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## China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues

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# China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues

## Summary

Congress has long been concerned about whether U.S. policy advances the national interest in reducing the role of the People's Republic of China (PRC) in the proliferation of weapons of mass destruction (WMD) and missiles that could deliver them. Recipients of China's technology reportedly include Pakistan and countries that the State Department says support terrorism, such as Iran and North Korea. This CRS Report, updated as warranted, discusses the national security problem of China's role in weapons proliferation and issues related to the U.S. policy response, including legislation, since the mid-1990s. China has taken some steps to mollify U.S. concerns about its role in weapons proliferation. Nonetheless, supplies from China have aggravated trends that result in ambiguous technical aid, more indigenous capabilities, longer-range missiles, and secondary (retransferred) proliferation. As the Director of Central Intelligence (DCI) has reported to Congress, China remains a "key supplier" of weapons technology, particularly missile or chemical technology.

Policy issues in seeking PRC cooperation have concerned summits, sanctions, and satellite exports. On November 21, 2000, the Clinton Administration agreed to waive missile proliferation sanctions, resume processing licenses to export satellites to China, and discuss an extension of the bilateral space launch agreement, in return for another promise from China on missile nonproliferation. However, PRC proliferation activities again raised questions about sanctions. On 14 occasions, the Bush Administration has imposed sanctions on PRC entities (not the government) for transfers (related to ballistic missiles, chemical weapons, and cruise missiles) to Pakistan, Iran, or another country. (See **Table 1**, summarizing U.S. sanctions imposed on PRC entities.) Among those sanctions, on September 1, 2001, the Administration imposed missile proliferation sanctions that effectively denied satellite exports (for two years), after a PRC company transferred technology to Pakistan, despite the November 2000 promise. On September 19, 2003, the State Department imposed additional missile proliferation sanctions on NORINCO, a defense industrial firm, denying satellite exports to China for two more years, while waiving for one year the ban on imports of other PRC government products related to missiles, space systems, electronics, and military aircraft. On September 18, 2004, March 18, 2005, and September 18, 2005, the State Department extended the waiver.

Skeptics say that despite summits, President Bush has not forcefully pressed China's rulers on non-proliferation. The Administration has imposed repeated sanctions on "entities" but not the government. Since 2002, Bush has relied on China's "considerable influence" on North Korea to dismantle its nuclear weapons. China sponsored a Statement of the Six-Party Talks that was signed on September 19, 2005. The House International Relations Committee held a hearing on May 18, 2004, to question U.S. support for China's membership in the Nuclear Suppliers Group (NSG) despite PRC ties with Pakistan. China has not joined the Proliferation Security Initiative (PSI). China also has opposed a referral of Iran's nuclear weapons programs to the U.N. Security Council for consideration. On June 28, 2005, the House passed **H.R. 3057** to ban funds from being used by the Export-Import Bank to approve a loan or loan guarantee for selling nuclear reactors to China.

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# China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues

## Purpose and Scope

Congress has long been concerned about whether U.S. policy advances the U.S. interest in reducing the role of the People's Republic of China (PRC) in the proliferation of weapons of mass destruction (WMD) and missiles and obtaining China's cooperation in weapons nonproliferation. This problem refers to the threat of nuclear, chemical, or biological weapons and missiles that could deliver them. Some have argued that certain PRC transfers violated international treaties or guidelines, and/or have contravened various U.S. laws requiring sanctions to shore up those international standards. Even if no laws or treaties are violated, many view China's transfers as threatening U.S. security interests. Using a variety of unclassified consultations and sources, this CRS Report discusses the national security problem of the PRC's role in weapons proliferation and issues related to the U.S. policy response, including legislation, since the mid-1990s. **Table 1**, at the end of this report, summarizes the U.S. sanctions imposed or waived on PRC entities or the PRC government for weapons proliferation.

For a discussion of the policy problem in the 1980s to 1996, see CRS Report 96-767, *Chinese Proliferation of Weapons of Mass Destruction: Background and Analysis*, by Shirley Kan. See also, by the same author, CRS Report 98-485, *China: Possible Missile Technology Transfers Under U.S. Satellite Export Policy — Actions and Chronology*.

## PRC Proliferation Challenges

### Nonproliferation Commitments but Continued Concerns

Since 1991, Beijing has taken steps to address U.S. and other countries' concerns by increasing its partial participation in international nonproliferation regimes and issuing export control regulations. However, questions have remained. China first promised tentatively to abide by the Missile Technology Control Regime (MTCR) in November 1991 and February 1992 and later reaffirmed that commitment in an October 4, 1994 joint statement with the United States. The MTCR, set up in 1987, is not an international agreement and has no legal authority, leaving issues about U.S. sanctions to shore up the standards unresolved. It is a set of voluntary guidelines that seeks to control the transfer of ballistic and cruise missiles that are inherently capable of delivering at least a 500 kg (1,100 lb) payload to at least 300 km (186 mi), called "Category I" or "MTCR-class" missiles. It was unclear whether China adhered to the revised MTCR guidelines of 1993 calling for the presumption

to deny transfers of *any* missiles capable of delivering *any* WMD (not just nuclear weapons). A 1996 State Department fact sheet said that China unilaterally committed to controlling exports “consistent with the MTCR Guidelines and Annex,” with the MTCR consisting of a common export control policy (*Guidelines*) applied to a common list of controlled items (*Annex*). However, a Senate Foreign Relations Committee report of September 11, 2000, said the State Department had argued to Congress that China agreed to the MTCR Guidelines, but not the Annex.

On November 21, 2000, Beijing said that it has no intention of assisting any other country in developing ballistic missiles that can be used to deliver nuclear weapons (missiles with payloads of at least 500 kg and ranges of at least 300 km) and promised to issue missile-related export controls “as soon as possible.” After a contentious period that saw new U.S. sanctions, the PRC finally published those regulations and the control list (modeled on the MTCR) on August 25, 2002, as Washington and Beijing prepared for a Bush-Jiang summit on October 25, 2002.

China acceded to the Nuclear Nonproliferation Treaty (NPT) on March 9, 1992. The NPT does not ban peaceful nuclear projects. On May 11, 1996, the PRC issued a statement promising to make only safeguarded nuclear transfers. China, on July 30, 1996, began a moratorium on nuclear testing and signed the Comprehensive Test Ban Treaty (CTBT) in September 1996 but (like the United States) has not ratified it. Premier Li Peng issued nuclear export control regulations on September 10, 1997. On October 16, 1997, China joined the Zangger Committee (on nuclear trade). Also in October 1997, China promised not to start new nuclear cooperation with Iran. On June 6, 1998, the U.N. Security Council (including China) adopted Resolution 1172, asking states to prevent exports to India or Pakistan’s nuclear weapon or missile programs. The PRC issued regulations on dual-use nuclear exports on June 17, 1998. In May 2004, China applied to join the Nuclear Suppliers Group (NSG), which accepted China as a member after the Bush Administration decided to support China, despite congressional concerns.

In November 1995, China issued its first public defense white paper, which focused on arms control and disarmament. Also, China signed the Chemical Weapons Convention (CWC) in January 1993. On April 25, 1997, China deposited its instrument of ratification of the CWC, before it entered into force on April 29, 1997. From 1993 to 1998, the PRC issued export control regulations on chemicals. On October 14, 2002, on the eve of a Bush-Jiang summit, the PRC issued regulations for export controls over dual-use biological agents and related technology. On December 3, 2003, China issued a white paper on nonproliferation, which stated that its control lists are almost the same as those of the Zangger Committee, NSG, CWC, Australia Group, and MTCR.

Nevertheless, China is not a member of the MTCR or the Australia Group (AG) (on chemical and biological weapons). (In June 2004, China expressed willingness to join the MTCR.) China did not join the 93 countries in signing the International Code of Conduct Against Ballistic Missile Proliferation in The Hague on November 25, 2002. China has not joined the Proliferation Security Initiative (PSI) announced by President Bush on May 31, 2003. PRC weapons proliferation has persisted, aggravating trends that result in more ambiguous technical assistance, longer range missiles, more indigenous capabilities, and secondary (retransferred) proliferation.



The Director of Central Intelligence (DCI) noted that, for July-December 1996, “China was the most significant supplier of WMD-related goods and technology to foreign countries.” As required by Section 721 of the FY1997 Intelligence Authorization Act, P.L. 104-293, the DCI’s report to Congress, “Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions,” has named China (plus Russia and North Korea) as “key suppliers” of dangerous technology. (Subsequent discussions of the DCI’s report refer to this reporting requirement. Original legislation required a semi-annual report, and the FY2004 Intelligence Authorization Act, P.L. 108-177, changed the requirement to an annual report.)

## **Nuclear Technology Sales to Pakistan**

**Ring Magnets.** In 1996, some in Congress called for sanctions after reports disclosed that China sold unsafeguarded ring magnets to Pakistan, apparently in violation of the NPT and in contradiction of U.S. laws, including the Arms Export Control Act (P.L. 90-629) and Export-Import Bank Act (P.L. 79-173), as amended by the Nuclear Proliferation Prevention Act of 1994 (Title VIII of P.L. 103-236). On February 5, 1996, the *Washington Times* disclosed intelligence reports that the China National Nuclear Corporation, a state-owned corporation, transferred to the A.Q. Khan Research Laboratory in Kahuta, Pakistan, 5,000 ring magnets that can be used in gas centrifuges to enrich uranium. Reportedly, intelligence experts believed that the magnets provided to Pakistan were to be used in special suspension bearings at the top of rotating cylinders in the centrifuges. The *New York Times*, on May 12, 1996, reported that the shipment was made after June 1994 and was worth \$70,000. The PRC company involved was China Nuclear Energy Industry Corporation, a subsidiary of the China National Nuclear Corporation. The State Department’s report on nonproliferation efforts in South Asia (issued on January 21, 1997) confirmed that “between late 1994 and mid-1995, a Chinese entity transferred a large number of ring magnets to Pakistan for use in its uranium enrichment program.”

The Clinton Administration’s decision-making was complicated by considerations of U.S. corporations doing business in China. Officials reportedly considered imposing then waiving sanctions or focusing sanctions only on the China National Nuclear Corporation, rather than large-scale sanctions affecting the entire PRC government and U.S. companies, such as Westinghouse Electric Corporation (which had deals pending with China National Nuclear Corporation) and Boeing Aircraft Company. At the end of February 1996, Secretary of State Warren Christopher instructed the Export-Import Bank to suspend financing for commercial deals in China for one month, reported the *New York Times* (February 29, 1996). Christopher reportedly required time to try to obtain more information to make a determination of whether sanctions would be required. Meanwhile, DCI John Deutch reportedly said at a White House meeting that PRC officials at some level likely approved the sale of magnets. Defense Secretary William Perry supported this view, but officials of the Commerce and Treasury Departments and the U.S. Trade Representative argued there was lack of solid proof, according to the *Washington Post* (April 1, 1996).

On May 10, 1996, the State Department announced that China and Pakistan would not be sanctioned, citing a new agreement with China. Clinton Administration

officials said that China promised to provide future assistance only to safeguarded nuclear facilities, reaffirmed its commitment to nuclear nonproliferation, and agreed to consultations on export control and proliferation issues. The Administration also said that PRC leaders insisted they were not aware of the magnet transfer and that there was no evidence that the PRC government had willfully aided or abetted Pakistan's nuclear weapon program through the magnet transfer. Thus, the State Department announced that sanctions were not warranted, and Export-Import Bank considerations of loans for U.S. exporters to China were returned to normal. On May 11, 1996, China's foreign ministry issued a statement that "China will not provide assistance to unsafeguarded nuclear facilities." In any case, since 1984, China has declared a policy of nuclear nonproliferation and a requirement for recipients of its transfers to accept IAEA safeguards, and China acceded to the NPT in 1992.

That year, Congress responded to the Administration's determination not to impose sanctions by adding language on "persons" in the Export-Import Bank Act, as amended by Section 1303 of the National Defense Authorization Act for FY1997 (P.L. 104-201), enacted on September 23, 1996.

**Other Nuclear Cooperation.** On October 9, 1996, the *Washington Times* reported that a CIA report dated September 14, 1996, said that China sold a "special industrial furnace" and "high-tech diagnostic equipment" to unsafeguarded nuclear facilities in Pakistan. In September 1996, PRC technicians in Pakistan reportedly prepared to install the dual-use equipment. The deal was allegedly made by the China Nuclear Energy Industry Corporation, the same firm which sold the ring magnets. Those who suspected that the transfer was intended for Pakistan's nuclear weapons program said that high temperature furnaces are used to mold uranium or plutonium. The CIA report was said to state that "senior-level government approval probably was needed" and that PRC officials planned to submit false documentation on the final destination of the equipment. According to the press, the CIA report said that the equipment was set to arrive in early September 1996. The *Washington Post*, on October 10, 1996, further reported that the equipment was intended for a nuclear reactor to be completed by 1998 at Khushab in Pakistan. On October 9, 1996, the State Department said that it had not concluded that China violated its promise of May 11, 1996. However, the State Department did not publicly address whether the suspected transfers occurred before May 11, 1996, violated the NPT, or contradicted U.S. laws (including the Arms Export Control Act, Export-Import Bank Act, and the Nuclear Proliferation Prevention Act).

Concerns have persisted about PRC assistance to Pakistan's nuclear facilities. As reported by Pakistani and PRC news sources in 1992, China began to build a nuclear power plant at Chashma and was suspected in 1994 of helping Pakistan to build an unsafeguarded, plutonium-producing reactor at Khushab, according to *Nucleonics Week* (June 19, 1997 and February 26, 1998). Operational since 2001, the Chashma reactor has IAEA safeguards but not full scope safeguards (*Nucleonics Week*, April 26, 2001; and IAEA, *Annual Report 2001*).

Referring specifically to Pakistan's efforts to acquire equipment, materials, and technology for its nuclear weapons program, the DCI's June 1997 report for the last half of 1996 (after China's May 1996 pledge) stated that China was the "principal supplier." Then, on May 11 and 13, 1998, India conducted nuclear tests, citing



China's nuclear ties to Pakistan, and Pakistan followed with nuclear tests on May 28 and 30, 1998. China, as Pakistan's principal military and nuclear supplier, failed to avert the tests and did not cut off nuclear aid, but condemned the tests at the U.N. The Arms Control and Disarmament Agency's annual report on arms control for 1998 stated that "there continued to be some contacts between Chinese entities and Pakistan's unsafeguarded and nuclear weapons program."

In 2000, news reports said that some former U.S. nonproliferation and intelligence officials suspected that China provided equipment for Pakistan's secret heavy water production plant at Khushab, where an unsafeguarded reactor reportedly started up in April 1998 and has generated weapons-grade plutonium. Clinton Administration officials at the White House and State Department reportedly denied China's involvement but said that they did not know the origins of the plant.<sup>1</sup> The DCI reported in November 2003 that, in the first half of 2003, continued contacts between PRC entities and "entities associated with Pakistan's nuclear weapons program" cannot be ruled out, despite the PRC's 1996 promise not to assist unsafeguarded nuclear facilities. The Director of the Defense Intelligence Agency (DIA), Vice Admiral Lowell Jacoby, testified to the Senate Intelligence Committee on February 24, 2004, that PRC entities "remain involved with nuclear and missile programs in Pakistan and Iran," while "in some cases," the entities are involved without the government's knowledge, thus implying that there are cases in which the PRC government has knowledge of the relationships.

On May 5, 2004, China signed a contract to build a second nuclear power reactor (Chashma-2) in Pakistan. This contract raised questions because of continuing PRC nuclear cooperation with Pakistan and its signing right before a decision by the Nuclear Suppliers Group (NSG) on China's membership. With a pre-existing contract, Chashma-2 would be exempted from the NSG's requirement for full-scope safeguards (not just IAEA safeguards on the reactor).<sup>2</sup> (See **Nonproliferation Regimes** below for policy discussion.)

**A. Q. Khan.** China's past and persisting connections to Pakistan's nuclear program have raised questions about whether China had involvement in or knowledge about the long-time efforts, publicly confirmed in early 2004, of Abdul Qadeer Khan, the former head of Pakistan's nuclear weapon program, in selling uranium enrichment technology to Iran, North Korea, and Libya. DCI George Tenet confirmed A.Q. Khan's network of nuclear trade in open testimony to the Senate Intelligence Committee on February 24, 2004.

China's association can be raised particularly because China was an early recipient of the uranium enrichment technology Khan acquired in Europe.<sup>3</sup> Also, there are questions about whether China has shared intelligence with the United

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<sup>1</sup> Mark Hibbs, "CIA Knew About Khushab D2O Plant but Not Source, Officials Claim," *Nucleonics Week*, March 23, 2000; "Pakistani Separation Plant Now Producing 8-10 Kg Plutonium/Yr," *Nuclear Fuel*, June 12, 2000.

<sup>2</sup> "Pakistan, China Agree on Second Chashma Unit," *Nucleonics Week*, May 6, 2004.

<sup>3</sup> David Sanger and William Broad, "From Rogue Nuclear Programs, Web of Trails Leads to Pakistan," *New York Times*, January 4, 2004.

States about Khan's nuclear technology transfers. With the troubling disclosures, China might be more willing to cooperate on nonproliferation or might remain reluctant to confirm its involvement. A senior Pakistani diplomat was quoted as saying that, while in Beijing in 2002, PRC officials said they knew "A.Q. Khan was in China and bribing people, and they wanted him out."<sup>4</sup> Particularly troubling has been the reported intelligence finding in early 2004 that Khan sold Libya a nuclear bomb design that he received from China in the early 1980s (in return for giving China his centrifuge technology), a design that China had already tested in 1966 and had developed as a compact nuclear bomb for delivery on a missile.<sup>5</sup> That finding raised the additional question of whether Khan also sold that bomb design to others, including Iran and North Korea. DCI Porter Goss testified in February 2005 that the Bush Administration has continued to explore opportunities to learn about Khan's nuclear trade, adding that "getting to the end of that trail is extremely important for us. It is a serious proliferation question."<sup>6</sup>

## Missile Technology Sales to Pakistan

**M-11 Missiles.** Transfers of the PRC's M-11 short range ballistic missiles (SRBMs) or related equipment exceed MTCR guidelines, because the M-11 has the inherent capability to deliver a 500 kg (1,100 lb) warhead to 300 km (186 mi). Issues about U.S. sanctions have included the questions of whether PRC transfers to Pakistan involved M-11 missile-related technology (Category II of the MTCR) or complete missiles (Category I). Sanctions are mandated under Section 73(a) of the Arms Export Control Act (AECA) and Section 11B(b)(1) of the Export Administration Act (EAA) (as amended by the FY1991 National Defense Authorization Act).

In June 1991, the Bush Administration first imposed sanctions on entities in China for transferring M-11 technology to Pakistan. Sanctions affected exports of supercomputers, satellites, and missile technology. The Administration later waived the sanctions on March 23, 1992. On August 24, 1993, the Clinton Administration determined that China had again transferred M-11 equipment (not whole missiles) to Pakistan and imposed new sanctions (affecting exports of some satellites). On October 4, 1994, Secretary of State Warren Christopher and Foreign Minister Qian Qichen signed a joint statement, saying that Washington would waive the August 1993 sanctions and Beijing would not export "ground-to-ground missiles" "inherently capable" of delivering a 500 kg warhead 300 km. The Administration waived the sanctions on November 1, 1994.

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<sup>4</sup> Barton Gellman and Dafna Linzer, "Unprecedented Peril Forces Tough Calls," *Washington Post*, October 26, 2004.

<sup>5</sup> Joby Warrick and Peter Slevin, "Libyan Arms Designs Traced Back to China," *Washington Post*, February 15, 2004; William Broad and David Sanger, "As Nuclear Secrets Emerge in Khan Inquiry, More Are Suspected," *New York Times*, December 26, 2004.

<sup>6</sup> Senate Select Committee on Intelligence, hearing on "Global Intelligence Challenges 2005: Meeting Long-term Challenges with a Long-term Strategy," February 16, 2005.

However, contentious policy questions about imposing sanctions for the 1992 transfer of complete M-11 SRBMs (not just components) persisted until 2000. The *Washington Times* (March 14, 1997) said “numerous” intelligence reports indicated that M-11 missiles were “operational” in Pakistan, but these findings were disputed by some policymakers. Secretary of Defense William Cohen issued a Pentagon report in 1997 stating that Pakistan acquired “SRBMs” as well as related equipment from China in the early 1990s.<sup>7</sup> In a 1998 report to Congress on nuclear nonproliferation in South Asia, the Department of State acknowledged its concerns about “reports that M-11 missiles were transferred from China to Pakistan” but added that it had not determined that such transfers occurred, “which would be sanctionable under U.S. law.”<sup>8</sup> Gordon Oehler, former head of the CIA’s Nonproliferation Center, testified on June 11, 1998, to the Senate Foreign Relations Committee that in November 1992, “the Chinese delivered 34 M-11s to Pakistan.” In July 1998, the Rumsfeld Commission reported that China had transferred complete M-11s to Pakistan.<sup>9</sup>

Some said that sanctions were not imposed for transfers of complete M-11s, because the missiles remained inside crates at Sagodha Air Base, according to the *Wall Street Journal* (December 15, 1998). Critics, especially in Congress, said the Clinton Administration avoided making determinations of whether to impose sanctions, by delaying tactics, re-writing reports, and setting high evidentiary standards. The Senate Foreign Relations Committee issued a report in September 2000, saying that the Administration avoided such determinations through the use of “bureaucratic maneuvers” to delay the drafting of “Statements/Findings of Fact” by the intelligence community and to not schedule interagency meetings to consider those findings.<sup>10</sup>

On September 9, 1999, the intelligence community publicly confirmed for the first time that “Pakistan has M-11 SRBMs from China” and that they may have a nuclear role.<sup>11</sup> However, the State Department argued on September 14, 1999, that it required a “high standard of evidence” and had not yet determined that Category I sanctions were warranted, despite the intelligence judgment. (Category I sanctions would deny licenses for exports of Munitions List items, among other actions, and Congress transferred satellites back to the Munitions List, effective March 15, 1999.) The *Far Eastern Economic Review* reported on May 18, 2000, that the Clinton Administration and Senator Helms of the Foreign Relations Committee struck a deal in 1999 that required a decision on sanctions for the PRC’s M-11 transfer to Pakistan in exchange for the confirmation of Robert Einhorn as Assistant Secretary of State for Nonproliferation (approved on November 3, 1999). On November 21, 2000, the

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<sup>7</sup> Office of the Secretary of Defense, *Proliferation: Threat and Response*, November 1997.

<sup>8</sup> Department of State, “Report on Nuclear Nonproliferation in South Asia,” March 17, 1998.

<sup>9</sup> Commission to Assess the Ballistic Missile Threat to the United States (popularly known as the Rumsfeld Commission), report, July 15, 1998.

<sup>10</sup> Senate Foreign Relations Committee, “Chairman’s Overview of China’s Proliferation Track Record,” September 11, 2000.

<sup>11</sup> National Intelligence Council, “Foreign Missile Developments and the Ballistic Missile Threat to the United States Through 2015,” September 1999.

Clinton Administration said it determined that PRC entities had transferred Category I and Category II missile-related items to Pakistani entities, and sanctions would be waived on the PRC for past transfers, given its new missile nonproliferation promise.

**Missile Plants and MRBMs.** While China promised not to transfer *missiles*, it has reportedly helped Pakistan to achieve an indigenous missile capability. U.S. intelligence reportedly concluded in a National Intelligence Estimate that China provided blueprints and equipment to Pakistan to build a plant for making missiles that would violate the MTCR, according to the *Washington Post* (August 25, 1996). Analysts disagreed, however, about whether the plant would manufacture some major missile components or whole copies of the M-11 missile. Construction of the plant allegedly began in 1995. On August 25, 1996, Vice President Al Gore acknowledged concerns about the plant. *Time* reported on June 30, 1997, that the Clinton Administration would not discuss possible sanctions based on intelligence on the missile plant. The November 1997 report of the Secretary of Defense also confirmed Pakistan's facility "for the production of a 300 kilometer range ballistic missile." By 1998, the missile plant in Fatehjung was almost finished, awaiting delivery of crucial equipment from China, reported the *Wall Street Journal* (December 15, 1998).

On April 6, 1998, Pakistan first tested its nuclear-capable Ghauri (Hatf-5) medium-range ballistic missile (MRBM), which is based on the North Korean No Dong missile. U.S. intelligence was said to suspect that China Poly Ventures Company delivered, perhaps in 1999, U.S.-made specialized metal-working presses and a special furnace to Pakistan's National Development Center, a missile plant, reported the *Washington Times* (April 15, 1999). China reportedly was building a second missile plant and providing specialty steel, guidance systems, and technical aid, said the *Far Eastern Economic Review* (June 22, 2000) and *New York Times* (July 2, 2000). Apparently confirming these stories, the DCI reported in August 2000 that, besides North Korean help, PRC entities provided "increased assistance" to Pakistan's ballistic missile program in the second half of 1999. Also, China has assisted Pakistan with development of the Shaheen-2 two-stage, solid-fuel MRBM, reported *Jane's Defense Weekly* (December 13, 2000). DCI George Tenet confirmed U.S. concerns about such assistance in testimony on February 7, 2001, before the Senate Intelligence Committee, and in his February 2001 report on proliferation.

Despite the PRC's November 2000 missile nonproliferation pledge, in the first several months of 2001, a PRC company reportedly delivered 12 shipments of missile components to Pakistan's Shaheen-1 SRBM and Shaheen-2 MRBM programs, according to the *Washington Times* (August 6, 2001). On September 1, 2001, the State Department imposed sanctions on China Metallurgical Equipment Corporation (CMEC) for proliferation of missile technology (Category II items of the MTCR) to Pakistan. In November 2004, the DCI reported that, in the second half of 2003, PRC entities helped Pakistan to advance toward serial production of solid-fuel SRBMs (previously identified as the Shaheen-1, Abdali, and Ghaznavi) and supported Pakistan's development of solid-fuel MRBMs (previously noted as the Shaheen-2 MRBM).



## Nuclear Technology Sales to Iran

Suspecting that Iran uses nuclear technology to build the technical infrastructure for its clandestine nuclear weapon program, Washington has urged Beijing (and Moscow) not to transfer any nuclear technology to Iran. In 1995, China suspended a sale of nuclear reactors to Iran. Showing Israeli influence, Prime Minister Benjamin Netanyahu publicly stated in August 1997 that PRC Vice Premier Li Lanqing said that China canceled plans to build the reactors.

However, there were other controversial PRC nuclear deals with Iran pointing to an Iranian nuclear weapon program. PRC technicians built a calutron, or electromagnetic isotope separation system, for enriching uranium at the Karaj nuclear research facility, according to “confidential reports” submitted to Iranian President Rafsanjani by his senior aides, according to the *London Sunday Telegraph* (as reported in the September 25, 1995 *Washington Times*). As reported, the PRC system was similar to the one used in Iraq’s secret uranium enrichment program. Secretary of Defense William Perry confirmed in an April 1996 report that “the Iranians have purchased an electromagnetic isotope separation unit from China.”<sup>12</sup>

The China Nuclear Energy Industry Corporation had plans to sell Iran a facility to convert uranium ore into uranium hexafluoride gas, which could be enriched to weapons-grade material, according to the *Washington Post* (April 17, 1995; June 20, 1996). Intelligence reports said that the deal proceeded with PRC nuclear experts going to Iran to build the new uranium conversion plant near Isfahan, reported the *Washington Times* (April 17, 1996). However, PRC civilian nuclear officials later indicated to the IAEA and U.S. officials that China would not transfer the uranium conversion facility, ostensibly because of Iran’s inability to pay, reported the *Washington Post* (November 6, 1996). China’s role as nuclear supplier may have been affected by Iran’s turn to Russian reactors. Also, China may have responded to concerns of Israel (a key supplier to China’s military).

China’s concerns about its standing with the United States were also important. State Department official Robert Einhorn told Congress that China canceled this deal but had provided Iran with a blueprint to build the facility, reported the *Washington Post* (September 18, 1997). On the eve of a U.S.-China summit in Washington in October 1997, PRC Foreign Minister Qian Qichen provided a secret letter to Secretary of State Madeleine Albright, promising not to begin new nuclear cooperation with Iran, after building a small nuclear research reactor and a factory to fabricate zirconium cladding to encase fuel rods in nuclear reactors, according to the *Washington Post* (October 30, 1997). U.S. officials said the projects would not be significant for nuclear proliferation.

After President Clinton signed certifications in January 1998 to implement the 1985 bilateral nuclear cooperation agreement, as promised at the 1997 summit, the *Washington Post* (March 13, 1998) reported that at a closed hearing of the Senate Foreign Relations Committee on March 12, 1998, Clinton Administration officials disclosed negotiations in January 1998 between the China Nuclear Energy Industry

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<sup>12</sup> Office of the Secretary of Defense, *Proliferation: Threat and Response*, April 1996.

Corporation and Iran's Isfahan Nuclear Research Center to provide "a lifelong supply" of hundreds of tons of anhydrous hydrogen fluoride (AHF), or hydrofluoric acid, under falsified documents about end-users. (The AHF chemical could be used to produce uranium hexafluoride used in uranium conversion facilities. AHF is also a precursor for the chemical weapon agent Sarin.) According to the press, after Washington protested, Beijing stopped the sale. The Administration argued that Beijing responded positively and that the chemical is controlled by the Australia Group and not on a nuclear control list. Later, an April 2, 1999 U.S. intelligence report was said to suggest that the China Non-metallic Minerals Industrial Import/Export Corporation "revived" negotiations with the Iranian Atomic Energy Organization on the construction of a plant to produce graphite (used as a moderator in some reactors), reported the *Washington Times* (April 15, 1999).

In a February 2001 report (on the first half of 2000), the DCI dropped an earlier observation that the 1997 pledge appeared to be holding. In testimony before the Senate Governmental Affairs Subcommittee on International Security, Proliferation, and Federal Services on June 6, 2002, Assistant Secretary of State John Wolf stated concerns about possible PRC-Iranian interactions "despite China's 1997 pledge to end its nuclear cooperation with Iran."

In 2002, an Iranian opposition group reported that Iranian front companies procured materials from China (and other countries) for secret nuclear weapons facilities, while experts from China have worked at a uranium mine at Saghand and a centrifuge facility (for uranium enrichment) near Isfahan, reported the *Washington Post* (December 19, 2002 and February 20, 2003). Moreover, *Nucleonics Week* (February 27 and March 6, 2003) reported that Iran, since 2000, has been building a secret uranium enrichment plant at Natanz with technology for gas centrifuge enrichment from Pakistan (Khan Research Laboratories), a country that has received nuclear cooperation from China. Also, the IAEA found out in 2003 that, in 1991, China supplied Iran with 1.8 metric tons of natural uranium, reported *Nucleonics Week* (June 12, 2003). The head of the Iranian Atomic Organization reported an Iranian-PRC contract to extract uranium ore in Yazd.<sup>13</sup> The DCI's report issued in November 2004 confirmed that the Iranian opposition group, "beginning in August of 2002, revealed several previously undisclosed Iranian nuclear facilities."

In testimony to Congress on February 11, 2003, DCI George Tenet pointed to China's "firms" (rather than the government) and warned that they "may be backing away from Beijing's 1997 bilateral commitment to forego any new nuclear cooperation with Iran." The DCI reported in November 2003 that "some interactions of concern" between PRC and Iranian entities continued in the first half of 2003. The Director of the Defense Intelligence Agency, Vice Admiral Lowell Jacoby, testified to the Senate Intelligence Committee on February 24, 2004, that PRC entities "remain involved with nuclear and missile programs in Pakistan and Iran, while, "in some cases," the entities are involved without the PRC government's knowledge.

In April 2004, the Administration imposed sanctions under the Iran Nonproliferation Act. Assistant Secretary of State John Wolf testified to the House

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<sup>13</sup> *Mehr News Agency*, Tehran, December 10, 2004, via FBIS.



International Relations Committee on May 18, 2004, that “most” of the sanctions related to non-nuclear transfers, but there were concerns in the nuclear area as well.

A policy concern has been China’s opposition to the U.S. objective of having the IAEA refer Iran’s case to the U.N. Security Council for allegedly violating the NPT. On October 28, 2004, China and Iran signed a deal in oil and gas sales worth \$70 billion. Then, China’s Foreign Minister Li Zhaoxing talked with Secretary of State Powell on November 5, 2004, saying that the case should remain under the IAEA. On the next day, Li arrived in Tehran and expressed opposition to referral of Iran’s case to the Security Council. Upon returning to Beijing on November 8, Li insisted on the phone to U.S. National Security Advisor Condoleezza Rice that Iran’s case be solved under the IAEA.<sup>14</sup> At a meeting on the sideline of a U.N. summit in New York on September 13, 2005, President Bush tried to persuade PRC ruler Hu Jintao not to block the IAEA from referring Iran’s case to the Security Council. Before the meeting, the Administration briefed China on U.S. classified intelligence about Iran’s development of the Shahab-3 missile that could deliver a nuclear warhead. However, China (and others) abstained when the IAEA passed a resolution on September 24, 2005, declaring that Iran is not complying with the NPT, and the PRC envoy in Vienna continued to call for a resolution under the IAEA.<sup>15</sup>

## Missile Technology Sales to Iran

**Ballistic Missiles.** The CIA found that China delivered dozens or perhaps hundreds of missile guidance systems and computerized machine tools to Iran sometime between mid-1994 and mid-1995, reported the *International Herald Tribune* (June 23, 1995). The November 21, 1996 *Washington Times* cited a CIA report as saying that China agreed in August 1996 to sell to Iran’s Defense Industries Organization gyroscopes, accelerometers, and test equipment, which could be used to build and test components for missile guidance. On the same day, the State Department would only say publicly that “we believe at this stage that, in fact, the Chinese are operating within the assurances they have given us.”

The *Washington Times* (September 10, 1997) cited Israeli and U.S. intelligence sources as saying that China Great Wall Industry Corp. (which markets satellite launches) was providing telemetry equipment used in flight-tests to Iran for its development of the Shahab-3 and Shahab-4 MRBMs (with ranges, respectively, of about 800 mi. and 1,250 mi.). Over 100 PRC and North Korean experts worked there, reported the *Washington Times* (November 23, 1997) and *Washington Post* (December 31, 1997). Citing a May 27, 1998 intelligence report, the June 16, 1998 *Washington Times* reported that, in May 1998, China discussed selling telemetry equipment (for testing missiles) to Iran. On July 22, 1998, Iran first tested the mobile Shahab-3 missile, which the Pentagon, on the next day, confirmed to be based on a North Korean Nodong MRBM. In Beijing in November 1998, Acting Undersecretary of State John Holum protested continuing PRC missile technology

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<sup>14</sup> *Zhongguo Wang*, Beijing, October 31, 2004; *Xinhua*, Beijing, November 5, 2004; *IRNA*, Tehran, November 6, 2004; *Xinhua*, Beijing, November 8, 2004 (via FBIS).

<sup>15</sup> *New York Times*, September 14, 2005; *Wall Street Journal*, September 14, 2005; *AFP*, September 24, 2005; and *Xinhua* [New China News Agency], September 24, 2005.

aid to Iran, including a reported shipment of telemetry equipment in November 1998, according to the *Washington Post* (November 13, 1998) and *Washington Times* (December 7, 1998). U.S. intelligence suspected continued PRC sales of missile technology to Iran in 1999, including specialty steel, telemetry equipment, and training on inertial guidance, reported the *Washington Times* (April 15, 1999).

On November 21, 2000, under the AECA and EAA, the Clinton Administration announced it determined that PRC entities had transferred Category II items (missile components) to Iranian entities and U.S. sanctions would be waived on China given its new missile nonproliferation promise.

Still, the *Washington Times* (January 26, 2001) said that NORINCO (a PRC defense industrial conglomerate) shipped specialty metals and chemicals used in missile production to Iran. On the national emergency regarding weapons proliferation, President Bush continued to report to Congress in June 2002 that PRC (and North Korean and Russian) entities “have continued to supply Iran with a wide variety of missile-related goods, technology, and expertise.”<sup>16</sup> The report confirmed that the May 2002 sanctions under the Iran Nonproliferation Act of 2000 (P.L. 106-178) were imposed on three PRC entities for conventional transfers to Iran related to unspecified missiles. It also noted that the Administration did not impose new missile proliferation sanctions (under the AECA and EAA) between November 2001 and May 2002. (The Iran Nonproliferation Act authorizes sanctions on a foreign person based on “credible information” of a transfer to Iran (not necessarily a weapons program) of technology controlled by multilateral nonproliferation regimes. The AECA and EAA require sanctions based on a Presidential determination that a foreign entity “knowingly” transferred any MTCR missile equipment or technology to a program for an MTCR Category I missile.)

On May 23, 2003, the Administration imposed sanctions on NORINCO and Iran’s Shahid Hemmat Industrial Group, under Executive Order (E.O.) 12938 (as amended by E.O. 13094). According to U.S. officials, the Administration banned imports from NORINCO for two years (worth over \$100 million annually), because it transferred missile technology to Iran, even after the PRC issued missile technology export controls in August 2002, that would assist the development of medium- or long-range ballistic missiles, reported *Reuters* (May 22) and *Wall Street Journal* (May 23, 2003). (E.O. 12938 requires sanctions if the Secretary of State determines that a foreign person has “materially contributed or attempted to contribute materially” to WMD or missile proliferation.)

Again on June 26, 2003, the Administration imposed sanctions under the Iran Nonproliferation Act on five PRC entities (including NORINCO) and one North Korean entity. The State Department noted that it added in the Act’s required report to Congress (a classified report was submitted on June 25) transfers of items that have the potential to make a “material contribution” to WMD, cruise missiles, or

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<sup>16</sup> President Clinton declared the national emergency with respect to the proliferation of weapons of mass destruction in Executive Order 12938 on November 14, 1994. President George W. Bush, *Report to Congress on the Emergency Regarding Proliferation of Weapons of Mass Destruction*, June 18, 2002.

ballistic missiles, even if the items fall below the parameters of multilateral export control lists. The DCI reported in November 2004 that, in the second half of 2003, PRC (and former Soviet and North Korean) entities continued to supply ballistic missile-related equipment, technology, and expertise to Iran, which is pursuing longer-range missiles. The report also said that PRC entities provided missile-related assistance to Iran that helped it to advance toward its goal of self-sufficient production of ballistic missiles.

On April 1, 2004, the Bush Administration imposed sanctions under the Iran Nonproliferation Act based on “credible information” that five PRC entities (along with other foreign entities) transferred unspecified prohibited items to Iran. Assistant Secretary of State John Wolf testified to the House International Relations Committee on May 18, 2004, that “most” of the sanctions related to non-nuclear transfers, but there were concerns in the nuclear area as well. The *Washington Times* reported on August 23, 2004, that the U.S. government detected several weeks before that a PRC company supplied missile-related technology to Iran within the past six months.

On September 20, 2004, under E.O. 12938 (amended by E.O. 13094), the State Department imposed sanctions on Xinshidai (New Era Company), a defense-industrial conglomerate, for material contributions to missile technology proliferation in a publicly unnamed country. The Bush Administration again imposed sanctions on PRC entities under the Iran Nonproliferation Act, in September, November, and December 2004. (See **Table 1.**) Under Secretary of State John Bolton reported in a speech in Tokyo in February 2005 that the PRC government has still not taken action to stop NORINCO’s missile proliferation activities in Iran, despite repeated sanctions on this “serial proliferator” costing NORINCO hundreds of millions of dollars in banned exports to the United States.<sup>17</sup>

**Anti-Ship Cruise Missiles.** China sold land-, sea-, and air-launched anti-ship missiles to Iran, raising policy issues about imposing sanctions. In January 1996, Vice Admiral John Scott Redd, as Commander of the U.S. Fifth Fleet, first reported that China supplied to Iran C-802 anti-ship cruise missiles, as disclosed in the *Washington Times* (March 27, 1996). In 1997, General J.H. Binford Peay, Central Command commander, said that China transferred 20 patrol boats with 15 equipped with C-802 missiles, reported the *Washington Times* (January 29, 1997).

The C-802 is a subsonic (0.9 Mach) missile which has a range of 120 km. (75 mi.) and carries a 165 kg. (363 lb.) warhead. No international agreement bans transfers of anti-ship missiles, and the C-802 is not covered by the MTCR, which controls exports of ballistic and cruise missiles that can deliver 500 kg. warheads to 300 km. Nevertheless, some argued that the transfer violated the Iran-Iraq Arms Nonproliferation Act of 1992, which requires sanctions for transfers that contribute to Iranian or Iraqi efforts to acquire “destabilizing numbers and types of advanced conventional weapons” (including cruise missiles) or WMD. On April 10, 1997, Deputy Assistant Secretary of State for Nonproliferation Robert Einhorn testified that

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<sup>17</sup> John Bolton, Under Secretary of State for Arms Control and International Security, “Coordinated Allied Approaches to China,” Tokyo, Japan, February 7, 2005.

“especially troubling to us is that these cruise missiles pose new, direct threats to deployed U.S. forces.” Still, Einhorn contended that “the C-802 transfers that have occurred so far are not of a destabilizing number and type.” Arguments against sanctions were in part based on the case that anti-ship cruise missiles were not a new type of weapon in Iran’s arsenal; China previously transferred Silkworm anti-ship cruise missiles to Iran. Others in Congress and the Pentagon argued that U.S. sanctions should be imposed on China for the delivery of C-802 anti-ship cruise missiles to Iran, because they were “destabilizing” to the region.

According to *Reuters*, on June 17, 1997, Defense Secretary Cohen reported Iran had test-fired PRC air-launched, anti-ship cruise missiles. They were C-801 missiles fired from F-4 fighters. China Precision Machinery Import-Export Corporation (CPMIEC) markets air-launched anti-ship cruise missiles called C-801K and C-802K. The subsonic C-801K has a range of 50 km (31 mi). Cohen added that the U.S. military was watching very closely and has “the capability to defeat any weapon system that Iran might possess.” After seeking to clarify apparently vague PRC assurances made at the U.S.-China summit in October 1997, Defense Secretary Cohen said in Beijing on January 20, 1998, that the PRC President promised that China does not plan to transfer to Iran additional anti-ship cruise missiles, including those under contract, or technology to achieve over-the-horizon capability or indigenous production, reported *Reuters* (January 20, 1998). During another visit to China, Secretary Cohen said on July 10, 2000, that the PRC has “abided by that agreement” made in 1998 “as far as the shipment of cruise missiles to the Iranians.” In his January 2001 report on proliferation, Cohen did not mention China’s promises on Iranian cruise missiles.

U.S. intelligence reportedly believed that China already delivered perhaps 150 C-802 missiles to Iran, which then made additional C-802s using suspected French TRI-60 engines manufactured and sold by Microturbo SA to China beginning in 1987 and perhaps also to Iran in 1998, reported the *Washington Post* (April 3, 1999). Responding to U.S. diplomatic protests, Paris said that the French firm sold generators, not missile engines. The DCI reported in July 1999 that “China also was an important supplier of [advanced conventional munitions] to Iran through the second half of 1998, but President Jiang Zemin pledged to cease supply of cruise missiles” [in January 1998]. The report did not say whether that pledge was holding. The *Washington Times* (August 19, 1999) cited intelligence reports as saying that China signed an \$11 million agreement to improve Iran’s FL-10 anti-ship cruise missiles. The DCI’s August 2000 report, on the second half of 1999, said that China (and others) helped Iran to develop its capability to produce conventional weapons, including PRC-designed anti-ship cruise missiles.

On May 9, 2002, the Bush Administration imposed sanctions on eight PRC entities, under the Iran Nonproliferation Act of 2000, for unspecified transfers. The *Washington Times* (May 17 and July 26, 2002) reported that Iran had acquired PRC patrol boats armed with anti-ship cruise missiles. Also, the *Washington Times* alleged on May 20, 2002, that three of the sanctioned PRC entities had transferred cruise missile components to Iran. These entities were reported to be: China Shipbuilding Trading Co., CPMIEC, and China National Aero-Technology Import and Export Corp., and they allegedly helped Iran to develop a new ground-launched anti-ship cruise missile with a range of about 310 miles. In June 2002, the



President's report on weapons proliferation confirmed that three of the PRC entities sanctioned in May had engaged in "conventional weapons-related cooperation with Iran," but it did not specify whether the entities engaged in the proliferation of ballistic and/or cruise missiles.<sup>18</sup>

On July 9, 2002, the Administration again imposed sanctions on China Shipbuilding Trading Co., this time under the Iran-Iraq Arms Nonproliferation Act of 1992 (P.L. 102-484) (in addition to eight PRC entities sanctioned for chemical weapons proliferation in Iran). It was the first use of this law. The sanctions on China Shipbuilding appeared to be for "knowingly and materially" contributing to the proliferation of destabilizing numbers and types of cruise missiles in Iran. The Administration did not apply sanctions to the PRC government.

The China Aerospace Science and Technology Corporation (CASC) was collaborating with Iran to produce C-701 and C-801 anti-ship cruise missiles, reported *Jane's Defense Weekly* (December 4, 2002). CASC is an aerospace defense-industrial corporation under the PRC's State Council.

## Chemical Sales to Iran

Concerning chemical weapons, the *Washington Post* of March 8, 1996, reported that U.S. intelligence, for over one year, was monitoring transfers of precursor chemicals and chemical-related equipment from China to Iranian organizations affiliated with the military or the Revolutionary Guards. According to the report, the equipment included glass-lined vessels for mixing the caustic precursors and special air filtration equipment to prevent poison gas leaks. Iran was also reportedly buying PRC technology for indigenous and independent production.

Confirming long-suspected PRC transfers, on May 21, 1997, the Clinton Administration imposed sanctions on two PRC companies, five PRC citizens, and a Hong Kong company for transfers to Iran contributing to chemical weapon proliferation. U.S. sanctions, banning U.S. government procurement and imports, were imposed under the AECA and EAA, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (P.L. 102-182). However, the Administration did not impose sanctions under the Iran-Iraq Arms Nonproliferation Act of 1992 (affecting "persons" or "countries"), because the transfers apparently occurred before February 10, 1996, the date when provisions on WMD proliferation took effect, as amended by the FY1996 National Defense Authorization Act (P.L. 104-106). Also, the State Department said that it had no evidence that the PRC or Hong Kong governments were involved.

An intelligence report was said to allege that China completed in June 1997 a plant in Iran for making glass-lined equipment used in producing chemical weapons, reported the *Washington Times* (October 30, 1997). The Nanjing Chemical and Industrial Group built the factory, and North Chemical Industries Corporation (NOCINCO) brokered the deal. (NOCINCO is affiliated with NORINCO, a defense-

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<sup>18</sup> President George W. Bush, *Report to Congress on the Emergency Regarding Proliferation of Weapons of Mass Destruction*, June 18, 2002.

industrial firm.) However, the PRC government reportedly held up supplies of raw materials. The *London Daily Telegraph* (May 24, 1998) reported that SinoChem Corp.'s branch in Tianjin, China, supplied to Iran 500 tons of phosphorus pentasulphide (controlled by the AG for making nerve agents).

On June 14, 2001, the Bush Administration imposed sanctions under the Iran Nonproliferation Act of 2000 on Jiangsu Yongli Chemicals and Technology Import and Export Corporation (one of the two PRC companies sanctioned in 1997) for proliferation of chemical weapons-related materials or equipment to Iran. According to the *Washington Times* (June 28, 2001), the PRC company helped Iran to build a factory to manufacture dual-use equipment applicable to chemical weapons. Again, on January 16, 2002, the Administration imposed similar sanctions (for transfers of chemical and/or biological items controlled by the Australia Group) on Liyang Chemical Equipment Company, China Machinery and Electric Equipment Import and Export Company, and a PRC citizen (Chen Qingchang, or Q.C. Chen). Chen was also sanctioned in 1997. Sanctions were imposed for two years, but there was no economic effect because of the absence of U.S. government contracts, assistance, arms sales, or dual-use exports with/to such "persons."

With those actions, the State Department did not impose sanctions under the AECA, EAA, or the Iran-Iraq Arms Nonproliferation Act, apparently because unlike those laws, the Iran Nonproliferation Act requires semi-annual reports to Congress and authorizes sanctions based on "credible information" that a person, since 1999, transferred to Iran items controlled by multilateral export control lists (NSG, MTCR, AG, CWC, or Wassenaar Arrangement). The Administration again imposed sanctions under the Iran Nonproliferation Act on May 9, 2002, and a Presidential report to Congress in June 2002 confirmed that five of the eight PRC entities were sanctioned for transferring AG-controlled items to Iran.<sup>19</sup> The *Washington Times* (May 20, 2002) said that the transfers involved anti-corrosive glass-lined equipment to make chemical weapons and that NORINCO was sanctioned but not listed among the eight publicly named PRC entities.

On July 9, 2002, the Bush Administration imposed sanctions under the Iran-Iraq Arms Nonproliferation Act of 1992 (in the first use of this law), as well as the AECA and EAA (as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991), on eight PRC entities (including those previously sanctioned) for "knowingly and materially" contributing to Iran's chemical weapons program, according to the State Department. The Administration did not impose sanctions under the Iran-Iraq Act on the PRC government. The *Washington Times* (July 19, 2002) reported that the transfers took place between September 2000 and October 2001.

The DCI's November 2004 report said that, in the second half of 2003, "PRC firms" still provided dual-use production equipment and technology related to chemical weapons to Iran, despite sanctions. On November 24, 2004, the Bush Administration again imposed sanctions under the Iran Nonproliferation Act that

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<sup>19</sup> President George W. Bush, *Report to Congress on the Emergency Regarding Proliferation of Weapons of Mass Destruction*, June 18, 2002.



affected four PRC entities, including Q.C. Chen, likely related to chemical weapons. (See below **Table 1.**)

## North Korea's Missile and Nuclear Weapons Programs

**Suspected Missile Supplies.** Since 1998, there have been public reports about and U.S. government confirmation of PRC assistance to North Korea's missile program. There are questions about whether the PRC has interests in North Korea's missile advances. The PRC's Lieutenant General Xiong Guangkai, a Deputy Chief of General Staff of the People's Liberation Army (PLA), visited North Korea in early August 1998, just before the surprising launch of a three-stage, medium-range Taepo Dong-1 missile on August 31, 1998. However, increased worries about North Korea's missile program spurred U.S. and Japanese support for missile defenses opposed by China. Some say PRC entities acted on their own.

The National Security Agency (NSA) reportedly suspected in late 1998 that the China Academy of Launch Vehicle Technology (CALT) was working with North Korea on its space program (closely related to missiles) to develop satellites, but that cooperation was not confirmed to be linked to the Taepo Dong-1 MRBM program, said the *Washington Times* (February 23, 1999). An NSA report dated March 8, 1999, suggested that China sold specialty steel for use in North Korea's missile program, reported the *Washington Times* (April 15, 1999). In June 1999, U.S. intelligence reportedly found that PRC entities transferred accelerometers, gyroscopes, and precision grinding machinery to North Korea, according to the *Washington Times* (July 20, 1999). An October 20, 1999 classified report was said to say that China's Changda Corp. sought to buy Russian gyroscopes that were more of the same that China supplied to the North Korean missile program earlier that year, reported the *Washington Times* (November 19, 1999). In December 1999, the NSA discovered an alleged PRC deal to supply unspecified PRC-made missile-related items to North Korea through a Hong Kong company, said the *Washington Times* (January 1, 2000).

The DCI first publicly confirmed PRC supplies to North Korea in July 1999. The DCI's April 2003 report said that, in the first half of 2002, North Korea continued to procure missile-related raw materials and components from foreign sources, but it dropped a previous reference about those foreign supplies as especially going through North Korean firms in China. There are direct implications for U.S. national security, since DCI George Tenet confirmed that North Korea has a missile capable of striking the U.S. west coast and probably has one or two plutonium-based nuclear devices, in testimony to the Senate Armed Services Committee on February 12, 2003. PRC technology transfers have further implications for secondary, or retransferred, proliferation, since North Korea reportedly has supplied technology to Iran, Syria, Pakistan, Egypt, Libya, and Yemen.

**Secret Nuclear Programs.** A serious case of such secondary proliferation involves North Korea's secret program to enrich uranium to develop nuclear weapons, a program surprisingly acknowledged by North Korea to visiting Assistant Secretary of State James Kelly during talks in Pyongyang on October 4, 2002, but not publicly disclosed by the Bush Administration until October 16, 2002. The DCI's April 2003 report stated that the United States was suspicious of an uranium

enrichment program in North Korea for “several years” but did not obtain “clear evidence indicating that North Korea had begun constructing a centrifuge facility until recently.” While the DCI previously reported that North Korea has another program using plutonium that produced one or two nuclear weapons, the *Washington Post* reported on April 28, 2004, that U.S. intelligence newly estimated that North Korea has at least eight nuclear weapons. (Also see CRS Issue Brief IB91141, *North Korea’s Nuclear Weapons Program*, by Larry Niksch.)

This case raises a question about whether China’s nuclear technology has indirectly contributed to North Korea’s nuclear weapons program through Pakistan, since China was the “principal supplier” to Pakistan’s nuclear weapons program. There are also questions about China’s knowledge about the Pakistani-North Korean trade and whether Beijing has shared its intelligence with the United States.

The *New York Times* and *Washington Post* reported on October 18, 2002, that U.S. officials believed Pakistan provided equipment, including gas centrifuges, for the North Korean uranium enrichment program, in return for North Korea’s supply of Nodong MRBMs to Pakistan by 1998. Another *Washington Post* report added on November 13, 2002, that the Bush Administration had knowledge that Pakistan continued to provide nuclear technology to North Korea through the summer of 2002. Henry Sokolski of the Nonproliferation Policy Education Center wrote in *National Review Online* (November 19, 2002) that “one might call on Pakistan, Russia, and China to detail what nuclear technology and hardware they allowed North Korea to import.” John Tkacik of the Heritage Foundation wrote in the *Asian Wall Street Journal* (December 2, 2002) that most in the U.S. intelligence community doubt China was “completely in the dark,” as PRC President Jiang Zemin claimed at his summit with President Bush at Crawford, TX, on October 25, 2002.

The *New York Times* reported on January 4, 2004, about a history of nuclear technology proliferating from Pakistan’s Khan Research Laboratories headed by Abdul Qadeer Khan and disclosed that he had transferred designs for uranium-enrichment centrifuges to China first. DCI George Tenet publicly testified to the Senate Intelligence Committee on February 24, 2004, that North Korea has pursued a “production-scale uranium enrichment program based on technology provided by A.Q. Khan.” Particularly troubling has been the reported intelligence finding in early 2004 that Khan sold Libya a nuclear bomb design that he received from China in the early 1980s (in return for giving China centrifuge technology), a design that China had already tested in 1966 and had developed as a compact nuclear bomb for delivery on a missile.<sup>20</sup> That finding raised an additional question of whether Khan also sold that bomb design to others, including Iran and North Korea. Indeed, DCI Porter Goss testified to the Senate Select Committee on Intelligence on February 16, 2005, that North Korea’s Taepo Dong-2 inter-continental ballistic missile (ICBM) under development “is capable of reaching the United States with a nuclear-weapon-sized payload.”

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<sup>20</sup> Joby Warrick and Peter Slevin, “Libyan Arms Designs Traced Back to China,” *Washington Post*, February 15, 2004; William Broad and David Sanger, “As Nuclear Secrets Emerge in Khan Inquiry, More Are Suspected,” *New York Times*, December 26, 2004.

Moreover, there might be PRC firms directly or indirectly involved in North Korea's nuclear weapons programs or weapons proliferation to other countries. In June 1999, authorities in India inspected the North Korean freighter *Kuwolsan* and found an assembly line for Scud ballistic missiles intended for Libya, including many parts and machines from China or Japan, according to the *Washington Post* (August 14, 2003). The *Washington Times* reported on December 9 and 17, 2002, that a PRC company in the northeastern coastal city of Dalian sold to North Korea 20 tons of tributyl phosphate (TBP), a dual-use chemical that U.S. intelligence reportedly believed would be used in the North Korean nuclear weapons program.

**PRC Ports and Airspace.** There are also questions about China's role in allowing Pakistani, North Korean, and Iranian ships and planes to use PRC ports and airspace (and perhaps military airfields). China's possible cooperation in interdiction, restrictions in the use of its ports and airfields, law-enforcement, and intelligence-sharing has become a salient question in light of the Bush Administration's Proliferation Security Initiative (PSI) announced in May 2003 (which China did not join). As part of the military trade between Pakistan and North Korea, in July 2002, Pakistan flew a C-130 transport aircraft to pick up missile parts in North Korea, reported the *New York Times* (November 24, 2002). In December 2002, the Spanish and U.S. navies interdicted a North Korean ship (*So San*) with Scud missiles bound for Yemen, and the Spanish Defense Minister reported that the ship's last port of call was in China. In addition, an Iranian ship stopped at the Tianjin port in China and picked up missile components before sailing on to North Korea to take delivery of missiles and rocket fuel in February and November 2002, reported the South Korean newspaper, *Joong Ang Ilbo* (December 19, 2002). From April to July 2003, China reportedly gave overflight rights to Iranian Il-76 cargo planes that flew to North Korea at least six times to pick up wooden crates suspected of containing cruise missiles, and the Bush Administration lodged a diplomatic protest with Beijing, reported *Time (Asian edition)* on July 14, 2003. At a hearing held by the Senate Foreign Relations Committee on September 11, 2003, on U.S.-China relations, Assistant Secretary of State James Kelly confirmed to Senator Russell Feingold that the State Department raised with China the issue of North Korean planes flying through PRC airspace or making refueling stops in China.

**Trilateral and Six-Party Talks in Beijing.** Since the Bush Administration's October 2002 disclosure about North Korea's ongoing nuclear weapons programs, it has sought a multilateral effort (not just bilateral negotiations) to achieve the complete, verifiable, and irreversible dismantlement (CVID) (not just a freeze) of North Korea's nuclear weapons programs (uranium and plutonium programs) as well as nuclear weapons. The Administration's strategy has relied on securing China's cooperation. At the October 25, 2002 summit in Crawford, TX, top PRC ruler Jiang Zemin agreed with Bush on the goal of a nuclear-free Korean peninsula achieved through a peaceful resolution, although Jiang claimed to be "completely in the dark" about North Korea's nuclear weapons.

However, some have questioned whether China has been helpful in using its leverage with North Korea and whether its role warrants strengthening the U.S.-PRC relationship. China appears to have additional concerns, including: (1) a preference for stability and international sustainment of the North Korean regime rather than its collapse (fearing conflict, a massive influx of refugees, and the loss of a perceived

buffer between China and U.S. forces); (2) fear of losing international standing in any appearances of limited PRC influence; (3) questions about whether Beijing's support for Washington would result — directly or indirectly — in limits to U.S. support for Taiwan, including arms sales; and (4) stronger U.S. alliances in Asia.

North Korea further escalated the situation by expelling IAEA inspectors and reactivating its nuclear reactor at Yongbyon in December 2002, and by withdrawing from the NPT in January 2003. On February 7, 2003, Bush said he had to “remind” Jiang of “joint responsibilities” in achieving common objectives concerning North Korea. Two days later, Secretary of State Colin Powell said in an interview on *Fox News Sunday* that China has “considerable influence with North Korea.” Powell reported that North Korea depends on China for 80 percent of its energy and economic activity, and urged China to play an active role in the dispute. While in Beijing on February 24, 2003, Secretary Powell noted that “the United States and China share the goal of a diplomatic and peaceful resolution to this problem. It cannot simply be treated, however, as a bilateral matter between the United States and North Korea.”<sup>21</sup> Later, in November, Powell disclosed that after he had pressed the need for China to “rise to its responsibilities in dealing with this regional problem,” PRC Vice Premier Qian Qichen made an “important contribution” in March 2003 by flying to North Korea and delivering the message that “there would be no alternative to multilateral talks in which all countries of the region would be fully involved, China included.”<sup>22</sup>

**Trilateral Talks (April 2003).** Thus, on April 23-25, 2003, China hosted the Trilateral Talks among China, North Korea, and the United States, and Secretary Powell noted positively that “China has stepped up.” However, the DCI's report issued in November 2004 confirmed that, at the meeting, North Korea threatened to “transfer” or “demonstrate” its nuclear weapons. On June 9, 2003, in Tokyo, Deputy Secretary of State Richard Armitage “saluted” China's cooperation on the problem of North Korea and declared “a new phase of our relationship with China.” In mid-July 2003, PRC President Hu Jintao dispatched Deputy Foreign Minister Dai Bingguo to Pyongyang with a letter for Kim Jong-Il that proposed a multilateral meeting with U.S.-North Korean talks on the sidelines, reported the *New York Times* (July 16, 2003). In mid-August 2003, *Wen Wei Po* (a PRC-owned newspaper in Hong Kong) published an article questioning whether the PRC-North Korean alliance under the 1961 Treaty of Friendship, Cooperation, and Mutual Assistance continued to serve China's interest.

**1<sup>st</sup> Six-Party Talks (August 2003).** Responding to U.S. insistence on expanded multilateral talks, China hosted the first round of the Six-Party Talks (also including South Korea, Japan, and Russia) on August 27-29, 2003. However, as confirmed by the DCI's report of November 2004, North Korea again threatened to transfer or test a nuclear weapon.

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<sup>21</sup> Department of State, “Secretary Colin L. Powell's press conference,” Beijing, China, February 24, 2003.

<sup>22</sup> Department of State, “Secretary of State Colin L. Powell's Remarks at Conference on China-U.S. Relations,” College Station, Texas, November 5, 2003.



China has taken stronger measures to pressure North Korea, including using the PLA. In early September 2003, China replaced paramilitary People's Armed Police (PAP) troops with PLA soldiers along its border with North Korea, as confirmed by the PRC Foreign Ministry and the official *People's Daily* (September 16, 2003), apparently to warn North Korea against provocations to raise tensions. The Defense Department's report on PRC military power submitted to Congress in May 2004 skeptically critiqued that China "has avoided taking real steps to pressure North Korea." Nonetheless, the report noted that "as a potential hedge against uncertainty, the PLA assumed responsibility for border security along the northeast frontier in fall 2003, increasing security along the porous border with North Korea and strengthening China's ability to stem refugee flows or respond to a breakdown of the North Korean regime."<sup>23</sup>

Moreover, China reportedly seized a shipment of tributyl phosphate (TBP), a material used for nuclear weapons, suspected by the CIA on a train bound for North Korea in the summer of 2003, reported *Asahi Shimbun* (February 22, 2004). The DCI's report confirmed that, in September 2003, at the border with North Korea, China stopped a shipment of chemicals that could have been used in North Korea's nuclear program.

The Administration sought another round of multilateral talks before the end of 2003, with a tentative date set by November for around December 17,<sup>24</sup> but the talks were not held then. When PRC Premier Wen Jiabao visited President Bush at the White House on December 9, 2003, the Taiwan question eclipsed the issue of North Korea. The *Washington Post* disclosed on January 7, 2004, that at a meeting in Seoul the week before, a PRC diplomat, Fu Ying, questioned the credibility of U.S. intelligence that Pyongyang has a highly enriched uranium program.

**2<sup>nd</sup> Six-Party Talks (February 2004).** China then hosted the second round of Six-Party Talks on February 25-28, 2004, for which Assistant Secretary of State James Kelly expressed appreciation. However, North Korea reportedly denied the suspected uranium enrichment program. The State Department's statement at the end of the talks did not report any progress in either freezing or dismantling North Korea's nuclear weapons programs, but rather pointed to "progress on a regularized process" for peacefully resolving this issue.

**3<sup>rd</sup> Six-Party Talks (June 2004).** Before China hosted another round of Six-Party Talks, PRC Deputy Foreign Minister Zhou Wenzhong publicly questioned the credibility of U.S. intelligence about North Korea's uranium enrichment program and expressed support for North Korea's arguments (in an interview with the *New York Times*, published June 9, 2004). China hosted the third round of Six-Party Talks on June 23-26, 2004. The North Koreans again indicated consideration of testing a nuclear weapon. Afterward, National Security Adviser Condoleezza Rice traveled to Beijing and told Central Military Commission (CMC) Chairman Jiang Zemin and President Hu Jintao that "A.Q. Khan was not engaged in academic research" and that "North Korea has a highly enriched uranium program," reported the *Washington*

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<sup>23</sup> Defense Department, "Report on PRC Military Power," May 29, 2004.

<sup>24</sup> *Kyodo News*, November 24, 2003.

*Times* on July 14, 2004. Also visiting Beijing in July 2004, North Korea's National Defense Commission Member and Defense Minister Kim Il-chol met with CMC Vice Chairman and Defense Minister Cao Gangchuan and probably discussed PLA provision of aid.

Despite the lack of any breakthrough in the Trilateral Talks and three rounds of Six-Party Talks held since April 2003, Assistant Secretary of State James Kelly contended at a hearing of the Senate Foreign Relations Committee in July 2004 that the multilateral diplomacy has been useful and the talks held in Beijing have yielded progress in dealing with the threat of North Korean nuclear weapons.<sup>25</sup> In answer to Senator Chuck Hagel, Kelly acknowledged that "there could be and probably should be a role for the United Nations Security Council (UNSC)," but reported that China likely will not be interested in dealing with the threat at the UNSC. In answer to Senator Lincoln Chaffee, Kelly also denied that China has linked its cooperation on North Korea to U.S. concessions on Taiwan (including arms sales), by saying that China has not posed Taiwan "as a tactical issue" in discussions about North Korea. Kelly also acknowledged to Senator Bill Nelson that it remained unclear as to whether China's preference for positive incentives (over pressure) will work.

The six countries had agreed to convene a fourth round of talks by the end of September 2004, but that time period passed without another such meeting. As indicated in his press conference in Beijing on October 25, 2004, Secretary of State Powell continued to count on China's "considerable influence with North Korea."

In early February 2005, President Bush sent Michael Green, the National Security Council's Senior Director for Asian Affairs to Beijing, Tokyo, and Seoul to intensify diplomatic pressure on Pyongyang. In Beijing, Green met with President Hu Jintao and presented urgent U.S. intelligence findings that North Korea had processed several tons of uranium hexafluoride (which could be enriched to make nuclear bombs) and sold some to Libya perhaps in early 2003.<sup>26</sup> Other reports, however, pointed to intelligence findings that the material originated in North Korea but that Pakistan bought the uranium hexafluoride and supplied it to Libya.<sup>27</sup>

***Suspension of Six-Party Talks.*** On February 10, 2005, North Korea again escalated tensions by announcing that it would indefinitely suspend its participation in the Six-Party Talks and that it had manufactured nuclear weapons. North Korea's announcement further called into question China's preference for positive inducements and raised the issue of using sanctions to pressure Pyongyang, including consideration of action by the UNSC. A week after North Korea's announcement, South Korea's ambassador to Beijing urged China to use its leverage, pointing out

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<sup>25</sup> Senate Foreign Relations Committee, hearing, *A Report on Latest Round of Six-Way Talks Regarding Nuclear Weapons in North Korea*, July 15, 2004.

<sup>26</sup> David Sanger and William Broad, "Tests Said to Tie Deal on Uranium to North Korea" and "U.S. Asking China to Press North Korea to End its Nuclear Program," *New York Times*, February 2 and 9, 2005.

<sup>27</sup> Glenn Kessler and Dafna Linzer, "Nuclear Evidence Could Point to Pakistan," *Washington Post*, February 3, 2005; Dafna Linzer, "U.S. Misled Allies About Nuclear Export," *Washington Post*, March 20, 2005.



that in addition to economic assistance (food, fuel, and investments), North Korea imports 70-80 percent of its foreign goods from China and that China permits several railways and 15 roads at the North Korean border.<sup>28</sup> Instead, China's Foreign Ministry contended at a news conference on February 17 that sanctions and pressure would only complicate and destabilize the situation (a position that Foreign Minister Li Zhaoxing argued to Secretary of State Condoleezza Rice on February 12). China also pointed to North Korea and the United States as the two key parties to hold talks.

Wang Jiarui, Director of the International Liaison Department of the Communist Party of China, visited Pyongyang on February 19-22, 2005, and personally passed a plea from Hu Jintao to Kim Jong-il about resuming the Six-Party Talks. At the same time, to China's great displeasure, the U.S. Secretaries of Defense and State issued a Joint Statement ("2+2 Statement") along with the visiting Japanese Ministers of Defense and Foreign Affairs that included "the peaceful resolution of issues concerning the Taiwan Strait through dialogue" as a common strategic objective.<sup>29</sup> At a press conference on March 6, 2005, Foreign Minister Li Zhaoxing characterized China's role as just "facilitating" the Six-Party Talks.

The Administration then stepped up pressure on the PRC to use its leverage to bring North Korea back to the talks. On March 21, 2005, Secretary of State Rice met with top PRC officials including President Hu in Beijing, after visiting other Asian capitals. She urged China in particular to help restart the Six-Party Talks, publicly saying that "China has the closest relationship with North Korea," that "it is not a U.S.-North Korean issue," and that "there are other options in the international system."<sup>30</sup> In Beijing on April 26, 2005, Assistant Secretary of State Chris Hill reportedly raised the idea of an interruption of oil flows from China to North Korea, but China refused.<sup>31</sup> At a news conference on April 28, President Bush reminded China about his agreement with Jiang Zemin and mentioned Secretary Rice's option of going to the U.N. Security Council (where China has veto power). A PRC Foreign Ministry official, Yang Xiyu, publicly blamed Washington for a "lack of cooperation" and Bush for calling Kim Jong-il a "tyrant" at the news conference.<sup>32</sup> Chris Hill, at a congressional hearing on May 26, said that China has "enough influence" to convince North Korea to return to the talks but has not done it. He also made China accountable for any failure of the Six-Party Talks if it fails to get its "very close friend" back to the talks.<sup>33</sup>

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<sup>28</sup> *Chosun Ilbo*, Seoul, February 18, 2005, via FBIS.

<sup>29</sup> Department of State, "Joint Statement of the U.S.-Japan Security Consultative Committee," February 19, 2005.

<sup>30</sup> Secretary Condoleezza Rice, "Remarks to the Press in China," Beijing, March 21, 2005.

<sup>31</sup> Glenn Kessler, "China Rejected U.S. Suggestion to Cut Off Oil to Pressure North Korea," *Washington Post*, May 7, 2005.

<sup>32</sup> Joseph Kahn, "China Says U.S. Impeded North Korea Arms Talks," *New York Times*, May 13, 2005.

<sup>33</sup> House International Relations Subcommittee on Asia and the Pacific, hearing on Northeast Asia, May 26, 2005.

Meanwhile, Secretary Rice also offered a strengthened U.S.-PRC relationship and agreed that Deputy Secretary of State Robert Zoellick would hold the first “Senior-Level Talks” with his PRC counterpart, a meeting which was scheduled for early August 2005. PRC ruler Hu Jintao had requested what China calls “strategic talks” when he met with President Bush in November 2004.<sup>34</sup> One day after North Korea announced on July 9 that it would return to the talks, Secretary Rice visited China, but this time before visiting U.S. allies (Thailand, Japan, and South Korea).<sup>35</sup>

**4<sup>th</sup> Six-Party Talks (July-September 2005).** After a period of 13 months without talks, China’s official news agency announced the start of the fourth round of the Six-Party Talks in Beijing on July 26, 2005, and described China’s role as both a “host” to “facilitate” the talks and a “participant.” The inconclusive first phase of this round ended on August 7, 2005, when the countries agreed to recess and resume talks on August 29. Pakistani President Pervez Musharraf provided support for U.S. reports of North Korea’s uranium enrichment program, when he said that A.Q. Khan supplied North Korea with centrifuges and their designs.<sup>36</sup> North Korea did not return to the talks as agreed but returned later on September 13. Meanwhile, President Bush agreed to a meeting at the White House with PRC ruler Hu Jintao in early September but had to postpone it because of Bush’s response to Hurricane Katrina. Bush then met with Hu in New York on September 13.

China proposed a joint statement that recognized North Korea’s insistence on a light water reactor and had no explicit mention of a uranium program. On September 17, PRC Vice Foreign Minister Dai Bingguo presented China’s draft as the “most realistic” and put pressure on the United States to agree to it.<sup>37</sup> Along with other countries, the United States agreed to sign the joint statement of principles (not an agreement) on September 19, 2005, in which North Korea committed to abandon “all nuclear weapons” and “existing nuclear programs” and to return to the NPT and IAEA safeguards; and the other countries agreed “to discuss, at an appropriate time, the subject of the provision of a light water reactor.” The United States issued a statement to clarify that dismantlement of nuclear weapons must be verifiable; that nuclear programs included plutonium and uranium programs; and that an “appropriate time” for “discussion” of a light water reactor is when North Korea has verifiably eliminated all nuclear weapons and all nuclear programs.<sup>38</sup> Questions include whether Hu Jintao will directly engage with Kim Jong-il and whether China would move its position closer to that of the United States or of North Korea.

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<sup>34</sup> Department of State, Daily Press Briefing, April 8, 2005; Deputy Secretary of State Robert Zoellick, “Remarks at U.S. Embassy Beijing,” August 2, 2005; and Glenn Kessler, “Zoellick Details Discussions With China on Future of the Korean Peninsula,” *Washington Post*, September 7, 2005.

<sup>35</sup> Secretary Condoleezza Rice, Press Availability in Beijing, July 10, 2005.

<sup>36</sup> *BBC*, August 24, 2005; and *New York Times*, September 13, 2005.

<sup>37</sup> *Xinhua* [New China News Agency], September 17, 2005; and Joseph Khan and David Sanger, “U.S.-Korean Deal On Arms Leaves Key Points Open,” *New York Times*, September 20, 2005.

<sup>38</sup> Department of State, “Joint Statement of the Fourth Round of the Six-Party Talks,” Beijing, and “North Korea — U.S. Statement,” New York City, September 19, 2005.

## Missile Technology Sales to Libya

Beginning in 2000, public reports appeared on PRC assistance to Libya's missile program. The Defense Department discovered in December 1999 that the PRC had plans to build a hypersonic wind tunnel in Libya for missile design, reported the *Washington Times* (January 21, 2000). A classified March 2, 2000 report by the NSA was said by the newspaper to describe the PRC's missile technology transfer to Libya that month, helping Libya to develop the Al Fatah SRBM with a range of 600 miles. CPMIEC allegedly began cooperating with Libya in March 1999, according to the *Washington Times* (April 13, 2000). The June 30, 2000 *Washington Times*, citing a classified NSA report, said that the PRC was training Libyan missile experts at the Beijing University of Aeronautics and Astronautics. Aside from wind tunnels, PRC aid has also covered navigational and guidance systems, reported *Jane's Defense Weekly* (February 13, 2002). The DCI's August 2000 report publicly confirmed PRC missile assistance to Libya for the first time. The DCI's November 2003 report said that in the first half of 2003, Libya continued to depend on assistance from PRC and other "entities" for developing ballistic missiles. A report in February 2004 said that the Pakistani network headed by A.Q. Khan sold Libya a nuclear bomb design that originated in China, raising questions about China's role in and knowledge about proliferation.<sup>39</sup> However, after Libya agreed to abandon WMD programs, *Jane's Defense Weekly* reported on August 18, 2004, that inspectors found that Libya had not built a wind tunnel.

## Missile Technology Sales to Syria

A Pentagon report in 2001 said that PRC firms, in addition to North Korean and Russian entities, contributed equipment and technology to Syria's liquid fuel missile program.<sup>40</sup> However, while criticizing North Korean and Russian assistance to Syria's ballistic missile development, Under Secretary of State John Bolton did not cite PRC help at a speech at the Heritage Foundation on May 6, 2002. The DCI's public reports have not specified PRC assistance for Syria's missile program.

## Missile Technology Sales to Iraq

In the unclassified "Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD," issued on September 30, 2004, Charles Duelfer provided some details about Iraq's past procurement efforts from a number of countries, including China, before the war that began in 2003. The top three countries with entities receiving oil vouchers were Russia (30%), France (15%), and China (10%). "Firms in China" supplied Iraq with "limited but critical items, including gyroscopes, accelerometers, graphite, and telecommunications." In mid-2001, an unidentified PRC firm reportedly supplied 10-20 gyros and 20 accelerometers for use in Iraq's Al-Samud ballistic missile. PRC supplies provided Iraq with "prohibited items, mainly telecommunication equipment and items with ballistic missile applications." The

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<sup>39</sup> Joby Warrick and Peter Slevin, "Libyan Arms Designs Traced Back to China," *Washington Post*, February 15, 2004.

<sup>40</sup> Secretary of Defense, *Proliferation: Threat and Response*, January 2001.

report referred to unnamed and named entities in China that supplied missile-related technology, including NORINCO, “Chinese High Committee for Electronic Warfare,” CIEC Company, SIAM Premium Products, and CPMIEC. The report also noted that “from 2002, until the beginning of hostilities in 2003, Iraq imported rocket guidance software from China disguised as children’s computer software. The software was used to guide the missiles Iraq fired at U.S. Forces in Kuwait during the initial hostilities in 2003. Iraq paid for the software with hard currency or oil.”

Nonetheless, the report contended that “there is no evidence to suggest Chinese Government complicity in supplying prohibited goods to Iraq. It is likely that newly privatized state-owned companies were willing to circumvent export controls and official U.N. monitoring to supply prohibited goods.” The report also alluded to indications that the PRC government had intervened in some deals to stop them.

## Policy Issues and Options

### Issues for Policy

Weapons proliferation by the PRC and/or its organizations raises policy issues concerning: (1) assessments of the nature and seriousness of the PRC government’s role in the proliferation threat; (2) the priority of this issue relative to other U.S. interests (i.e., other security issues, Taiwan, trade, human rights); and (3) U.S. leadership and leverage (including the use of sanctions and diplomacy, and congressional actions) to obtain China’s cooperation in nonproliferation.

**Debate.** Successive Administrations have pursued a policy of “engagement” with Beijing. Some policymakers and advocates stress a cooperative approach. In 1998, President Clinton issued certifications to implement the 1985 Nuclear Cooperation Agreement. The Clinton Administration also encouraged the PRC to join the MTCR and proposed to allow more PRC satellite launches. In November 2000, the State Department agreed to waive sanctions and consider new satellite exports in return for another missile non-proliferation pledge from China. Some officials and experts cite PRC nonproliferation statements as signs that the United States made progress in nonproliferation goals. Some also say that U.S. sanctions are counterproductive and are too broad. Rather, they note that China needs to recognize nonproliferation for its own national interests and develop stronger export controls, perhaps with U.S. assistance. Also, some stress that China would be more cooperative if brought in to draw up “the rules.” Some argue that “entities” in China largely operate without the PRC government’s knowledge.

Critics argue that the “engagement” policy needs a tougher approach to counter China’s activities that undermine U.S. security interests. They note that PRC weapons proliferation activities have continued and repeated PRC assurances have proved to be unreliable. Also, they say that U.S. security interests are better served with a stronger approach to deter China’s transfers, which may include appropriate sanctions. Some argue that the United States should not “subsidize” China’s missile and nuclear industries. These proponents tend to see the U.S. position as stronger than China’s. Some are skeptical that China sees nonproliferation as in its national



interest, since Beijing has made progress in nonproliferation commitments as part of improving relations with Washington (surrounding summits) and tried to use its sales as a form of leverage against Washington, especially on the issue of U.S. arms sales to Taiwan. They note that PRC export controls are weak, even as government repression can be harsh (e.g., against Falungong practitioners). They also doubt that trade in sensitive nuclear weapons and missile technology can continue without the knowledge of the PRC government and/or its military, especially given the status of certain state-owned and defense-industrial enterprises as “serial proliferators.”

**The PRC Government’s Role.** Concerning the debate about any knowledge or approval of the PRC government, at a hearing of the Senate Armed Services Committee on March 19, 2002, DCI George Tenet told Senator Carl Levin that while PRC firms sometimes operate on their own, there are instances in which “activities are condoned by the government.” The DCI’s January 2003 report to Congress noted that PRC entities could have continued contacts with Pakistani nuclear weapons facilities “without Beijing’s knowledge or permission,” but this comment was dropped from the April 2003 report. The Director of the Defense Intelligence Agency (DIA), Vice Admiral Lowell Jacoby, testified to the Senate Intelligence Committee on February 24, 2004, that PRC entities “remain involved with nuclear and missile programs in Pakistan and Iran,” while “in some cases,” the entities are involved without the government’s knowledge, implying that there might be cases in which the PRC government has knowledge of the relationships. The Bush Administration waived missile proliferation sanctions on certain activities of the PRC government on September 19, 2003; September 18, 2004; and March 18, 2005.

No matter what options are pursued, many argue that U.S. leadership and a forward-looking and credible strategy are needed for dealing with China’s rising influence in world affairs. A strategic approach might underpin short-term responses to violations and use both positive and negative sources of leverage. Policy issues have often centered on summitry, sanctions, and satellite exports.

## Foreign and Defense Policies

**Summits.** After the downturn in U.S.-PRC relations because of the 1989 Tiananmen crackdown, the Clinton Administration resumed high-level exchanges in 1993 and argued that “comprehensive engagement” with China advances U.S. security goals, including nonproliferation. President Clinton granted Jiang Zemin summits in Washington, on October 29, 1997, and in Beijing, on June 29, 1998. Leading up to the 1997 summit, the Administration urged China to adopt “comprehensive, nationwide regulations on nuclear export control.” China responded by implementing a set of regulations on nuclear export controls signed by Premier Li Peng on September 10, 1997. The regulations permit nuclear exports to only facilities under IAEA safeguards. China also joined the Zanger Committee (on nuclear trade) on October 16, 1997. Then, China issued new export control regulations on dual-use nuclear items on June 17, 1998. The 1998 summit in Beijing produced an agreement on non-targeting nuclear weapons, and joint statements on South Asia and on biological weapons. But China refused to join the MTCR, saying that it was “actively studying” whether to join.

President Bush raised the unresolved missile proliferation issue in Shanghai in October 2001 and in Beijing in February 2002. As Deputy Secretary of State Richard Armitage arrived in Beijing to discuss the Bush-Jiang summit in Crawford, TX, on October 25, 2002, China, on August 25, 2002, published the missile export control regulations promised in November 2000, along with a control list that is modeled on the MTCR. In addition, on October 14, 2002, the PRC issued regulations for export controls over dual-use biological agents. China continued to approach weapon nonproliferation as more a part of the U.S.-PRC relationship than a commitment to international nonproliferation standards. At that summit, President Bush called China an “ally” in the fight against terrorism.

With the improvement in U.S.-PRC relations, however, some observers say that President Bush has not forcefully pressed China’s leaders on weapons nonproliferation as a priority issue, even while imposing numerous U.S. sanctions.<sup>41</sup> Briefing reporters on President Bush’s meeting with PRC President Hu Jintao in France on June 1, 2003, a senior White House official acknowledged that the two leaders did not discuss U.S. sanctions on NORINCO (which the Administration had just imposed on May 23, 2003, for missile technology transfers to Iran) and that President Hu did not respond to Bush’s general concerns about Iran’s nuclear weapons program.<sup>42</sup> In Thailand in October 2003, at another meeting between the two presidents, Bush noted that they had a “very constructive dialogue” on trade, Iraq, counter-terrorism, and North Korea, but he did not mention weapons proliferation as an issue with China, although the Administration had imposed another set of missile proliferation sanctions on NORINCO a month earlier.<sup>43</sup> While the White House hosted PRC Premier Wen Jiabao on December 9, 2003, a senior official told reporters that “the President applauded the new Chinese white paper on nonproliferation but noted that there is a need for tough implementation of the commitments contained in that white paper” (just issued on December 3, 2003, on the eve of Wen’s visit). But again, Bush did not highlight the issue of weapons proliferation with China in his public remarks.<sup>44</sup>

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<sup>41</sup> For example, Robert Einhorn, former Assistant Secretary of State for Nonproliferation in the Clinton Administration, criticized the Bush Administration saying that “sanctions are used, but they are usually simply imposed rather than used as a vehicle for trying to leverage better behavior. ... There seems to be no real strategy today to try to promote continued improvement in China’s nonproliferation record,” (“China and Non-Proliferation,” *National Interest*, April 2, 2003). William Kristol, of the Project for the New American Century, in a memo to opinion leaders, dated June 4, 2003, argued that “real progress in U.S.-China relations is unlikely if the president is less than forceful and candid with his Chinese counterpart on issues of importance to the United States.” Also see Susan Lawrence, “U.S. Presses China on Arms, Quietly,” *Wall Street Journal*, October 30, 2003.

<sup>42</sup> White House, “Background Press Briefing by Senior Administration Official on the President’s Meeting with Chinese President Hu,” Evian, France, June 1, 2003.

<sup>43</sup> White House, “Remarks by President Bush and President Hu Jintao of China,” Bangkok, Thailand, October 19, 2003.

<sup>44</sup> White House, “Remarks by President Bush and Premier Wen Jiabao in Arrival Ceremony” and “Background Briefing on President’s Meeting with Chinese Premier Wen,” December 9, 2003.



**Counter-Terrorism Campaign.** The terrorist attacks of September 11, 2001, added a compelling U.S. interest in considering U.S. policy on PRC weapons proliferation. With questions about the viability of Pakistan's government after it gave strong support to the anti-terrorism war, the United States could seek intelligence from the PRC about Pakistan's nuclear weapons as well as cooperation in not further adding to instability in South Asia. Also, the Bush Administration could maintain or strengthen its response to the proliferation problem, since PRC entities have reportedly transferred nuclear, missile, and/or chemical weapons technology to sponsors of terrorism (listed by the State Department), such as Iran. If the Administration lifts sanctions for cooperating countries, options include waiving proliferation sanctions on the PRC. (Also see CRS Report RL33001, *U.S.-China Counter-Terrorism Cooperation: Issues for U.S. Policy*, by Shirley Kan.)

In his January 29, 2002 State of the Union speech, Bush identified the two primary threats as terrorism and weapons proliferation. He then issued the National Security Strategy on September 20, 2002, warning:

The gravest danger our Nation faces lies at the crossroads of radicalism and technology. Our enemies have openly declared that they are seeking weapons of mass destruction, and evidence indicates that they are doing so with determination. The United States will not allow these efforts to succeed. We will build defenses against ballistic missiles and other means of delivery. We will cooperate with other nations to deny, contain, and curtail our enemies' efforts to acquire dangerous technologies. And, as a matter of common sense and self-defense, America will act against such emerging threats before they are fully formed. ...

**Missile Defense, Proliferation Security Initiative (PSI).** Some say that missile defense should play a critical role in the strategy to counter the proliferation threat. Others say the September 2001 attacks increased doubts about the likelihood of terrorists using missiles for weapons delivery. China has opposed U.S. deployment of missile defense systems and related cooperation with Japan or Taiwan and threatened to significantly increase its nuclear missile force. China is concerned that missile defense would spur an arms race, negate its deterrence capabilities, forge closer U.S.-Taiwan military cooperation, and violate the MTCR. During Defense Secretary William Cohen's visit to China in July 2000, the PRC reportedly warned that it would continue missile proliferation activities if the United States provides missile defense to Taiwan (*Washington Post*, July 12, 2000). Also, top PRC arms control official Sha Zukang warned that the PRC would withhold cooperation on arms control and weapons nonproliferation in response to U.S. deployment of NMD, reported the *Washington Post* (July 14, 2000). Others say that PRC proliferation activities and missile buildups would continue regardless.

On December 11, 2002, President Bush issued his National Strategy to Combat WMD, resting on the three pillars of counter-proliferation, nonproliferation, and response. The first pillar, counter-proliferation, included interdiction, deterrence, and defense (including preemptive measures and missile defenses).

On May 31, 2003, in Poland, President Bush announced the Proliferation Security Initiative (PSI) to step up multinational efforts at interdiction and intelligence-sharing. The United States faces a challenge in obtaining China's

cooperation in counter-proliferation (e.g., interdiction of shipments, inspections, or intelligence-sharing), given its long-lasting negative and emotional reaction to U.S. inspection in 1993 of the PRC ship, Yinhe, which was suspected of carrying chemicals for Iran. Also, China might have greater doubts about the credibility of U.S. intelligence after President Bush launched the highly controversial war on Iraq in 2003 and failed to find WMD in Iraq. The 9/11 Commission issued its final report on July 22, 2004, and it urged that the United States encourage China (and Russia) to join the PSI, among many recommendations.

China has not joined the PSI. China did not join the 11 original members of the Proliferation Security Initiative (PSI) plus Norway, Denmark, Singapore, and Canada in sending representatives to a meeting in Washington on December 16-17, 2003, even though it took place just days after Premier Wen Jiabao's visit.<sup>45</sup> In October 2004, a PRC Foreign Ministry spokesman expressed concerns that the PSI might allow "military interception, which is beyond the limits of international law."<sup>46</sup> Nonetheless, Under Secretary of State for Arms Control and International Security John Bolton visited Beijing on February 16, 2004, and he revealed that "in the past several years, we have had cooperation with China in some interdiction efforts." While in Tokyo on October 27, 2004, Bolton said in a speech that "we are pleased with China's cooperation with the United States to block the export of chemicals that could have been used in North Korea's nuclear weapons programs."

**Export Control Assistance.** The United States may provide assistance to strengthen China's export controls, including the areas of legislation, regulations, licensing, customs, border security, and law-enforcement. The Departments of Commerce and State testified to the Senate Governmental Affairs Subcommittee on International Security, Proliferation, and Federal Services on June 6, 2002, that such bilateral exchanges were very limited.

**Linkage to the Taiwan Issue.** Periodically, China has tried to link the issues of missile proliferation and U.S. conventional arms sales for Taiwan's defense. Congress has exercised oversight of the Administration's response to any direct or indirect linkage. During the 1998 summit in Beijing, the Clinton White House reportedly considered a PRC request for a U.S. pledge to deny missile defense sales to Taiwan, if China promised to stop missile sales to Iran; but no agreement was reached, reported the *Far Eastern Economic Review* (July 16, 1998). On February 26, 2002, before the Director General in charge of arms control at the PRC Foreign Ministry, Liu Jieyi, attended meetings in Washington on March 4-6, an unnamed PRC foreign ministry official told the *Associated Press* that the United States "can't just accuse us of violating our commitments and at the same sell large amounts of arms to Taiwan," since such arms sales are "also a kind of proliferation." On July 24, 2004, *Wen Wei Po*, a PRC-owned newspaper in Hong Kong, quoted an unnamed high-level official of the PRC Foreign Ministry as linking weapons nonproliferation to U.S. arms sales to Taiwan. Nonetheless, State Department officials have said that

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<sup>45</sup> Department of State, "Proliferation Security Initiative: Next Experts Meeting, China's Role," December 3, 2003.

<sup>46</sup> "Ministry of Foreign Affairs Says China Will Not Participate in Proliferation Security Initiative," *Zhongguo Xinwen She*, October 26, 2004.

China has not posed Taiwan as a “tactical issue” in discussions about North Korea. (See discussion on North Korea above.) The Administration has cited the Taiwan Relations Act (TRA) as committing the United States to provide defense articles and services to help Taiwan’s sufficient self-defense. (See also CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley Kan.)

## Economic Controls

**Satellite Exports.** There have been debates about U.S. policy using satellite exports to gain China’s cooperation in missile nonproliferation. Since 1988, the policy of granting licenses to export satellites to China as well as Presidential waivers of post-Tiananmen sanctions (Section 902 of P.L. 101-246) have allowed satellites to be exported for launch by China Great Wall Industry Corp. (the same company sanctioned for missile proliferation) and — increasingly — for China’s own use. During the Clinton Administration, the National Security Council, in a reported Secret memo on bilateral talks leading up to the 1998 summit (dated March 12, 1998, and printed in the March 23, 1998 *Washington Times*), proposed to expand space cooperation, increase the number of satellite launches, issue a blanket Presidential waiver of sanctions, and support China’s membership in the MTCR — in return for PRC missile export controls. On November 21, 2000, the State Department said it would waive sanctions, again process — not necessarily approve — licenses (suspended in February 2000) to export satellites to China, and discuss an extension of the bilateral space launch agreement (which later expired at the end of 2001), in return for another PRC promise on missile nonproliferation.

However, on September 1, 2001, the Bush Administration imposed sanctions for two years on a PRC company, the China Metallurgical Equipment Corporation (MECC), for proliferation of missile technology to Pakistan, denying satellite exports to China. Before those sanctions expired, the State Department determined on August 29, 2003, that NORINCO substantially contributed to missile proliferation of Category II MTCR items and imposed sanctions that again effectively banned satellite exports to China. (See Sanctions below.) The last Presidential waiver for satellite exports to China was issued in February 1998. (See CRS Report 98-485, *China: Possible Missile Technology Transfers Under U.S. Satellite Export Policy — Actions and Chronology*, by Shirley Kan.)

**Sanctions and the “Helms Amendment”.** Policy debates concerning PRC technology transfers have often centered on the questions of whether to impose unilateral sanctions under U.S. laws, to enact new legislation to tighten mandates for sanctions or reports, or to integrate the multiple laws. Also, there have been the issues of whether to target the PRC government or PRC “entities” (usually state-owned defense industrial organizations, like CPMIEC or NORINCO) and whether the PRC government lacks the will or the capability to enforce its stated nonproliferation policy. Decisions on sanctions impact U.S. credibility and leverage on the non-proliferation issue. While certain PRC transfers may not violate any international treaties, sanctions may be required under U.S. laws that Congress passed to set U.S. nonproliferation policy and shore up nonproliferation treaties and standards. These laws, as amended, include:

- Export-Import Bank Act (P.L. 79-173)

- Arms Export Control Act (AECA) (P.L. 90-629)
- Export Administration Act (EAA) (P.L. 96-72)
- Nuclear Proliferation Prevention Act (Title VIII of P.L. 103-236)
- Iran-Iraq Arms Nonproliferation Act (P.L. 102-484)
- Iran Nonproliferation Act (P.L. 106-178)
- Executive Order 12938, as amended by Executive Order 13094

(On legislation requiring sanctions to address weapons proliferation, see also CRS Report RL31502, *Nuclear, Biological, Chemical, and Missile Proliferation Sanctions: Selected Current Law*, by Dianne Rennack.)

Underlying the question of whether sanctions should be used are disagreements about the most effective approach for curbing dangerous PRC sales and promoting U.S. interests and leadership. Some argue that a cooperative approach, rather than sanctions, is more effective. Others say that current sanctions are not effective in countering the PRC's proliferation practices (especially with certain entities being repeatedly sanctioned, negligible penalties, and sanctions targeting companies but not the government) and that legislation requiring sanctions should be toughened. Still others say current sanctions serve to stress the problem in certain countries, signal U.S. resolve, and shore up credibility on this important security issue.

As for whether to impose or waive missile proliferation sanctions, on November 21, 2000, the Clinton Administration agreed to waive missile proliferation sanctions, again process — not necessarily approve — licenses to export satellites to China, and discuss an extension of the bilateral space launch agreement, in return for a new PRC pledge on missile nonproliferation and a promise to issue missile export controls.

However, continued PRC transfers again raised the issue of imposing sanctions. By July 2001, the United States formally protested to China about its compliance with the agreement, reported the *Washington Post* (July 27, 2001). Visiting Beijing ahead of President Bush's trip to Shanghai in October 2001, Secretary of State Colin Powell, on July 28, 2001, noted "outstanding issues" about China's implementation of its November 2000 commitment.

On 14 occasions, the Bush Administration has imposed sanctions on PRC entities (not the government) for transfers (related to ballistic missiles, chemical weapons, and cruise missiles) to Pakistan and Iran, under the Arms Export Control Act, Export Administration Act, Iran Nonproliferation Act of 2000, Iran-Iraq Arms Nonproliferation Act of 1992, and Executive Order 12938. (See below, **Table 1: PRC Entities Sanctioned for Weapons Proliferation.**)

Among the actions, on September 1, 2001, the Bush Administration imposed sanctions (for two years) on a PRC company, the China Metallurgical Equipment Corporation (CMEC), for proliferation of missile technology (Category II items) to Pakistan. The sanctions had the effect of denying licenses for two years for the export of satellites to China for its use or launch by its aerospace entities, because the Category II sanctions deny U.S. licenses to transfer missile equipment or technology (MTCR Annex items) to any PRC "person," which is defined by the so-called "Helms Amendment" (Section 74(a)(8)(B) of the AECA, P.L. 90-629) as all PRC government activity affecting the development or production of missiles, electronics,



space systems, and military aircraft, and the State Department considers that satellites are covered by the MTCR Annex (since it includes satellite parts).

In Beijing with the President in February 2002, National Security Advisor Condoleezza Rice said that the PRC should stop “grandfathering” contracts signed before November 2000. On August 25, 2002, the PRC published missile export control regulations (promised in November 2000), just before Deputy Secretary of State Richard Armitage arrived in Beijing to discuss an upcoming Bush-Jiang summit, showing that China still viewed nonproliferation in the context of relations with the United States. Armitage welcomed the new regulations but added that further discussions were needed. The State Department spokesperson stressed that questions remained about enforcement of the controls and reductions in PRC proliferation practices. With questions about enforcement and effectiveness of the controls, President Bush did not waive the sanctions imposed in September 2001.

Moreover, the regulations raised a number of questions, including the roles of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and Ministry of Foreign Affairs. Part 1 of that control list (missiles and other delivery systems) and dual-use items (in Part 2) for military use are subject to the Regulations on Administering Arms Exports issued in 1997, under the jurisdiction of the State Council and Central Military Commission (China’s military command). Also, unlike the MTCR, the PRC’s regulations on missile-related exports do not state a strong presumption to deny transfers of Category I items or any missiles or other items judged to be intended to deliver any WMD.

In the 107<sup>th</sup> Congress, Senator Thompson inserted a section in the FY2003 National Defense Authorization Act (enacted on December 2, 2002, as Section 1209 in P.L. 107-314) to require the DCI to submit semi-annual reports that identify PRC and other foreign entities contributing to weapons proliferation. However, in signing the legislation, President Bush stated that he would construe this and several other sections in a manner consistent with the President’s constitutional authority to withhold information, if disclosure could harm foreign relations, national security, or the Executive Branch’s duties.

Before the September 2001 sanctions expired, the State Department determined on August 29, 2003, that NORINCO substantially contributed to missile proliferation of Category II MTCR items in a publicly unidentified country and imposed sanctions for two years that ban the issuance to NORINCO of export licenses or U.S. government contracts for missile equipment or technology, and that ban the importation of NORINCO’s products.

The “Helms Amendment” again applied — denying exports of satellites to China, but the Bush Administration contended that it was “essential to national security” to waive for one year the sanction on imports when applied to other PRC government activities relating to missiles, electronics, space systems, and military aircraft. The sanctions took effect on September 19, 2003. Within a year, the Administration had to decide on the broader sanctions on imports of non-NORINCO

products, which could affect an estimated \$12 billion in imports from the PRC.<sup>47</sup> Meanwhile, in April 2004, the Commerce Department agreed to review whether to change China's "non-market economy" status, based upon which the "Helms Amendment" has broadened missile proliferation sanctions. On September 18, 2004, the State Department extended the waiver on the import sanction against certain activities of the PRC government for six more months. On March 18, 2005, the State Department again extended the waiver for six months. The State Department again extended the waiver for six months beginning on September 18, 2005.

**Capital Markets.** During the 106<sup>th</sup> Congress, in May 2000, Senator Thompson, along with Senator Torricelli, introduced S. 2645, the "China Nonproliferation Act," to require annual reviews (based on "credible information"), sanctions, and use of the U.S. securities market as a policy tool. (In September 2000, the Senate passed (65-32) a motion to table the legislation as an amendment to the bill granting China permanent normal trade relations (PNTR) status.)

In the 107<sup>th</sup> Congress, Senator Thompson inserted a section in the FY2003 Intelligence Authorization Act (enacted on November 27, 2002, as Section 827 in P.L. 107-306) to require the DCI to submit annual reports on PRC and other foreign companies that are involved in weapons proliferation and raise funds in U.S. capital markets. Reporting the bill on May 13, 2002, the Senate Intelligence Committee (in S.Rept. 107-149) added that it did not intend to restrict access to those markets. The 108<sup>th</sup> Congress passed the FY2004 Intelligence Authorization Act (P.L. 108-177) that included Section 361(e) to repeal the above reporting requirement.

**Nuclear Cooperation and Reactors.** After the PRC promised not to start new nuclear cooperation with Iran on the eve of the 1997 U.S.-China summit, President Clinton, on January 12, 1998, signed certifications (as required by P.L. 99-183) on China's nuclear nonproliferation policy and practices to implement the 1985 Nuclear Cooperation Agreement. According to President Clinton, the agreement would serve U.S. national security, environmental, and economic interests, and "the United States and China share a strong interest in stopping the spread of weapons of mass destruction and other sophisticated weaponry in unstable regions and rogue states — notably, Iran." The President also waived a sanction imposed after the Tiananmen crackdown (in P.L. 101-246). Later, at the 1998 summit, the Department of Energy (DOE) and the PRC State Planning Commission signed an agreement on peaceful nuclear cooperation, including bringing PRC scientists to U.S. national laboratories, universities, and nuclear reactor facilities.

During debate on the agreement, some in Congress, the nonproliferation community, and elsewhere were skeptical that PRC policies changed sufficiently to warrant the certifications and that they served U.S. interests. They also pointed out that China had not yet joined the Nuclear Suppliers Group. Congressional review ended on March 18, 1998, and the agreement has since been implemented. U.S. firms may apply for Export-Import Bank financing and licenses from the Nuclear Regulatory Commission (NRC) and DOE to export nuclear technology to China, and

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<sup>47</sup> Susan Lawrence, "Duel Over Sanctions," *Far Eastern Economic Review*, November 6, 2003; and author's interview with State Department official, November 2003.

foreign firms may apply to re-export U.S. technology. Some Members pursued several options to affect the agreement's implementation. On November 5, 1997, the House passed a bill with an amendment sponsored by Representative Gilman, chairman of the Committee on International Relations, to extend congressional review for implementation of the agreement from 30 to 120 days and provide for expedited review procedures. As amended by Representative Gilman, the National Defense Authorization Act for FY1999 (P.L. 105-261) requires the President to notify Congress "upon" granting licenses for nuclear exports to a non-NATO country that has detonated a nuclear explosive device (e.g., China).

However, *Nucleonics Week* (March 23, 2000) and the *Washington Times* (May 9, 2000) reported that the Clinton Administration had not obtained from China an overall assurance that it will not re-export U.S. technology to another country, such as Pakistan, thus affecting the issuance of export licenses. As required, the State Department, on June 9, 2000, issued the first notification to Congress that NRC issued a license on February 3, 2000, for the export of tantalite ore to China. The Administration issued this and subsequent licenses based on case-by-case assurances from Beijing of no re-transfers. Finally, on September 16, 2003, the Department of Energy and China's Atomic Energy Authority agreed on a Statement of Intent concerning assurances from China that nuclear technology would not be retransferred by China to third parties or used in China's nuclear weapons program.

On February 28, 2005, Westinghouse (along with Mitsubishi Heavy Industries) submitted a bid to sell four nuclear power reactors to China, with the NRC's approval. The Bush Administration has supported Westinghouse's bid to sell nuclear reactors to China.<sup>48</sup> However, critics say that the United States, including its Export-Import Bank, should not support nuclear exports to China, given proliferation issues.<sup>49</sup> On June 28, 2005, Representative Bernard Sanders introduced Amendment 381 to the Foreign Operations, Export Financing, and Relations Programs Appropriations Act for FY2006 (**H.R. 3057**) to prohibit funds from being used by the Export-Import Bank to approve an application for a loan or loan guarantee for a nuclear project in the PRC. The House adopted the amendment (313-114) and passed H.R. 3057 on June 28, 2005, with the language in Section 589.

**U.S. Import Controls.** While sanctions may affect U.S. exports, some policy steps may affect imports of products produced by PRC military or defense-industrial companies suspected of contributing to proliferation. Import controls have been included as possible sanctions for missile proliferation under Section 73(a)(2)(C) of the AECA and Section 11B(b)(1)(B)(iii) of the EAA, as well as affected by what is popularly called the "Helms Amendment," giving a broad definition of "person" as a target of sanctions. Issues include whether to sanction imports and what the parameters should be. (See **Sanctions and the "Helms Amendment."**)

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<sup>48</sup> Discussions in Beijing held by the author and other congressional staffers of a delegation that visited the PRC in August 2005.

<sup>49</sup> Timothy Carney, "U.S. to Fund Chinese Agency Aiding Iranian and Pakistani Nukes," *Human Events Online*, March 2, 2005.

**U.S. Export Controls.** Export controls are a possible policy tool, because U.S. technology provides one source of leverage with respect to Beijing. After the Cold War, U.S. export restrictions have been re-focused to the threat of WMD and missiles. Some in Congress are concerned about U.S. technology reaching hostile states with WMD programs through China. U.S. arms sales to China have been banned under sanctions imposed after the 1989 Tiananmen Crackdown (in the Foreign Relations Authorization Act for FY1990-1991, P.L. 101-246), but there are competing economic interests in exporting dual-use technology.

## Nonproliferation and Arms Control

**Nonproliferation Regimes (MTCR, NSG, etc.).** Another policy approach is to strengthen the international nonproliferation regimes. There are two prongs in such efforts: (1) encouraging PRC support for strengthening the regimes (e.g., the IAEA's verification authority) to enforce compliance and (2) filling gaps in China's participation. Some say that efforts to include China would capitalize on its desire to be treated as a "great power" and to be perceived as a responsible world leader. In addition, they stress that China would be more cooperative if it helped to draw up the "rules." Others argue that China's participation would risk its obstruction of tighter export controls, possible derailing of arms control efforts, linkage of nonproliferation issues to the Taiwan issue, and access to intelligence-sharing. One basis for this view is the experience with the Arms Control in the Middle East effort in the early 1990s, in which China refused to cover missiles in the effort and later suspended its participation after President Bush decided in 1992 to sell Taiwan F-16 fighters.

Options for U.S. policy have included support or opposition to China joining the MTCR (as a member after it establishes a record of compliance and effective export controls), Nuclear Suppliers Group (NSG), Australia Group (on chemical and biological weapons), Wassenaar Arrangement (military and dual-use export controls), and International Code of Conduct Against Ballistic Missile Proliferation. Previously, President Clinton's National Security Council, in a reported Secret memo, dated March 12, 1998 (printed in the March 23, 1998 *Washington Times*), proposed in a "China missile deal" to expand space cooperation with Beijing, increase the number of satellites that China can launch, issue a blanket Presidential waiver of post-Tiananmen sanctions on satellite launches, and support China's membership in the MTCR — in return for effective PRC missile export controls.

Critics say that membership in the MTCR would exempt China from certain sanctions, provide it with intelligence, give it a potentially obstructionist role in decision-making, and relax missile-related export controls to China. In September 1999, Congress passed the FY2000 National Defense Authorization Act (P.L. 106-65), stating its sense that the President shall take steps to obtain an agreement with the PRC on adherence to the MTCR and its annex and that the PRC should not be allowed to join the MTCR without meeting certain conditions. It also required a report on the PRC's adherence to the MTCR. The classified report was submitted on August 18, 2000. In June 2004, China expressed willingness to join the MTCR.



China joined the Zangger Committee (on nuclear trade) in October 1997, before a summit in Washington. Also, China issued new export control regulations on dual-use nuclear items on June 17, 1998, before another summit in Beijing.

For years, China was the only major nuclear supplier to shun the multinational NSG, which requires “full-scope safeguards” (IAEA inspections of *all* other declared nuclear facilities in addition to the facility importing supplies to prevent diversions to weapon programs). In January 2004, China applied to join the NSG. However, on May 5, 2004, China signed a contract to build a second nuclear power reactor (Chashma-2) in Pakistan. This contract raised questions because of continuing PRC nuclear cooperation with Pakistan and its signing right before a decision by the NSG on China’s membership. With a pre-existing contract, Chashma-2 would be exempted from the NSG’s requirement for full-scope safeguards.<sup>50</sup> The Bush Administration decided to support China’s membership, after reportedly strident debate between officials who questioned China’s commitment to nonproliferation and those who wanted to encourage China’s further cooperation.<sup>51</sup>

On May 18, 2004, the House International Relations Committee held a hearing to question whether the Administration should support China’s membership in the NSG, given concerns about PRC nuclear cooperation with Pakistan and Iran, about whether China would be a spoiler in the NSG, and about loss of U.S. leverage. Assistant Secretary of State John Wolf testified that the United States has urged China to join the NSG since 1995, that China has not been a spoiler in the Zangger Committee, and that NSG membership would add multilateral influence on China’s nuclear technology export policies. Wolf conceded, however, that Pakistan has a nuclear weapons program and does not accept full-scope safeguards, and that the United States prefers that no country provide Pakistan with benefits of peaceful nuclear cooperation. He noted that the Chashma-2 plant will be under IAEA safeguards, but the NSG exempts full-scope safeguards for contracts signed before NSG membership. Wolf also acknowledged that the Administration did not request that China use its influence with Islamabad to secure tighter Pakistani export controls. Moreover, he conceded that the Administration has not seen the contract for Chashma-2 nor received the requested “full information” on any ongoing nuclear cooperation projects that China seeks to grandfather. A memo dated May 26, 2004, by the Project for the New American Century criticized the Administration’s decision for turning a “blind eye to China’s reactor sales to Pakistan.” The NSG decided at a meeting on May 28 to accept China as a member.

The Bush Administration raised a further question when it announced on July 18, 2005, that it desired to begin nuclear cooperation with India, despite its nuclear tests. At the NSG, the Administration has sought an exemption from full-scope safeguards for India, based on its nonproliferation record. However, China, as an

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<sup>50</sup> “Pakistan, China Agree on Second Chashma Unit,” *Nucleonics Week*, May 6, 2004.

<sup>51</sup> Carol Giacomo, “U.S. Backs China Joining Nuclear Group,” *Reuters*, May 11, 2004.

NSG member, is expected also to seek an exemption for it to start new nuclear exports to Pakistan.<sup>52</sup>

**CTBT and Fissile Materials Production.** China, on July 30, 1996, began a moratorium on nuclear testing and signed the CTBT on September 24, 1996. However, after the U.S. Senate rejected (51-48) the treaty on October 13, 1999, it became doubtful that the PRC would ratify the CTBT. Also, the United States has sought PRC cooperation on negotiating a global ban on the production of fissile materials for nuclear weapons and other nuclear explosive devices. On October 4, 1994, the United States and China agreed to “work together to promote the earliest possible achievement of a multilateral, non-discriminatory, and effective verifiable convention” banning fissile materials production.

## International Lending and Japan

Congress might seek to link U.S. support for loans made by international financial institutions to China’s nonproliferation record. The Iran-Iraq Arms Nonproliferation Act requires U.S. opposition to multilateral loans for sanctioned countries (Section 1605(b)(2)). Coordination with Japan is important, since it provides the most significant bilateral aid to China and, in 1995, was the only country to cut aid to pressure China to stop nuclear testing. By 2005, some in Congress have increasingly questioned the World Bank’s continued lending to China despite the government’s wealth of funds.<sup>53</sup> The World Bank extended \$1.2 billion in total loans to China in the fiscal year that ended on June 30, 2004.<sup>54</sup>

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<sup>52</sup> *Nucleonics Week*, September 29, 2005.

<sup>53</sup> William McQuillen, “World Bank Loans to China Draw Criticism from U.S. Congressmen,” *Bloomberg*, August 4, 2005; and discussions in Beijing by the author and other congressional staffers in a delegation that visited the PRC in August 2005.

<sup>54</sup> World Bank’s Office in Beijing, “Facts & Figures,” July 2004.

**Table 1. PRC Entities Sanctioned for Weapons Proliferation**

Entity/Person	Reason: Statutes	Effective Dates
<ul style="list-style-type: none"> <li>- China Great Wall Industry Corporation</li> <li>- China Precision Machinery Import/Export Corp. (CPMIEC)</li> </ul>	Missile Proliferation: §73(a)(2)(A), Arms Export Control Act §11B(b)(1)(B)(i), Export Administration Act (Category II items in MTCR Annex to Pakistan)	June 25, 1991 waived on March 23, 1992
Ministry of Aerospace Industry, including CPMIEC, and related entities, including: <ul style="list-style-type: none"> <li>- China National Space Administration</li> <li>- China Aerospace Corp.</li> <li>- Aviation Industries of China</li> <li>- CPMIEC</li> <li>- China Great Wall Industry Corp. or Group</li> <li>- Chinese Academy of Space Technology</li> <li>- Beijing Wan Yuan Industry Corp. (aka Wanyuan Company or China Academy of Launch Vehicle Technology)</li> <li>- China Haiying Company</li> <li>- Shanghai Astronautics Industry Bureau</li> <li>- China Chang Feng Group (aka China Changfeng Company)</li> </ul>	Missile Proliferation: §73(a)(2)(A), Arms Export Control Act §11B(b)(1)(B)(i), Export Administration Act (Category II items in MTCR Annex to Pakistan)	August 24, 1993 waived on Nov. 1, 1994

Entity/Person	Reason: Statutes	Effective Dates
5 PRC citizens: - Liao Minglong - Tian Yi - Chen Qingchang (aka Q.C. Chen) - Pan Yongming - Shao Xingsheng 2 PRC companies: - Nanjing Chemical Industries Group - Jiangsu Yongli Chemical Engineering and Technology Import/Export Corp. 1 Hong Kong company: - Cheong Yee Ltd.	CW Proliferation: §81(c), Arms Export Control Act §11C(c), Export Administration Act (dual-use chemical precursors, equipment, and/or technology to Iran)	May 21, 1997 remain in effect
Jiangsu Yongli Chemicals and Technology Import/Export Corp.	CW/BW Proliferation: §3, Iran Nonproliferation Act	June 14, 2001 for two years
China Metallurgical Equipment Corp. (aka CMEC, MECC)	Missile Proliferation: §73(a)(2)(A), Arms Export Control Act §11B(b)(1)(B)(i), Export Administration Act (MTCR Category II items to Pakistan)	Sept. 1, 2001 for two years
- Liyang Chemical Equipment - China Machinery and Electric Equipment Import/Export Co. - Q.C. Chen	CW/BW Proliferation: §3, Iran Nonproliferation Act (Australia Group controls)	Jan. 16, 2002 for two years





Entity/Person	Reason: Statutes	Effective Dates
North China Industries Corporation (NORINCO)	Missile Proliferation: Executive Order 12938 (amended by Executive Order 13094) (missile technology to Iran)	May 23, 2003 for two years
<ul style="list-style-type: none"> <li>- Taian Foreign Trade General Corporation</li> <li>- Zibo Chemical Equipment Plant</li> <li>- Liyang Yunlong Chemical Equipment Group Company</li> <li>- NORINCO</li> <li>- CPMIEC</li> </ul>	Missile Proliferation: §3, Iran Nonproliferation Act	June 26, 2003 for two years
CPMIEC	Missile Proliferation: Executive Order 12938 (as amended by Executive Order 13094) (missile technology to publicly unnamed country)	July 30, 2003 for indefinite period
NORINCO	Missile Proliferation: §73(a)(2)(A) and (C), Arms Export Control Act §11B(b)(1)(B)(i) and (iii), Export Administration Act (Substantial contribution in proliferation of MTCR Category II technology to publicly unnamed country)	September 19, 2003 for two years; waiver for one year on import ban for non- NORINCO products; waiver extended on September 18, 2004, for six months; waived for six more months on March 18, 2005; and waived for six months on September 18, 2005.

Entity/Person	Reason: Statutes	Effective Dates
<ul style="list-style-type: none"> <li>- Beijing Institute of Opto-Electronic Technology (BIOET)</li> <li>- NORINCO</li> <li>- CPMIEC</li> <li>- Oriental Scientific Instruments Corporation (OSIC)</li> <li>- Zibo Chemical Equipment Plant (aka Chemet Global Ltd., South Industries Science and Technology Trading Company)</li> </ul>	<p>Weapons Proliferation:            §3, Iran Nonproliferation Act            (unspecified transfers to Iran controlled under multilateral export control lists or having the potential to make a material contribution to WMD or cruise or ballistic missiles)</p>	<p>April 1, 2004            for two years</p>
<ul style="list-style-type: none"> <li>- Xinshidai (aka China Xinshidai Company, XSD, China New Era Group, or New Era Group)</li> </ul>	<p>Missile proliferation:            Executive Order 12938 (as amended by Executive Order 13094)            (material contribution to missile proliferation in publicly unnamed country)</p>	<p>September 20, 2004            for two years</p>
<ul style="list-style-type: none"> <li>- Beijing Institute of Aerodynamics</li> <li>- BIOET</li> <li>- China Great Wall Industry Corporation</li> <li>- NORINCO</li> <li>- LIMMT Economic and Trade Company, Ltd.</li> <li>- OSIC</li> <li>- South Industries Science and Technology Trading Co.</li> </ul>	<p>Weapons Proliferation:            §3, Iran Nonproliferation Act            (unspecified transfers to Iran controlled under multilateral export control lists or having the potential to make a material contribution to WMD or cruise or ballistic missiles)</p>	<p>September 23, 2004            for two years</p>
<ul style="list-style-type: none"> <li>- Liaoning Jiayi Metals and Minerals Co.</li> <li>- Q.C. Chen</li> <li>- Wha Cheong Tai Co. Ltd.</li> <li>- Shanghai Triple International Ltd.</li> </ul>	<p>Weapons Proliferation:            §3, Iran Nonproliferation Act            (unspecified transfers to Iran controlled under multilateral export control lists or having the potential to make a material contribution to WMD or cruise or ballistic missiles)</p>	<p>November 24, 2004            for two years</p>

Entity/Person	Reason: Statutes	Effective Dates
<ul style="list-style-type: none"> <li>- Beijing Alite Technologies Company Ltd.</li> <li>- CATIC</li> <li>- China Great Wall Industry Corporation</li> <li>- NORINCO</li> <li>- Q.C. Chen</li> <li>- Wha Cheong Tai Company (aka Wah Cheong Tai Co., Hua Chang Tai Co.)</li> <li>- Zibo Chemet Equipment Corp. (aka Chemet Global Ltd)</li> </ul>	<p>Weapons Proliferation:            §3, Iran Nonproliferation Act            (unspecified transfers to Iran controlled under multilateral export control lists or having the potential to make a material contribution to WMD or cruise or ballistic missiles)</p>	<p>December 27, 2004            for two years</p>

**Note:** This table summarizes the discussion of sanctions in this report and was compiled based on publication of notices in the *Federal Register*, reports and statements of the Administration, legislation enacted by Congress, and news reports.