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U.S.-China Economic and Security Review Commission  
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Good morning, Co-Chairmen and Commissioners. I am pleased to have the opportunity to address the U.S.-China Economic and Security Review Commission today and to provide answers to important questions that are being raised in this hearing.

In September of last year in remarks to the National Committee on U.S.-China Relations, Deputy Secretary Zoellick noted that for most of the last three decades -- since Chinese leaders made the decision to embrace globalization rather than to detach themselves from it -- the U.S. has worked to help integrate China as a responsible member of the international system. Deputy Secretary Zoellick then went on to call for a new posture:

*“...it is time to take our policy beyond opening doors to China’s membership into the international system: We need to urge China to become a responsible stakeholder in that system.”*

Whether through increasing transparency in its military modernization or helping to halt the proliferation of weapons of mass destruction and their means of delivery, or bringing its human rights practices into conformity with international standards, China can play a constructive role in the international system. We welcome cooperation with China on matters important to us and to the peace and stability of the global community. However, as Deputy Secretary Zoellick also said, and as the National Security Strategy released yesterday made clear, even as we encourage China to make the right strategic choices for its people by continuing down the road of reform and openness, we must hedge against other possibilities.

Secretary Rice this week noted that China’s military build-up continues to proceed in a largely non-transparent manner, and we know from experience that some entities within China continue to be engaged in improper proliferation activities. So our prudent policy of “hedging” means that we will continue our dialogue with Beijing on the threat from WMD and

missile-related proliferation while pressing for improvements in the transparency, implementation, and enforcement of China's export control system. It means that we will continue to restrict U.S. exports to military end-users and end-uses in the PRC, even as we seek to expand our exports for legitimate civilian purposes. And it means that we will continue when warranted to use sanctions pursuant to U.S. legal authorities against proliferating entities.

In your letter of March 6th, Mr. Co-Chairmen, you noted that this panel would examine questions related to the U.S. Government's concerns regarding China's access to sensitive military equipment, dual-use technologies and other sensitive items should the EU lift its embargo on weapons sales to China. These are indeed important questions which deserve careful examination and which are being addressed among a range of offices and bureaus within the State Department. For purposes of our discussion today, I will attempt in an abbreviated way to describe some of our thinking in responding to the Commission's questions.

### The EU Embargo

The EU embargo is a politically binding commitment adopted for human rights reasons by the European Council in June 1989 in the wake of Tiananmen to establish "an embargo on the trade in arms with China." Its scope has never been defined, although all EU governments seem to accept that it bans lethal equipment exports.

Practice varies widely among the EU nations. Some major arms suppliers do not approve any military exports to China. Others approve little. The three EU members approving the bulk of EU military exports to China are France, the UK, and Italy.

Over the years since the embargo was enacted, EU nations have approved significant non-lethal military exports to China, including military helicopters, fire control radar, aircraft engines, submarine technology, and airborne early warning systems. In 2004, these EU governments approved more than 200 defense export licenses worth more than 400 million U.S. dollars (340 million euros). Should the arms embargo be lifted, we believe these exports would increase. We believe China would look to Europe not so much for weapons but for the software and technology that allows them

to organize and deliver military force and increase power projection, among them systems integration and electronics. These capabilities would have an effect on cross-Strait issues in China's favor.

For the past two years, the United States has made clear to the EU and its member states our view that lifting the embargo would send the wrong signal to China. Secretary Rice and the President both raised our concerns during their trips to Europe and in meetings with European officials here. Several rounds of demarches and joint State/Joint Staff briefings have taken place in a number of EU capitals. We have made intelligence-based presentations to all EU member states in Brussels.

Our reasons for opposing a lift of the embargo are well known. We have given European governments a strong, consistent message that lifting the embargo would undermine the efforts of the international community to encourage China to bring its human rights practices into compliance with international standards. China has made some progress, including expanding rule of law, but it has a long way to go and its human rights record remains poor, as documented in our annual Human Rights report published last week. It is not the right time for the EU, the U.S., or any country to suggest that international concern over China's human rights practices has eased.

We also remain deeply concerned that China insists on retaining the option to use force to block Taiwan independence. While the U.S. does not support Taiwan independence, we have consistently – since the first joint communiqué with China in 1972 – opposed any use of force, or even the threat of force, to coerce a resolution of cross-Strait differences. Were the EU to lift its embargo, particularly in light of the passage of the PRC's "anti-secession law" in 2005, it would send an inappropriate signal to the PRC regarding its buildup of missiles across from Taiwan and its continued insistence on reserving a right to use force. Given U.S. commitments under the Taiwan Relations Act and our military presence in the Pacific, we have much at stake in ensuring that cross-Strait issues are resolved through peaceful dialogue and we have asked our European allies to take that into account.

And finally, we are of course concerned over any possibility that technologies could be transferred that could ultimately enhance potential threats against U.S. forces in the region. China is rapidly modernizing its

military, but the lack of transparency in this modernization has left many of its neighbors uneasy. In light of this, we have conveyed our concerns to our European allies that they not take actions that would increase the potential for military-use technologies to be transferred to China for military end-uses.

The joint statement issued following the September 6, 2005 EU-China summit notes that “the EU side reaffirmed its willingness to continue to work towards lifting the embargo.” Nevertheless, we have seen no indication that the embargo will be lifted this year under the Austrian and Finnish EU presidencies. In fact, there have been signs that some EU member states have reconsidered their positions on the issue and now are less supportive of lifting the EU embargo. For example, German Chancellor Merkel last fall said publicly that Germany no longer supported a lifting of the arms embargo. And following a February 3 meeting with the Chinese, Austrian (EU Presidency) Foreign Minister Plassnik stated clearly that there is no consensus on this topic within the EU. We believe this change has come about because the EU has taken the time to consider the larger security and human rights implications of lifting the embargo.

Over the past year, we have begun a Strategic Dialogue with the EU on the security situation in the Asia-Pacific region, with a special emphasis on China. There have been two meetings of senior officials under this dialogue, in May and November of last year, and an experts’ working group meeting in December. An extremely fruitful conversation has developed. Set in the context of a broader discussion of the region as a whole, it is a means to increase understanding among EU members of the concerns we have regarding the possible lifting of the embargo.

Over the past two years, the United States Congress has made clear its strong feelings on this issue as well. Last year, for example, the House of Representatives passed a State Department Authorization Bill which included the “East Asia Security Act.” The Act was aimed at protecting U.S. military technology by cutting defense cooperation with Europe if there is a danger that technology could be transferred to China. Although the Act did not become law, it sent a clear signal of Congressional concern and suggested that similar action could be taken, should the EU lift its embargo.

We believe that this clear statement of Congressional views has been an important factor in prompting key EU governments to consider delaying a lift. We would not want EU actions to have an adverse impact on transatlantic cooperation including efforts to coordinate our common defense.

We plan to continue our efforts with EU governments to promote better practices in the area of defense trade controls. In 2004, for example, a U.S. delegation visited Brussels to explain how we monitor military exports to ensure they go to the proper end users. Projects such as these serve U.S. interests by encouraging allied countries to develop better military capabilities and contribute to mutual security.

I want to note that, while our opposition to a lift of the EU embargo has been firm, it should be seen in the context of our overall relationship with China. Secretary Rice said last year that “We have no problems with a strong, confident, economically powerful China.” China continues to play a key role in hosting the Six Party Talks on the North Korean nuclear issue and will continue to be critical to the stability of the Asia-Pacific region. We welcome as well China’s continuing efforts to address global concerns about Iran’s nuclear programs.

However, we remain concerned by certain elements of China’s military buildup and by ongoing human rights abuses and the continued, total lack of accountability for Tiananmen. As our relationship with China develops, we are addressing these questions constructively with China through bilateral engagement and our longstanding commitment to a peaceful resolution of cross-Strait differences.

### U.S. Export Controls

I would like to conclude with a few remarks about the broader context of U.S. –China export controls consistent with our economic and security concerns over proliferation. To put the extent of our export controls in context, in 2005, we licensed \$2.5 Billion of potential exports (not all licenses are fully utilized). Our total exports to China in 2005 were about \$38 Billion. For the first eight months of 2005, only \$10.7 million worth of potential exports were denied licenses. There is in fact no basis to Beijing’s

claims that we could significantly reduce our trade deficit overnight by simply liberalizing our controls on sensitive items.

I want to emphasize, however, that we will continue to oppose the approval of export licenses for items that we assess will enhance Chinese military capabilities, threaten global security or could contribute to the proliferation of WMD and their means of delivery. Since 2001 we have sanctioned 68 Chinese entities for proliferation-related transfers. The U.S. also is particularly concerned about the activities of serial proliferators. In 2005 we held three lengthy, senior level discussions with PRC officials to discuss these problems, urging the Chinese to take concrete actions to hold serial proliferators accountable for past proliferation behavior and to prevent future exports of concern. Rigorous implementation and enforcement by China of its own nonproliferation policies and regulations would go a long way to eliminate the need to impose such sanctions.

In addition to our frank proliferation discussions, the International Security and Nonproliferation Bureau continues a broader exchange with the Chinese government. For example, in 2005 Acting Assistant Secretary Stephen Rademaker met twice with his Chinese counterparts to discuss a wide range of international security, arms control and nonproliferation issues, including export controls, strategic stability, and regional proliferation concerns. While there undoubtedly were differences of view, there were more areas of common interest and shared objectives. We will continue to discuss these issues with China at a high level, with a view towards encouraging the Chinese to implement and enforce vigorously their export controls and nonproliferation policies in a manner that enhances regional and global security.

We are also working directly with China to improve its export control system. The U.S. has conducted two training events focusing on nuclear export control licensing and enhancing Chinese Customs ability to identify controlled commodities. We are prepared to step up our export control outreach efforts with China. We have funds to provide appropriate exchanges and training focusing on strengthening licensing processes, harmonizing national control lists with international control lists; improving enforcement capabilities, and enhancing industry outreach programs.

We continue to have a constructive bilateral nonproliferation dialogue with China as well as working on issues of proliferation concern with Beijing in

multilateral fora such as the ASEAN Regional Forum (ARF), Asia Pacific Cooperation Forum (APEC), and the International Atomic Energy Agency.

I can assure you we will continue to stay fully engaged bilaterally with China, with the EU, other countries, and through all appropriate international regimes to ensure that China undertakes those policies needed to become a responsible international stakeholder.

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