicit weapons of mass destruction programs: UN Security Council Resolution 1718 and UN Security Council Resolution 1874.

UN Security Council Resolution 1718: passed in 2006 in response to North Korea's October 9, 2006, nuclear weapons test. This resolution called upon member states to refrain from purchasing or transferring to, or procuring from, North Korea large military platforms (such as tanks and aircraft), nuclear and ballistic missile components, and luxury items (undefined).⁴⁶

UN Security Council Resolution 1874: passed in response to North Korea's May 12, 2009, nuclear weapons test, this resolution sought to tighten previous sanctions against North Korea. In particular, it called for expanding the arms embargo to all weapons except small arms, the active inspection of all goods traveling to and from North Korea, and the curtailing of economic transactions with North Korea except when in support of humanitarian or denuclearization purposes. This resolution also established an expert panel to assess current efforts of implementing sanctions on North Korea.⁴⁷

China's military support for North Korea

Despite active measures to support the North Korean regime both economically and diplomatically, China appears to be providing North Korea with only minimal military support. David F. Helvey, principal director for East Asia Policy, Office of the Secretary of Defense, described to the Commission how Beijing still has a mutual defense agreement with Pyongyang, the only mutual defense agreement to which China is still obligated.⁴⁸ In previous years, Beijing has provided military arms to North Korea but appears to have refrained at least publicly from such activities since

2009, the year of tightened UN sanctions.* The two countries have also conducted several high-level military exchanges in recent years, including an October 2010 visit to North Korea by General Guo Boxiong, vice chairman of the Central Military Commission.⁴⁹ Furthermore, despite the Chinese military's growing international interactions,[†] Commission staff research turned up no confirmed reports of joint military exercises involving Chinese and North Korean troops in the past ten years. A Congressional Research Service report notes that although China supplied ballistic missile components to North Korea in the past, it is unclear whether China continues this support today.⁵⁰

Reasons behind China's support for North Korea

The overarching goal of China's North Korea policy is to maintain stability in North Korea. A Commission-sponsored research report describes how China's policies toward North Korea revolve around preventing the collapse of the North Korean regime:

*[North Korea's] sinking of the South Korean naval ship Cheonan, the shelling of [South Korea's] Yeonpyeong Island, as well as the seemingly never-ending stand-off over North Korea's nuclear program and proliferation practices provide China with ample opportunity to play a constructive role. But all of China's actions or inactions have served to simply demonstrate that the overriding Chinese interest on the Korean Peninsula is to prevent any increased pressure on the North Korean regime that could potentially lead to an implosion.*⁵¹

Victor Cha, director of Asian Studies at Georgetown University, testified to the Commission that Beijing has decided to support the North "unconditionally" in order to preserve "a minimum amount of stability in North Korea . . . even if it means acquiescing to North Korean provocation."⁵²

Beijing fears a North Korean collapse for several reasons. Should the regime implode, it is likely that a large number of refugees, possibly in the hundreds of thousands, would attempt to flee the dire situation in North Korea by migrating across the border to China. Regional geography plays a major role in ensuring that any chaos in North Korea is likely to bleed over into China's northeast provinces of Liaoning, Heilongjiang, and Jilin. The China-North Korean border is 1,400 kilometers long, sparsely guarded, and very porous.⁵³ In contrast, North Korea's border with South Korea is heavily mined on both sides.⁵⁴ Furthermore, the majority of North Koreans reside along the border with China.⁵⁵ Therefore, according to the International Crisis Group, Beijing fears the "threat of an unsustainable flood of hundreds of thousands of refugees, bringing social, criminal and political problems with them."⁵⁶ The resulting

* In 2009, the Stockholm International Peace Research Institute reported that China supplied over \$4 million in small arms sales, the last such report. Stockholm International Peace Research Institute, "Arms Transfer Database" (Stockholm, Sweden: September 6, 2011). <http://www.sipri.org/research/armaments/transfers/transparency/databases/armstransfers>.

† For more on the Chinese military's growing international activities, see the Commission's *2009 Annual Report to Congress*. U.S.-China Economic and Security Review Commission, *2009 Annual Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2009), pp. 113–127. http://www.uscc.gov/annual_report/2009/09_annual_report.php.

economic and social strains would seriously impact China's already economically weak northeast, commonly referred to as China's "rust belt."⁵⁷

Beijing also fears that a North Korean political and economic collapse could result in the unification of the peninsula under South Korea, an U.S. ally. Dr. Cha testified that "North Korea is a strategic piece of territory for China, not in the sense that it is intrinsically valuable, but in the sense that Beijing can never allow it to fall in the hands of the South or the U.S."⁵⁸ As Selig Harrison, director of the Asia Program at the Center for International Policy, described, "China does not want Korea to be reunified under a South Korean regime allied militarily with the United States, and therefore wants the survival of a pro-Beijing regime in Pyongyang."⁵⁹ By keeping a nominally friendly state on its border, China gains the benefit of a buffer state between it and South Korea and, more importantly, U.S. forces stationed in South Korea.⁶⁰ Having a buffer state on its borders has been a long-standing interest for Beijing, as demonstrated by its decision to intervene in the Korean War in 1950.⁶¹ China's desire for a buffer state on its borders has grown since the United States declared that it was increasing its focus on East Asia in 2010.⁶²

The collapse of the North's government and economy would also negatively impact China's economic interests in North Korea. As mentioned above, North Korea is not a major trade partner of China. However, it does possess natural resources that are valuable to China's continued economic development (see table 2, below). Natural resources accounted for roughly 40 percent (\$465 million) of China's total imports from North Korea in 2010.⁶³ Chaos within North Korea would inhibit China's ability to extract these resources. In addition, North Korea's collapse would also impact China's goal of developing its economically weak northeast region, which constitutes the bulk of Chinese investment in North Korea.⁶⁴ The chaos that would ensue from an implosion of the North Korean regime would also prohibit China from capitalizing on its growing infrastructure investments in North Korea.⁶⁵

Table 2: North Korea's Estimated Natural Resource Reserves

Resource	Estimated North Korean Reserves (tons)
Anthracite coal	4,500,000,000
Asbestos	1,300
Barite	210,000
Copper	290,000
Fluorspar	50,000
Gold	200
Iron	5,000,000,000

Table 2: North Korea's Estimated Natural Resource Reserves—Continued

Resource	Estimated North Korean Reserves (tons)
Kaolinite	200,000
Lead	1,060,000
Lignite	16,000,000,000
Limestone	100,000,000,000
Magnesite	6,000,000
Molybdenum	5,400
Rosette graphite	200,000
Silver	300–500
Talcum	70,000
Tungsten trioxide	24,600
Uranium ore	400,000
Zinc	2,100,000,000

Source: Adapted from Goohoon Kwon, "A United Korea? Reassessing North Korea Risks (Part I)," (New York, NY: Goldman Sachs and Co., *Global Economics Paper No: 188*, September 21, 2009), p. 10.

Because China's primary goal vis-à-vis North Korea is to prevent North Korea's collapse, coupled with North Korea's need for Chinese support, the two nations find themselves in what Dr. Cha has referred to as a "mutual hostage" situation. Testified Dr. Cha:

In the end, [China's] support [for North Korea] derives less from some anachronistic communist allegiance, and more from the fact the two are mutual hostages: North Korea needs China to survive. It hates this fact of life and resists all Chinese advice to change its ways. China needs North Korea not to collapse. It hates this fact. And as the only patron supporting the decrepit regime today, it is, ironically, powerless more than it is omnipotent because the regime's livelihood is entirely in Chinese hands. It must therefore countenance [North Korean] bad behavior because any punishment could destabilize the regime.⁶⁶

China's Support for Iran

China's relationship with Iran is characterized by the prioritization of national interests over international stability. In recent years, while a growing number of states are divesting themselves of investments in Iran's petroleum industry, China has sought to take advantage of these new investment opportunities. China also continues to provide Iran with refined petroleum products, such as gasoline, despite U.S. attempts to embargo this product. Furthermore, open source reporting notes that China may be selling Iran advanced conventional weapons, which would provide Tehran with a growing capacity to threaten U.S. interests in the region.

U.S. sanctions against third-party involvement in Iran

Over the past several decades, the United States has imposed a series of sanctions on Iran to deter it from supporting international terrorism, pursuing weapons of mass destruction, and abusing human rights. While most of the laws target U.S. companies interacting with Iran, several U.S. laws specifically target foreign companies dealing with Iran.* These acts mandate that the U.S. government impose three or more of a possible set of nine sanctions upon a foreign entity that is found to violate one of the provisions of the sanctions. Violations include investing in Iran's petroleum industry, supplying it with refined petroleum products, and providing it with technology or know-how related to weapons of mass destruction or advanced conventional weapons. Corresponding penalties include such actions as denying Export-Import Bank loans and export licenses of U.S. military technology to the offending entity, barring the entity from winning U.S. government procurement contracts, and prohibiting the entity from importing goods to the United States or acquiring any U.S.-based property. The various acts also allow the U.S. president to waive the sanctions should it be in the national interest of the United States, or if the foreign entity's home country is cooperating to prevent Iran from acquiring weapons of mass destruction or destabilizing numbers and types of conventional weapons.⁶⁷

China's views on U.S. sanctions

Beijing views Washington's attempts to punish foreign firms dealing with Iran as the extraterritorial application of U.S. domestic law and thus as an infringement of another state's sovereignty. In response to the December 2005 announcement by the Bush Administration that the United States was sanctioning six Chinese firms † under *The Iran Sanctions Act*, China's Ministry of Foreign Affairs quickly noted its disagreement with the legality of the U.S. law:

The United States has expressed dissatisfaction with the export of certain items by Chinese enterprises, and has implemented sanctions against these Chinese enterprises under [U.S.] domestic law, to which we indicate our opposition. The reason is simple. The U.S.-imposed sanctions on these Chinese enterprises are not in accordance with international law, nor are they in accordance with international requirements on non-proliferation. Instead they are in accordance with their domestic law. We demand that the U.S. stop the relevant sanctions in order to facilitate the healthy development of Sino-U.S. economic and trade relations on the basis of equality and mutual benefit. At the same time

*These laws, collectively referred to as *The Iran Sanctions Act*, include the *Iran Sanctions Act of 1996*, the *Iran Nonproliferation Act of 2000*, the *Iran Nonproliferation Amendment Act of 2005*, the *North Korea Nonproliferation Act of 2006*, the *Iran Freedom Support Act of 2006*, and the *Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010*.

†The six companies were China Aero-Technology Import and Export Corporation (CATIC), China North Industries Corporation (Norinco), Hongdu Aviation Industry Group, Limmt Metallurgy and Minerals Company, Ounion (Asia) International Economic and Technical Cooperation Ltd., and Zibo Chemet Equipment Company. David E. Sanger, "U.S. to Punish 9 Companies Said to Help Iran on Arms," *New York Times*, December 28, 2005. <http://www.nytimes.com/2005/12/28/international/asia/28china.html>.

*we also clearly express, that if we find that Chinese enterprises have truly acted in violation of Chinese government laws and regulations, we will earnestly pursue the issue and punish in accordance with the law.*⁶⁸

China also opposed the 2010 passage of *The Comprehensive Iran Sanctions, Accountability, and Divestment Act*. Following this law's enactment, a spokesperson for the Chinese Ministry of Foreign Affairs stated that:

*China has already noted the U.S. and other parties' announcements to implement unilateral sanctions against Iran. Not long ago, the U.N. Security Council approved Resolution 1929 concerning Iran's nuclear issue. China believes that all nations should fully, seriously, and correctly enforce this Security Council resolution, and avoid interpreting it as one pleases in order to expand the Security Council's sanctions.*⁶⁹

Because Beijing disputes the legality of the U.S. laws, China is generally unwilling to comply with U.S. sanctions regarding Iran. According to John W. Garver, professor of International Relations at the Georgia Institute of Technology:

*Beijing was less willing than the European countries and Japan to follow U.S. policy advice on Iran or to bow before U.S. unilateral actions penalizing non-U.S. firms for involvement in Iran's energy sector. Beijing's greater independence from Washington served China's interest in penetrating Iran's energy sector. China's support for Iran over the nuclear issue and against U.S. pressure also inclined Tehran to see China as a relatively reliable and like-minded partner.*⁷⁰

China's investments in Iran's petroleum industry and provision of refined petroleum products

While the fear of U.S. sanctions has caused many businesses to limit or cease operations in Iran, Chinese firms have seen these sanctions as an opportunity for expansion. According to a 2011 report by the Government Accountability Office, 20 of the 38 non-Chinese foreign companies with investments in Iran's petroleum industry prior to 2010 have divested (or are in the process of divesting). As these companies leave, however, Chinese (and Indian) companies use the openings to expand their investment in Iran.⁷¹ Dr. Garver testified that by 2009, China and Iran were major energy partners, particularly since 2009, when "Chinese firms entered into eight new energy deals, many of which had been abandoned by Western firms under fear of U.S. sanctions."⁷² Robert J. Einhorn, special advisor for nonproliferation and arms control at the U.S. Department of State, referred to China's practice of taking over other countries' contracts when they divest from Iran as "backfilling," which he criticized as "taking advantage of the responsible restraint of other countries."⁷³ An example of China's backfilling of divested western investments is exemplified by China National Petroleum Corporation, which expanded its investment in

Iran's South Pars Gas Field after several foreign gas companies pulled out of the project.⁷⁴

There is mixed evidence on whether China may be quietly tapering off its investments in Iran's petroleum industry. In April 2011, Mr. Helvey testified to the Commission that the United States had "not seen evidence of new PRC investments in Iran's energy sector." He continued, noting, however, that China still maintains its old investments and that it is continuing to invest in Iran's other extractive resources, such as aluminum, copper, and coal.⁷⁵ Erica S. Downs, a fellow at The Brookings Institution, testified to the Commission in April 2011 that "recently, China's national oil companies appear to be following Washington's warning not to backfill projects abandoned by European oil companies and other firms in Iran."⁷⁶ According to a September 2011 Reuters article, a Chinese slowdown in further investments in Iran's petroleum industry may reflect "Beijing's efforts to appease Washington and avoid U.S. sanctions on its big energy firms."⁷⁷ Table 3, below, lists known Chinese investments in Iran's petroleum industry.

Table 3: Chinese investments in Iran's Petroleum Industry, 2005-present

Chinese Company	Activity	Status	Commercial activity
China National Off-shore Oil Cooperation (CNOOC)	Development of the North Pars natural gas field and construction of a liquefied natural gas plant	Initial agreement reached 2006–2007; final agreement signed 2009; expected completion in 2015.	Project valued at \$16 billion; CNOOC to receive 50 percent share of liquid natural gas product
China National Petroleum Corporation (CNPC)	Oil exploration and development project in Masjed-i-Suleiman oil field	Progress stalled since 2010, and the February 2011 deadline was missed	CNPC has a 75 percent holding in project
	Development of Block 3 oil field in the Zagros Basin	Second exploration well started in December 2007	unknown
	Development of the North Azadegan oil field	Equipment procurement problems likely to delay production	Providing 90 percent of the financing under a buyback contract, a \$2+ billion investment
	Development of the South Pars phase 11 natural gas project (replacing France's Total SA)	Contract signed June 2009; deal finalized in February 2010	12.5 percent share of project valued at more than \$4.7 billion
Sinopec	Development of the Yadavaran oil field	Production scheduled to begin in next 1–2 years	Contract valued between \$2 and \$3.6 billion
	Expansion and upgrade of the Arak refinery	As of 2008, estimated completion date was 2011	Contract valued at \$2.8 billion.

Table 3: Chinese investments in Iran's Petroleum Industry, 2005-present—Continued

Chinese Company	Activity	Status	Commercial activity
	Development of additional refinery capability	Memorandum of Understanding signed in November 2009; possibly finalized in February 2010	Contract valued at \$6.5 billion

Source: U.S. Government Accountability Office, "Iran's Oil, Gas, and Petrochemical Sectors" (Washington, DC: March 23, 2010), pp. 12–17; U.S. Government Accountability Office, "Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors" (Washington, DC: August 3, 2011), pp. 16–18; and Foundation for Defense of Democracies, "Iran Energy Project" (Washington, DC: September 7, 2011). <http://www.defend-democracy.org/project/iran-energy-project/>.

However, other reports provide a different picture. In August 2011, a Reuters article noted that Sinopec Engineering Inc., an arm of the state-owned Sinopec, started up a refining unit in Iran's Arak refinery.⁷⁸ Although the actual value of this last investment is unknown, an earlier media report noted that Sinopec had signed a Memorandum of Understanding with Iran in November 2009 to invest \$6.5 billion in Iran's oil refineries.⁷⁹ In addition, in September 2011, Iran's state-controlled Pars Oil and Gas Company announced that China National Petroleum Company will resume work on Iran's South Pars Gas Field, on hold since 2009.⁸⁰ In addition, the U.S. Government Accountability Office in its August 2011 report listed Chinese investment projects in Iran as currently still active.⁸¹

China is also one of the few countries still willing to sell Iran refined petroleum products.⁸² According to the Congressional Research Service, as of mid-2010, China was supplying Iran with about half of Iran's total gasoline imports.⁸³ Dr. Garver testified that as western companies began tapering off their sales of gasoline to Iran, "China was stepping in to help Iran off-set that Western pressure."⁸⁴ Five Chinese companies, each a state-owned enterprise, shipped gasoline to Iran in 2010. ChinaOil, a subsidiary of China National Petroleum Corporation, shipped 600,000 barrels of gasoline to Iran, valued at \$55 million. Sinopec and its subsidiary, Unipet, both shipped a total of 850,000 barrels of gasoline to Iran in 2010 for an undisclosed amount.⁸⁵ Two other state-owned enterprises, Zhuhai Zhenrong and Zhenhua Oil, also reportedly supplied Iran with gasoline in 2010.⁸⁶

Despite China's investments in Iran's petroleum industry, and the provision of refined oil products to Iran, the U.S. government has not sanctioned any Chinese state-owned oil company. Noting this fact, Dr. Garver asserted:

Between 2002 and 2009, nearly 40 Chinese entities were sanctioned 74 times by the United States under U.S. legislation and Executive Orders. Interestingly, however, none of China's oil majors were among the Chinese firms sanctioned in spite of those firms' vigorous entry into Iran's energy sector in the late 2000s and in spite of the apparent applicability of U.S. sanctions laws to those firms' investment in Iran's energy sector.⁸⁷

When asked by Commissioners about this discrepancy during a hearing in 2011, Daniel Kritenbrink, then acting deputy assistant secretary for East Asian and Pacific Affairs at the U.S. State Department, replied:

*We have made very clear to China that we expect them to show restraint in investments in the energy sector, and this is both in line with U.N. Security resolutions and with U.S. law. China has voted in favor of these Security Council resolutions, and stated that it shares our goal in fully implementing them. And we watch this very carefully and will continue to do so. If we find instances of where Chinese firms have violated those obligations, I can assure you we're going to look at that very carefully and engage with the Chinese very seriously.*⁸⁸

China's provision of arms and weapons of mass destruction-related materials to Iran

According to open source reporting, China continues to provide Iran with advanced conventional weapons, an act that could be in violation of U.S. sanctions against Iran.⁸⁹ The Stockholm International Peace Research Institute, which tracks open source reporting of international arms sales, notes that over the past five years, China has sold \$312 million worth of arms to Iran, second only to Russia, which supplied Iran with \$684 million worth of arms.⁹⁰ Furthermore, since Russia began decreasing its arms sales to Iran in 2008, China has become Iran's largest arms supplier.*⁹¹ As shown in table 4 below, China's arms sales since 2006 have consisted almost entirely of antiship cruise missiles. In addition to direct sales, there have been media reports that China constructed a missile plant in Iran in 2010 to produce the Nasr-1 antiship cruise missile.⁹² In response to a query from the Commission, the U.S. Department of State noted that if these reports are true, the provision of these cruise missiles would be "potentially sanctionable."⁹³

Table 4: Partial List of China's Arms Sales to Iran, 2006–2010

Item	Quantity	Date Delivered	Range
C-802 antiship cruise missile	340	1994–2010	120 kilometers (km)
FL-6 antiship cruise missile	225	1999–2010	32 km
TL-10/FL-8 antiship cruise missile	120	2004–2010	c. 20 km

* For example, in September 2010, Russia withdrew from a \$1 billion sale to Iran of Russia's advanced air defense systems, the S-300. United Press International, "Russia ending S-300 Iran deal costs \$1B," September 29, 2010. http://www.upi.com/Business_News/Security-Industry/2010/09/29/Russia-ending-S-300-Iran-deal-costs-1B/UPI-59401285794692/#ixzz1ZLj7ANAk.

Table 4: Partial List of China's Arms Sales to Iran, 2006–2010—Continued

Item	Quantity	Date Delivered	Range
C-704 antiship cruise missile	25	2010	c. 35 km
C-801 antiship cruise missile	25	2006–2010	40–80 km
QW-11 man-portable surface-to-air missile	500	2006–2010	5 km

Source: Stockholm International Peace Research Institute, "Arms Transfer Database" (Stockholm, Sweden: September 6, 2011). <http://www.sipri.org/databases/armstransfers>; Global Security.org, "Chinese Missiles." www.globalsecurity.org/military/world/china/missile.htm.

Although officially China ended all assistance for Iran's nuclear program in 1997 due to international pressure, there has been speculation that China, or Chinese entities, have quietly continued to provide some support for Iran's pursuit of weapons of mass destruction and ballistic missile capabilities.⁹⁴ Chinese companies were accused in March 2009 and 2010 of providing sensitive materials to Iran for its nuclear program.⁹⁵ In April 2009, a New York grand jury indicted the Chinese firm LIMMT Economic and Trade Co. for covertly using U.S. banks to finance the sale of restricted high-strength metals with military applications to subsidiaries of an Iranian military agency, potentially supporting Tehran's ballistic missile and nuclear weapons programs.⁹⁶ Secretary of State Hillary Rodham Clinton noted during President Hu's January 2011 visit to the United States that "we think that there are some entities within China that we have brought to the attention of the Chinese leadership that are still not, shall we say, as in compliance as we would like them to be" with international efforts to not provide Iran with nuclear technology and know-how.⁹⁷ In late spring 2011, a UN report posited that Iran had acquired ballistic missile technology from North Korea by transshipping the technology through "a neighboring third country," alleged to be China.⁹⁸ In May 2011, the U.S. State Department sanctioned three Chinese companies and one Chinese citizen for their role in weapons proliferation involving Iran under *The Iran, North Korea, and Syria Nonproliferation Act*.⁹⁹ It is unclear from reports, however, what items were proliferated and what was sent specifically to Iran, as opposed to Syria or North Korea.

Implications for the United States

China's continued support for Iran and North Korea have several implications for the United States. By continuing to defend Iran and North Korea in international fora, China undermines international efforts to compel these countries to discontinue pursuing agendas and programs that destabilize their respective regions. China's tactics to weaken and delay international resolutions and reports provide both North Korea and Iran with valuable time to develop their respective nuclear programs. Knowing that they can rely on China to defend them from international criticism creates

*The individuals and entities sanctioned were Karl Lee, Dalian Sunny Industries, Dalian Zhongbang Chemical Industries Company, and Xian Junyun Electronic.

Office of the Spokesperson, "Fact Sheet: Iran, North Korea and Syria Nonproliferation Act" (Washington, DC: U.S. Department of State, May 24, 2011). <http://www.state.gov/r/pa/prs/ps/2011/05/164129.htm>.

moral hazard in Pyongyang and Tehran where China's support insulates North Korea and, to a lesser extent, Iran, from the risk of their actions. As a consequence, China's diplomatic defense could embolden these nations, particularly North Korea, to undertake further destabilizing actions.

China's economic relationships with North Korea and Iran undermine international attempts to dissuade sanctioned activities by providing these regimes with a means to acquire much-needed capital. Chinese investments and infrastructure deals provide hard currency that can be diverted to finance questionable programs. By providing valuable commodities, such as refined petroleum, to Iran, China allows the North Korean and Iranian elites to maintain their hold on these countries. Furthermore, China's lax implementation of international sanctions allows these countries to continue to both acquire and proliferate sanctioned items.

Finally, if reports of China's arms sales to Iran are true, China's willingness to continue to sell to Iran advanced conventional arms and dual-use technology would enhance Iran's conventional military capabilities, thus providing Iran with a growing capacity to threaten the region. A study from the Center for Strategic and Budgetary Assessments notes that, like China, "Iran seems determined to continue developing more formidable A2/AD [antiaccess and area denial] capabilities." To this end, China-supplied ballistic and cruise missiles "could be used not only to target Persian Gulf shipping, but also to hold at risk the oil and natural gas production facilities (to include overland pipelines) of other Gulf states."¹⁰⁰ Even minimal physical damage, for example, to Saudi Arabian production, refinement, or overland transport capacity would disproportionately affect energy markets and surge prices.¹⁰¹ With respect to shipping, China's provision of antiship cruise missiles to Iran could allow Iran to target, among other things, oil tankers transiting the Strait of Hormuz. According to one analysis of this threat, "[e]xtended closure of the strait would remove roughly a quarter of the world's oil from the market, causing a supply shock of the type not seen since the glory days of OPEC [Organization of Petroleum Exporting Countries]."* Even relatively limited or ineffectual attacks could cause tanker operations in the area to cease or would at least increase insurance rates.¹⁰²

Conclusions

- China has continued over the past year to support North Korea despite North Korea's destabilizing actions. Diplomatically, China shields North Korea from pressure in international fora. China also continues to trade with and invest in North Korea, providing it with an economic lifeline in the face of growing international ostracism. Beijing's continued support for Pyongyang is primarily driven by its fear of a collapse of the North Korean regime and the consequences this would have for

*This analysis also reviews Iranian mine warfare and missile warfare capabilities. It concludes that, between mines and missiles, "[i]t does not take much imagination to suggest that the traffic in the Strait of Hormuz could be impeded for weeks or longer, with major air and naval operations required to restore the full flow of traffic." See Caitlin Talmadge, "Closing Time: Assessing the Iranian Threat to the Strait of Hormuz," *International Security* 33: 1 (Cambridge, MA: Summer 2008): 82.

China's economic, social, and security interests; as well as the fear of the loss of a buffer state on its border.

- Despite U.S. efforts to sanction Iran for its support of international terrorism and pursuit of weapons of mass destruction, China remains a large investor in Iran's petroleum industry and a major provider of refined oil products. China may also be supplying Iran with advanced conventional weapons, such as cruise missiles. China's investments in Iran's petroleum industry, and its continued provision of gasoline and advanced conventional weapons, may be at odds with U.S. laws.
- Continued Chinese support for North Korea and Iran demonstrates China's willingness to place its national interests ahead of regional stability by providing economic and diplomatic support to countries that undermine international security.