

# PEOPLE'S REPUBLIC OF CHINA

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**HEARING**  
BEFORE THE  
**SELECT COMMITTEE ON INTELLIGENCE**  
OF THE  
**UNITED STATES SENATE**  
**ONE HUNDRED FIFTH CONGRESS**  
**FIRST SESSION**  
ON  
**PEOPLE'S REPUBLIC OF CHINA**

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**SEPTEMBER 18, 1997**

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# PEOPLE'S REPUBLIC OF CHINA

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THURSDAY, SEPTEMBER 18, 1997

U.S. SENATE,  
SELECT COMMITTEE ON INTELLIGENCE,  
*Washington, DC.*

The Select Committee met, pursuant to notice, at 10:06 a.m., in room SD-562, Dirksen Senate Office Building, the Honorable Richard Shelby, Chairman of the Committee, presiding.

Present: Senators Shelby, Roberts, Kerrey of Nebraska, Bryan, Baucus, and Lautenberg.

Also present: Taylor Lawrence, Staff Director; Chris Straub, Minority Staff Director; and Kathleen McGhee, Chief Clerk.

Chairman SHELBY. The Committee will come to order.

We're here today to receive testimony on China, a country that experts have described as the number one foreign policy challenge of the 21st century.

I traveled in China over the August recess and met with senior Chinese leaders. And I agree that there is no country that poses such risk, such opportunities, and such dilemmas.

China has also become the number one intelligence challenge of the Twenty-first Century. As an emerging economic and military power, China has the option, and increasingly the will, to challenge vital United States interests around the globe.

A small and secretive ruling group, attended by aggressive, and competent security services, closely guard its deliberations, intentions, and capabilities.

At the most basic level, the Chinese language, and the perennial shortage of trained United States linguists, serve as a barrier to obtaining the understanding I believe we need.

This hearing today is an intelligence hearing on China. Not a hearing on United States policy towards China. Therefore the focus is what we know about China today, what we don't know, and what we need to know. We've asked our witnesses to address those aspects of internal Chinese political and economic development, Chinese foreign and military policy, and Chinese intelligence activities that directly affect international security and challenge United States intelligence collection and analysis.

This afternoon the Committee will hold a closed session to hear the views of Intelligence Community witnesses on these issues, as well as on other subjects that cannot be discussed in open session. This hearing comes, I believe, at a very propitious time, by China policy deliberations in the Senate. Senator Spencer Abraham and others, including our colleague on the Committee, Senator DeWine, have just introduced the China Policy Act of 1997, a comprehensive

piece of legislation designed to move the China debate beyond the MFN issue, by proposing specific, targeted sanctions, and other measures, to address human rights, religious freedom, prison labor, PLA activities, proliferation, technology diversion, and other issues.

I urge my colleagues to give this legislation their careful attention, as I intend to.

Today we will first address the critical question, what kind of country is China today? And what kind of country is China becoming? And what will it be in the year 2010 and 2020 and perhaps beyond. From our own observation, I can say that China today is clearly not the China of the Cultural Revolution, but neither is it a former Communist country, as some have suggested.

Will the president solidify his control and for what ends? Will economic reforms continue, as reports from the 15 party Congress seem to suggest? Will economic reforms at last be accompanied by meaningful political reforms? Or will the ruling parties refuse to loosen the reins of its power?

Will the government retain its current level of centralized control. Or will regions, as distant and different as Shenyang and Guangzhou obtain greater freedom? And if so, how?

What will be the future of Hong Kong?

Our first witness today is going to be Mr. Harry Wu, a native of China with bitter first-hand experience of the Communist regime's methods. Currently a research fellow at the Hoover Institute, Mr. Wu is best known for his courageous struggle for human rights in his own country, where he spent some 20 years in forced labor camps, and more recently he has become known for his work in the United States and around the world.

Our second witness today, the distinguished former Ambassador James Lilley. He was ambassador to the People's Republic of China. In addition to commenting on overall political developments, Ambassador Lilley will also touch on the intelligence challenges posed by China, to the extent possible in open session.

But moving from Chinese domestic developments, we will proceed to areas where China's behavior challenges United States interests around the world. We will address Chinese proliferation of weapons of mass destruction, with particular regard to sales of advanced weapons and technology to Iran, and to Pakistan.

In July of this year, the CIA's Non-Proliferation Center reported that China was the most significant supplier of weapons of mass destruction, related goods, and technology to foreign countries, in the latter half of 1996.

China's sales of anti-ship cruise missiles, ballistic missile technology, chemical weapons material, and nuclear technology to Iran, a hostile country that threatens United States interest in an area of vital concern to the United States, endanger the lives of American soldiers, sailors, and airmen.

The transfer of nuclear and missile technology to Pakistan, despite repeated United States objections, jeopardizes the stability of South Asia. It flies in the face of United States non-proliferation goals, and undermines, some of us believe, China's claim to be seen as a responsible world power.

Our witness on proliferation issues will be Professor Gary Milhollin of the Wisconsin Center for Nuclear Arms Control. He's had decades of experience in nuclear and proliferation matters.

We also plan to discuss China's foreign and military policy in the wake of the Cold War. For years, China viewed the United States presence in East Asia and the Western Pacific, as a stabilizing force. Now it seems, they resent a security structure that is increasingly viewed as intended, as some would say, to contain China.

In addition to long-standing tension over Taiwan, Beijing has never renounced the use of force to reunify Taiwan with the mainland. China has, and continues to threaten enforcement of its far-flung claims in the South China Seas. These claims threaten United States friends and allies in the region. And combined with China's upgrading of its naval and air forces, casts a long shadow across sealanes critical to Japan, South Korea, other United States allies, and the United States, itself.

It seems likely that today, and for the immediate future, China lacks the military forces to seriously challenge the United States military power in the region. However, we should remember, as the only great power whose defense spending has increased in recent years, China is acquiring advanced missiles, naval, air, amphibious, and other forces, capable of projecting power in East Asia and the Pacific region.

The Chinese military, apparently, has also learned the lesson of the American victory in the Persian Gulf, which demonstrated the superiority of modern technology, and introduced Chinese military thinkers to the concept of the revolution in military affairs, the use of high-tech precision weapons, advanced information technology, electronic warfare and other advanced systems.

To address Chinese foreign and other military policies we have two witnesses who have literally written the book on these subjects. Peter Rodman, a former senior NSC and State Department official, who is currently Director of National Security Programs at the Nixon Center for Peace and Freedom, is the author of *Broken Triangle*, a review of the post Cold War shift and the dynamics between the United States, China, and Russia. A copy of the China section of *Broken Triangle* is included in the Member's hearing books.

Michael Pillsbury is an associate fellow at the National Defense University, and a senior fellow at the Atlantic Council. He recently translated an extensive selection of Chinese military writings on the revolution in military affairs, published under the title, *Chinese Views of Future Warfare*. I understand that copies of the book are available for Members.

In closing, I would remind the witnesses that we have a great deal of ground to cover today and not much time to do it. I would ask that the witnesses keep their opening statements to ten minutes to allow time for questioning.

Senator Kerrey.

Vice Chairman KERREY. Thank you, Mr. Chairman.

First, I welcome this hearing as an opportunity to learn more about China and the policy issues confronting our nation. China is a long ways away from the United States, both physically and cul-

turally. And it is important for us to make, before we reach our policy conclusion, every considered effort, both to understand what China itself is going through, and to make some reasonable effort to understand our own history, with relation to China.

I think particularly of the issue today of considerable trouble to the United States, of China making sales to Pakistan. Twenty-four years ago, the United States, in trying to use China, its new relationship with China, to try to establish a balance of power against the Soviet Union, provided some encouragement to China, to establish this relationship in the first place.

There are many things, it seems to me, important for us, as we stand today, in 1997, trying to decide what United States law should be, that require us to make an effort to understand, prior to jumping to a quick conclusion.

Many people in the United States continue to speculate on China's development as a world leader, and its threatening potential, and volunteer strategies for the United States to use today to counter the China of the future. And they oftentimes presuppose a conflict that need not arise.

And today I believe the United States can act in its own interest, and in doing so, forge a relationship with China more closely resembling a partnership than a confrontation.

The insights our witnesses provide in this hearing can help us formulate that policy.

As China continues to transition towards a market economy, its industrial production and its enormous consumer base will continue to affect our society and influence our nation's foreign policy.

In that regard, the United States of America took nearly 100 years to go from an economy that was predominantly agriculture, where nearly 60 percent of our people were living on farms, to today, 3 percent of our people are living on farms.

In China, a nation of 1.2 billion people, there are still in excess of 50 percent of the people living on farms. It will be a traumatic, and it will be the largest migration of people from a rural to an urban environment. And it's just one of many examples of things that I believe that we must make an effort to understand, prior to reaching our own policy conclusions.

Last year American companies sold over \$12 billion worth of goods to China, while American consumers purchased over \$51 billion worth of Chinese goods during the same period.

This year our trade deficit with China could grow from \$40 billion to \$50 billion, and to a large extent, though this has an impact, a negative impact on the United States, the greater impact is on Chinese consumers themselves, because this disparity in trade is caused by China's restrictive trade and investment practices.

If our prosperous trade relationship is to continue to bring benefits to both nations, China will have to change its trade policies to grant United States companies the same access to their markets as we provide Chinese companies to ours, and in reverse, grant their consumers the same access to United States products that United States consumers have to Chinese.

Like other nations moving towards market economies, China is beginning to realize how essential the rule of law is to the growth

of commerce. Business men and women do not trust in promises and handshakes. They rely upon contracts and legal precedent to assure their capital is protected from fraud and corruption.

Commercial laws are like any other type of law. They provide a framework upon which a society functions. They provide rules by which people interact. They provide a means to settle disputes. And they protect the individual from the uncertainty that arises when political leaders can set policy by fiat.

If commercial laws are to promote the best interest of a society, they must reflect the will of the people living in that society. The promotion of human rights in China is not solely in the interest of the United States. It is in China's best interest as well. If it wishes to maintain its economic growth and to improve the material well-being of its people, China must open its government to the views of its people.

A nation with laws is not a nation of law. The rule of law must necessarily include the implementation of those laws. And we will hear today of examples of Chinese companies ignoring their nation's laws and selling advanced technology and weapons to certain rogue states.

Again, in their own self interest, the Chinese government must come to realize that disrespect for any of its laws will affect obedience to all of its law.

Today there are other Congressional hearings going on in Washington, DC, on possible Chinese government efforts to influence American elections. These are serious allegations which we must investigate and review to the greatest extent possible.

Nevertheless, our nation's relationship with China does transcend these allegations. We should not allow our focus on this single incident to unduly cloud our perspective on the whole of our relations with China.

Mr. Chairman, I look forward to the testimony of our witnesses. Chairman SHELBY. Senator Baucus.

Senator BAUCUS. Thank you very much, Mr. Chairman. Good morning, everybody.

I think it's important to remind ourselves of a few facts. Number one, China is the world's largest country. It has a large, and rapidly growing, economy. It is a future military power. And it is our fourth largest trade partner.

And in most of the things we want to achieve in Asia, peace in the region, security in Korea, a strong alliance with Japan, more open and fair trade, preventing the spread of weapons of mass destruction, slowing global climate change, promoting human rights, China is going to play a part.

So in Congress we have debated our relationship with China very intensely over the years, and that is appropriate.

These are very important subjects and deserve full debate.

But I have been a little unhappy, over the years, with our approach. All too often we make speeches, and draft bills, here in the United States and Congress, before we look at the facts. And I hope that in the coming years we can more often put facts before emotion.

And that's where this hearing can help. We have a chance today to look at basic questions.



What views do Chinese leaders hold of the United States and international relations, generally?

What is our best guess about the stability of the current Chinese political system?

Will China's economy continue to grow rapidly into the indefinite future, or is it vulnerable to the problems that now afflict Japan, Korea, and Southeast Asia? What are the facts about weapon proliferation, and what methods are most effective in fighting it?

As the Administration prepares for the summit meeting with President Jiang, we have with us today some experts who may be able to help us answer these questions. So I thank the Chairman for holding this hearing, and especially for making it an open hearing, from which the public-at-large can learn.

Chairman SHELBY. Senator Roberts.

Senator ROBERTS. Thank you, Mr. Chairman.

I want to thank the witnesses for taking time to come before the Committee. I would like to associate myself with your remarks. There was a commission, about a year ago, made up of 12 members, four Senators, one Congressman, at that time myself, on our vital national security interests, and it was conducted by the Nixon Center for Peace, the Rand Corporation, The Harvard School for International Studies. And it tried to itemize the issues that were absolutely primary and of vital importance, not only to our national security, but for world security as well.

The number one issue, other than the mass proliferation of weapons of destruction, was China's entry onto the world stage, not only in regards to military concerns, and environmental concerns, economic concerns, but simply across the board.

I think your hearing is very timely and I'm here to listen. Thank you sir.

Chairman SHELBY. Senator Lautenberg.

Senator LAUTENBERG. I have no opening statement, Mr. Chairman. I'm anxious to hear the witnesses' testimony.

Chairman SHELBY. Senator Bryan.

Senator BRYAN. Mr. Chairman, I have no opening statement, as well. Like Senator Lautenberg, I am eager to hear our witnesses.

Chairman SHELBY. If our first panel will come up to the table—Mr. Wu and Ambassador Lilley.

Thank you gentlemen.

Your opening statement will be made part of the record, in its entirety. And if you would sum up any additional remarks that you want to make before the Committee, orally, you may proceed.

Mr. Wu, you want to go first.

#### **STATEMENT OF HARRY WU, RESEARCH FELLOW, HOOVER INSTITUTE**

Mr. WU. Ladies and gentlemen, this is my pleasure and my honor to testify before the Senate.

Today China is a nation standing at a crossroad of history. And it will become a most important international issue that the United States will have to deal with in the next century.

Chinese Communist regime, like a gigantic building, for most of the past four decades, has looked ugly and terrible from outside, because of its disastrous poverty, red horror and uncooperative atti-

tude toward America, an attitude which made it our enemy in the Korea and Viet Nam War.

But the ugly buildings were stable, in the past four decades, because its pillars were very strong. Because the majority of Chinese people believe that living in it, under the Chinese Communist party leadership, was the best hope for our future prosperity.

For example, in 1950, when I was only 12 years old, I was not qualified to join the army to fight against American imperialists in the Korean War. My father was a very wealthy banker. He actually was a target of the Communism revolution, but we loved our country. So if I joined—I really wanted to join army to fight the American paper tiger in Korea war.

So in the first 20, 30 years, the majority of Chinese really believed that Communism was our only future. We wanted to fight for it.

The Communism in China can be divided in two different styles, Deng's Communism, and Mao's Communism. In years '49 to '79 it is under so-called Mao-style, and '79 to today is Deng's style.

And fundamentally there's no difference in the political control and state ownership system for the Communist system. But there is a difference. Mao never allowed the capital restoration, and Deng allowed it. Because in 1979 the Communist regime in China was facing a crisis, political crisis, also economic crisis, Deng Xiaoping told the people, say, how can we cross the road, cross the river, who has touched the bottom of the river, trying to cross the river?

Communism failed everywhere, including Soviet Union, former Soviet Union, and Eastern European countries, not because of political persecution, or these human rights violations. The most important thing that caused Communism system to fail everywhere was because they cannot offer the better life for the common people.

And so it also happened in China. Deng Xiaoping realized that he had to improve the economic system. The only way—allow the capital and technology from the West to flow into China to improve their economic system.

So the Communist building today looks from the outside nice, because they have two digits of economic growth every year. And many Chinese today are happy because they can travel to the foreign country, and enjoy the western culture.

But there's a lot of untold and unsolved problem over there. The first problem is because of the state-run ownership system, state-run enterprises are running down. Today in the urban areas, there is around 10 percent unemployment rate. And the government tried to resolve—tried to solve the problem about that, they tried to cut loose unprofitable state enterprises and make the unemployment rate stable. And then this became a political issue.

The most incredible problem is happening in the countryside, because 70 percent of the people live in the countryside in China. And the Communist leaders cannot solve the ownership system, ownership problem—it means who owns the land.

In the agriculture area, they have a 450 million labor force. But they don't need that. That's why today they have 150 million people flowing into the city looking for jobs. And today, most of the criminals, or criminal rate problem is from that group—150 million

people, looking for a job and traveling the country, causes a big problems to the regime.

The third question right here is a power struggle in the internal Communist party system. According to Mao power comes from the barrel of the gun. The person who controls the gun is the boss. Jiang Zemin had no career with the People's Liberation Army, but he is trying to control it. For him it is a very hard job. And we have to put a question mark on this issue—can he succeed? And we learn from the Chinese Communist party history, since 1921, the power struggle never ceases. And most of the Chinese Communist leaders have been killed, not by foreign enemies, but by their own comrades.

Because the Communist party is a dictatorship system, the concept is one country, one party, one leader. And the recently appointed leaders tried to present themselves to the world with a friendly face of a collective leadership. And we believe this at the risk of ignoring history.

Jiang Zemin could be on his way to becoming a Chinese third-generation Communist leader. But, if he shows weakness, the others will try to challenge him. I don't think we can predict what the outcome of the party internal struggle, power struggle, will be. But it is clear that it will become more heated.

As the central planning economic system continues to break up, the regional power bases grow, and the political crisis will become more apparent. And I think it could leading to a civil war in the next century.

There is another issue or problem over there. Because the oppression under the Communists, the Chinese people, sooner or later, will cry out. Today there is a lot of underground literature being circulated in China. Such publications are deeply critical of the ruling authorities.

The next: the Chinese economy become heavily dependent on foreign trade and investment. Today, 48 percent of the Chinese goods produced for export are made by foreign or joint-venture enterprises. And the foreign and joint ventures today in China employ about 70 million people. China is a country that traditionally has a kind of self reliance and so this heavy dependence on the foreign trade and foreign investments, it's never happened in Chinese history.

Considering all the cracks in this colorful Communist building, it could, just like the Berlin Wall, collapse in one night. But, even if this were to happen, it would not mean that a free democratic and peaceful nation will raise out of the rubble. I believe China will keep this kind of tyranny system, probably in the next 100 years.

We have to know, the Marxism-Leninism ideology practiced today in China is just like a thin coat, covering the body of the traditional tyrannical Chinese dynasty. The Chinese political dictatorship system is in many ways the same as the former dynastic systems. Despite the reforms, the Communist emperor without a crown, like Deng Xiaoping, controls the government, military forces, media, and education system. They control the whole country.

But, if some people want to say China today is a former Communist country, just look at these indications. Today members of

the party, in the last ten years, increased to 57 million. They're reducing the military forces, but the secondary military forces, so-called People's Armed Police, from 1984 increased from 350,000, to last year where they have 1.1 million. And the PAP actually is a major force to control the Chinese.

China is a bird with two wings—politics and economy. The bird cannot fly with either of its wings tied up. And some people say that economic wing may, if it works very hard, release the political wing. But so far, we never find this in history.

In this country, the most important problem is they have a gulag system. They call this Laogai, and this is a machine to suppress the people and control the people.

If you want to see the Communist system as it exists in China, you must talk about Laogai. Just like President Ronald Reagan's policy of the Evil Empire was based on Aleksandr Solzhenitsyn's "The Gulag Archipelago."

Let me conclude in this way. The truth is that today, China needs the United States much more than the United States needs China.

Another conclusion. There is a danger that the world's most populous nation and the United States could wind up, in the 21st century, in a Cold War that would pose an enormous strategic problem for the United States and put millions of dollars, invested by American companies, at a serious risk.

Nearly 50 years ago, there was a debate in the United States about who lost China. I believe we will have another debate soon. The question will be, who rebuilt Communist China?

Thank you, Mr. Chairman.

[The prepared statement of Mr. Wu follows:]

PREPARED STATEMENT OF HARRY WU, EXECUTIVE DIRECTOR, THE LAOGAI RESEARCH FOUNDATION, RESEARCH FELLOW, HOOVER INSTITUTE

Today China is a nation standing at the crossroads of history. It is a nation that, as its people collectively ponder which way to go, will become most important international issue the United States will have to deal with in the next century.

As you think of China, I ask you to picture China's Communist regime as a gigantic building. For most of the four decades it looked ugly and terrible from the outside because of its disastrous poverty, red horror and uncooperative attitude toward America—an attitude which made it our enemy in Korea and Vietnam. But the ugly building was stable, its pillars were strong and the majority of the Chinese people believed that living in it, under the Communist party's leadership, was their best hope for future prosperity.

Communism in China can be divided into two styles—Deng's (from 1979 to the present) and Mao's (from 1949 to 1979). Much has been made of the differences between the system Deng created and the one Mao Zedong left behind. True, the two did differ in their methods of rule. The biggest of these differences is that Mao never allowed a restoration of capitalism—something which Deng permitted in his later years. But, in essence, the two systems do not differ. At its core, the Chinese communist system of today relies on the same politics of totalitarian despotism and the economics of public ownership that Mao used to impose his will on China.

Deng gave the Chinese people a break economically because Mao's disastrous policies left him with no other choice. The economic and political relaxation that Deng allowed has caused some to think that his rule was fundamentally different from Mao's.

It was more than 70 years ago that Deng, then a factory worker living in France, joined the Communist Party and vowed to devote his life to fighting for communism in China. In the last 20 years of his life—roughly the years he spent as China's paramount ruler—he did violate basic doctrines of communism. Under the slogan of "socialism with Chinese characteristics," and in the name of "developing a system

of a socialist market economy," Deng and his Communist Party permitted a restoration of capitalism and invited foreign capital to flood into China.

But today's Chinese communist system is still characterized by totalitarianism and a massive bureaucracy which oversees the public ownership of the primary means of production. Today's China remains under the firm control of the Chinese Communist party. China is no "former Communist country," as President Clinton has been quoted saying. Even with the continuation of Deng's economic reforms, the average Chinese enjoys no right to free speech. Consider the plights of Wei Jingsheng and Wang Dan. Both are currently serving their second terms in prison—one for 14 years, the other for 11 years—just for speaking the truth.

Under Deng's rule the appearance of this Chinese Communist building has changed. As Western technology and capital have flooded in, the building has taken on a colorful appearance, but the pillars that support it are cracking because the concept of Communism as a guiding principle is already on the trash heap of history. This ideological void constitutes a crisis in the minds of ordinary Chinese. For thousands of years, dynasty after dynasty, the Chinese have maintained a tradition of following a leader with "the mandate of heaven." Today's communist leaders have no such mandate. The pillars continue to crumble.

Other cracks in the building's pillars are easy to see. Today China's urban unemployment rate stands somewhere between 7 and 10%. This high figure stands to rise as the government moves ahead with plans to address debt problems at its banks by cutting loose unprofitable state-run enterprises.

Compounding this unemployment problem is another crack that runs through the agricultural sector, where 70 to 80% of the population lives. Agricultural production has come to a bottleneck. If the communist leaders cannot solve the ownership problem—who owns the land—then the peasants will no longer be interested in developing and improving production. Yet if there is too much improvement in production, millions more agricultural workers will lose their jobs and migrate to the urban areas. Some 150 millions have done so already. These people, the government knows, are a threat to stability.

This question of domestic control reveals another crack in the pillars. The Chinese Communists believe in Mao's saying that "power comes from the barrel of the gun." The person who controls the gun is the boss. Mao and Deng were both soldiers who naturally commanded the respect of the People's Liberation Army. Jiang Zemin has had no career with the PLA, but he is trying to control it. It is a hard job. Can he succeed?

Since the establishment of the Chinese Communist Party in 1921, its internal power struggles have never ceased. Most of the CCP's leaders have been killed, not by foreign enemies, but by their own comrades. Because the CCP is a dictatorship system, the concept of one country, one party, one leader, follows. Recently party leaders have tried to present themselves to the world with the friendly face of a collective leadership. We believe this at the risk of ignoring history. Jiang could be on his way to becoming China's third generation communist leader, but if he shows weakness, others will try to topple him. I don't think we can predict what the outcome of the party's internal power struggle will be, but it is clear that it will become more heated. As the central planning economic system continues to break up and regional power bases grow, the political crisis will become more apparent. I think it could lead to a civil war in the next century.

Another crack in the pillars runs through the people themselves. Having endured decades of oppression under the communists, the people, sooner or later, will cry out. Today there is a lot of underground literature being circulated in China. Such publications are deeply critical of the ruling authorities.

The final crack I would like to point out to you can be followed out of China to nations such as this one. China's economy has become heavily dependent on foreign trade and investment. Today, 48% of the goods china produces for export are made by foreign or joint-venture enterprises. These foreign and joint ventures employ some 17 million people. In a nation that has traditionally prided itself on its self-reliance, this sort of foreign involvement in the economy has no historical precedent.

Considering all of the cracks in this colorful communist building, it could, just like the Berlin Wall, collapse in one night. But even if this were to happen, it would not mean that a free, democratic and peaceful nation will rise out of the rubble. I believe that tyrannical systems will persist in China for at least the next 100 years.

To understand why this will happen, one need only to take a close look at the current regime and see the line connecting it with China's ancient past. Marxist-Leninist ideology in today's China is but a thin coat covering the body of a traditional and tyrannical Chinese dynasty. Communist political dictatorship system is in many ways the same as the former dynasty systems. Despite his reforms, a Com-

munist emperor-without-a-crown like Deng Xiaoping controls the government, military forces, media and education system—the whole country.

Today, "nationalism" and "patriotism," instead of communism/socialism have become the major political slogans of the regime.

Today the state ownership system is beginning to break a little. Such changes could be taking the Chinese into unknown territory where economic diversity could lead to the creation a diverse political environment. "Could" if the despots in Beijing would allow it.

Think of China as a bird with two wings—politics and economy. The bird cannot fly with either or its wings tied up. The Soviet bird, with its economic wing bound up, desperately flapped its political wing, only to crash. What about the Chinese communist bird?

Early reports from the current Communist Party congress show a leadership that wants to institute new economic reforms, but not at the expense of its monopoly on power or its control of the primary means of production.

Genuine economic transformation can only be achieved through the transfer of ownership of means of production to the private sector, but it is clear that the party leaders are not considering allowing the 800 million peasants who live in rural areas to own the land they farm or giving all the ordinary people of China more say about where they live and work.

In other words, the Chinese bird is struggling and will continue to struggle. There are people in this country who argue that it could gradually fly upwards if the political wing begins to move in unison with the rapidly beating economic wing. Personally, I believe that as long as the Chinese communists maintain their system of tyrannical, one-party rule, the two wings will resist cooperation and that this bird will die of exhaustion.

Still, to many of the people who have who have business interests in China, this is not apparent. They will happily tell anyone who will listen that China is well on its way to becoming an economic giant. I have to agree with these people when they make this argument. They, in turn, usually agree with me when I say that China is also on its way to becoming a military giant in the next century. If the totalitarians in Beijing have their way, these conditions of ready cash and military power will someday make them into a communist giant. If this comes to pass, American policymakers in the next century will have to make difficult decisions regarding emerging communist giant.

I find it highly ironic that the United States can project such strong intolerance toward the regimes in North Korea and Cuba and yet seem to find the dictators in Beijing acceptable. If the Soviet Union was the "Evil Empire," then China is the "Angel Empire." As such, China can enjoy the Most Favored Nation trading status which the Soviet Union was never granted.

The shrewdness of Deng Xiaoping and his successors cannot be denied. The rapid growth of capitalism they have allowed has given Communist China enough economic leverage to buy off all external pressure. This means Western money and technology are the fuel in the tank which is driving the Chinese Communist vehicle.

As they make deals for more of this fuel with Western CEO's, China's contemporary leaders are quick with a handshake and a smile for the cameras. But behind this facade of openness, underneath their Western suits, China's leaders keep in their hearts a deep-seeded fear of real democracy and the human rights that go with it. When they are confronted about this question, these leaders reflexively say that Asian concepts of human rights differ from those of the West. It is a sad but all-too-common thing to hear their Western partners echo this convenient lie.

Another convenient lie is the one I am hearing in some American Intellectual and political circles. It has to do with the absurd idea that village-level elections in China are somehow leading the nation toward democracy.

Elections in China are not new. They actually were taking place as early as the 1950s to select delegates to the People's congress. Everyone there understands that elections can be held. They have given the people the impression that there is some measure of democracy.

The Chinese government, of course, loves to hear these claims repeated in the West. They may hear them more often as they move ahead to expand their village election programs.

This brings me to what I believe is the fundamental question about the village elections: If they are such a good idea, why aren't there elections in the cities? Why not hold the elections only in the villages?

The answer is that the Chinese Communists have not relaxed their grip on power in the cities, while the countryside they need to do so because of the crisis they are facing there.

In the villages, people live under people's Commune system that controlled their lives and the economy completely. In term of political control, the People's Communes model is a good thing for the Communist Party. All the peasants work and lived like slaves, with no rights to say anything about production. This caused a crisis for production. Deng addressed this crisis by creating a so-called "contract" system by which the peasants could farm individual plots, which the state still owns. So the People's Commune no longer controls everything, as it did in Mao's day. Farmers can even borrow money to support their harvesting.

The planned economic system in agriculture has been broken. The Chinese Communist leaders, clever as they are, have realized that they need a new system to manage and control this pressure in the countryside. This is what leads them to the concept of village elections.

The conclusion is very simple: Under the current dictatorship system, the party controls the economy, the military—everything. If you believe these village elections are spreading democracy, you are actually helping the communist propaganda machine and helping the Communist Party stay in power.

There were also elections in the Soviet Union and more recently have been some in Iraq. I know of no one who believes these exercises constitute steps toward freedom. So why do some people today claim that village elections in China will lead to true democracy?

The only thing clear about the current U.S. strategy to engage China comprehensively is that it is not working. The idea is to talk to China on many fronts so that no single problem dominates. But this piecemeal approach has been easy for the Chinese to shrug off. Whatever the issue, from software piracy, to weapons proliferation to Taiwan, the U.S. is not having much luck an influencing Chinese behavior.

After the United States, China has become the world's number-two nation in terms of foreign investment. The money not only benefits common Chinese but also supports the communist government. It gives them the hard currency to hire hundreds of laid-off military experts from the former Soviet Union.

In China, the only force that will really change things is internal pressure. China's leaders know that it was the coalition of intellectuals, workers and the church that brought down Communism in Poland. In other words, the most important pressure for change on China's leaders is not external pressure, which China's economic growth deflects, but internal pressure, which Chinese leaders have learned to control to a large extent.

But this control of internal pressure does not happen completely in the dark. As China has opened its doors to the world, the full truth about the criminality of Chinese communism has begun to emerge.

At the heart of this system to control internal pressure is the Laogai, which means, literally, "reform through labor." I think "politically imposed slavery system," is a better definition. The Laogai shares many characteristics with Stalin's gulag and Hitler's concentration camps. If this was 1937 and somebody here wanted to talk about rumors of concentration camps in Nazi Germany, how many people would be interested?

From 1933 to 1937 Germany's economy expanded by 73% and most of the Germans generally agreed with Hitler's policies. The West, meanwhile, cooperated with Germany companies and nobody boycotted the 1936 Olympic Games in Berlin. It was not until the liberation of the concentration camps and the opening of the Nazi's own files that world fully understood the horrors on those camps. Then the world learned the high price of appeasement.

But while the gulag and concentration camps have passed into history, the Laogai camps remain. The Laogai camps are proof that what the Beijing authorities really fear is democracy and human rights. The Laogai is the point at which American engagement with China should begin.

If we want to see the end of Communist system in China we have to talk first about the Laogai. The Laogai is the Beijing regime's most fundamental tool for controlling internal pressure.

And to those who would argue that the United States has no leverage with which to push for changes in the Laogai or anywhere else in China, I say that the Chinese have done an excellent job creating the illusion that they have the upper hand.

The truth is that today China needs the United States much more than the United States needs China. While some Americans feel they need access to China's markets to ensure future success, the Chinese nation as a whole must keep the American dollars, the American technology, flooding in to maintain growth. It is this growth which allows the average Chinese to forget about the Communist Party's lost moral authority—which allows the Chinese Communists to prepare their troops for the day when the growth stops.

There is a danger that the world's most populous nation and the U.S. could wind up in a kind of 21st century cold war. That would pose an enormous strategic problem for the U.S. and put billions of dollars invested by American companies at serious risk. Nearly fifty years ago there was a debate in the U.S. about "who lost China." I believe we will have another debate soon. The question will be: "who rebuilt Communist China."

Chairman SHELBY. Ambassador Lilley, we're certainly glad to have you before us, and we welcome you again.

Mr. LILLEY. Thank you, Mr. Chairman.

**STATEMENT OF JAMES R. LILLEY, AMERICAN ENTERPRISE INSTITUTE AND THE UNIVERSITY OF MARYLAND**

Mr. LILLEY. My testimony dwells on state-owned enterprise reform, but my point is, this is not where we should concentrate our intelligence collection efforts, because this information is largely from overt sources, and to divert intelligence sources into this is probably a misuse of scarce assets.

It's largely overt, and certainly in my experiences in Beijing I depended upon the business community, State Department, Commerce, and others, more than I depended on CIA for this. And I think we have to be quite clear where we should collect, and where we shouldn't collect.

Second, I think again, the 15th Party Congress, which is going on now, gives us a fairly clear idea of where China's going. There's going to be reform in the economic field. That's the dominant push. Their argument is about pace.

The other is that there is going to be dominance of political authoritarianism, with a challenge coming from grass roots and democratic elements, but pretty much under control of the political authoritarians.

And let me just touch briefly on one subject that's critical to China's future, that the United States must monitor. It's good that Senator Baucus is here, because this is agriculture. The future of China hinges on agriculture.

This is not, however, a job basically for CIA. We did make satellite coverage available to a group up in Cambridge. They used it to try to identify Chinese land use. It was useful in that context to get an overall sense of where Chinese agriculture was going. But you don't have to send spies in to find this sort of thing out. So let's put that in the category of more or less overt collection.

Now I'm going to get into what I think is important, what we should be collecting on. I first would tell you that I've been out of the business for 20 years, have not seen a classified operational document on training for 20 years.

I know a little about the personnel system. And I must say I heartily approved the appointment of Jack Downing as the new Director of Operations. He's an excellent operator.

I would be more comfortable in closed session. You're going to have one this afternoon, but all of what I say, basically, is in the public domain.

My testimony has pointed out directions China may be moving in, which pose a challenge or threat to the United States interest. I might say, right away, the Intelligence Community is divided on this. You don't get one view. You get the caricature of the Ross-Ross debate, Ross Monroe versus Robert Ross, in the book, "Com-



ing Conflict with China," which I think is a flawed debate. Both sides are wrong. But at least it's a wake-up call to an issue.

There are serious institutional biases on China that exist in the community. And you have to watch this very carefully.

The other thing that clouds the issue is the Chinese superb practice of deception—when capable, feign incapacity. This is the way they operate. They'll throw up smoke-screens. They'll take you to backward factories. They'll lead you down the garden path, and you'll always get some gullible person coming back saying their military is very backward. For instance, they use obsolete tanks. That's because that's what the Chinese wanted them to see.

So what is important today is that we have people like Mike Pillsbury, and we have in the audience Rick Fisher, who have an idea what are the Chinese after. And there's no great secret, if you read Mike's book. And I'll leave the details up to him. But this includes over the horizon radars, SUNBEAM anti-ship missiles. They're working on their cruise missile programs. They used them effectively in the March '96 exercise in the Taiwan Strait. Surface-to-surface nuclear missiles for their submarines, laser-beam weapons. There's no great mystery. Pillsbury's book has much of this.

The intelligence problem is, we need to know how successful the Chinese are doing in adopting these weapons systems. We have to know what their priorities are, what programs they're pushing, what their research and development are, what they are testing, deployment of systems, effectiveness. These are the questions.

We should know what they're trying to do, where they're putting the money, the systems to watch. And the Chinese aren't going to tell you about it. You've got to find it out through other means.

And again, I recommend Rick Fisher's paper that he did for a conference we had on the PLA, and Bates Gill's paper on the same subject of Chinese military acquisitions, giving a slight different point of view.

But, in the China of today, the target for agencies and intelligence collectors is a fairly stable one, not like drugs or terrorism, where you have a shifting target of little cells, and it takes the guy to work the streets, and speak Arabic, and penetrate certain organizations, like the Cali Cartel, or the Hammas Group. It takes a special mentality that CIA must have and you must watch.

China's different. It's a more stationary target. You know where the institutions are. You know who the people are that are doing the work. You know the systems they're working on. And you can apply, I think, in some ways, past tested operational techniques, but with Chinese characteristics. China is a different society. You've got to have case officers that speak the right language, the right dialect, that sort of thing.

We have a lot of case studies. With all of the Aldrich Ames disaster in revealing our spies, I think Bill Colby made a relevant comment. He said, what amazed him, as a former Director of the CIA, was how many spies we had in the Soviet system. We had ten. And they were all in the high levels of the Soviet system, in their rocket forces, in their military commissions. The tragedy is that Ames killed them. But the fault wasn't in the case officers who did the dog work, to recruit, develop, and handle these guys, it was this awful creature back here, back in Washington, that gave the infor-

mation to the Russians. Now we're taking measure to check this. But you've got to know the target, the installation, and the personnel. You've got to use all source data to get at this.

You have to fix on the target. You can get the fix through the considerable resources we have available now. The difference now is that it is a changed operational climate from when I was working with this. You now have better access. They move out of China. We meet them. You have much better information on who these people are. We have joint ventures, and all sorts of cooperation. China is not one great apparatus. But you'd have all sorts of interchange with these people.

In the fifties, the people that developed the Chinese missile and nuclear systems were trained in the United States. At that time it was very hard to work the system because China was on a nationalistic roll, and many Chinese were going back to serve China.

Today, there's a great deal more cynicism about the system, about the need to get into commerce, about getting visas to the United States for their children. There's all sorts of opportunities in this.

So, what I'm saying is that the standard techniques that you use the access you have, your knowledge of installations, what you can bring to bear on these installations to get what you need for all this, you need really hard-core case officers, working long hours. And you have to be prepared for failure. We need surveillance teams, close support, access agents. It is a very labor-intensive business. And you've got to be patient about going after this.

I think that Dick Helms said it very well yesterday at the agency's 50th anniversary. You've got to narrow your focus, and you've got to raise the quality. And what you have to do is to get rid of the duplication, the social climbing case officers, the redundant economic reporting, the shallow recruitments you make, because there is always a temptation in the intelligence business to take the soft approach.

And I've done it, so I know about it. It takes one to know one. The focus has to be more, and I presume Director Tenet is doing this on the hard targets. We know what they are, and we have to go after them.

There's a Defense Policy Board looking at this. A I think that's important. But we also need independent checks. And that's why I think your Committee's role is important. And the idea of setting up some sort of a Congressional system that could look at the intelligence product and sift out the institutional biases, put them aside, and get at the facts, I think this is important. But it takes a great deal of perseverance and persistence because the others are constantly playing up against a shell and pea game, where intelligence people move around quickly and they shift targets. They can say, for instance, that \$60,000 magnetic rings sold to Pakistan by China really aren't very important, because what does \$60,000 matter. That sort of thing. Then they move on to the next target issue.

These issues have to be pursued. And I think the Congress has an important role in monitoring his whole process.

Thank you very much.

[The prepared statement of Mr. Lilley follows:]

PREPARED STATEMENT OF JAMES R. LILLEY, AMERICAN ENTERPRISE INSTITUTE/UNIV.  
OF MARYLAND

*Introduction*

Members of the committee, I wish to thank you for the opportunity to testify before you today. This hearing is occurring at a propitious time in China's history. Just a few short days ago, China began holding its 15th Party Congress. The significance of this historical juncture is difficult to understate—it is the first Party Congress held since the death of Deng Xiaoping, the architect of China's economic reforms and "opening up" to the outside world. During the Congress, President Jiang, in outlining the course that China will follow into the next millennium, has repeatedly stressed that: "The key for China to resolve all its problems lies in its own development, and reform and opening up constitute a strong driving force for development." The underlying thesis of President Jiang's remarks strike a resonant chord with the theme of our testimony today. We agree that China's sound economic development is crucial not only for China's domestic stability, but for international stability as well. This is not to deny the importance of broader military issues, but if China is wracked with economic instability, then political instability is likely to follow. The fallout would bode ill not only for China, but for the region and world community as well.

As many observers of China over the twenty year reform history will agree, the economic reforms have improved the material and social well-being for most of the Chinese people. And while China deserves praise for embarking on such an ambitious reform program, it is important to acknowledge the shortcomings and challenges ahead as well. Too often, Western analysts downplay the structural problems in the economy that continue to block China from becoming a full-fledged market economy. The Chinese state still plays an active and interventionist role in many sectors of the economy and several problems have yet to be addressed adequately by the Chinese leadership. In particular, problems remain with inefficient and overstaffed state-owned enterprises, violations of intellectual property rights, and the imposition of trade barriers inconsistent with the principles of the World Trade Organization.

If China is to truly become an economic superpower, it will have to address the shortcomings still present in the reform economy. Moreover, failure to address these problems adequately will result in continued friction between China and her trading partners, particularly the United States. Our goal today is to address the major areas of tension in the economic relationship between China and the United States and show that resolving these issues is key to improving relations, and to the security of the region.

*The ailing state-owned sector*

The Chinese government itself acknowledges that: "The financial dilemma of the state sector continues to be the outstanding problem of the national economy." China has roughly 100,000 state or publicly-owned enterprises, with the largest 13,000 serving as the "mainstay of the national economy." While some sources suggest the number is higher, the Chinese government admits that roughly 40% of state-owned enterprises are chronic money losers, with little to no hope of ever becoming profitable. For well over a decade now, the Chinese government has repeatedly declared that major breakthroughs in state-owned enterprises are forthcoming. While some reforms are taking place, one would be hard-pressed to say that "major breakthroughs" have occurred. Of course, the position of the Chinese leadership is not enviable. The Chinese government is all too aware that roughly 30% of their industrial workforce, some 40 million workers, are redundant, but that laying these workers off without a working safety net would have serious implications for social stability. Any major and ill-thought out reform of state-owned enterprise would send workers into the streets. Already, from the northern coal mines of Heilongjiang to the southern textile mills in Sichuan and Hubei provinces, reports of labor unrest have appeared in a number of regions. In China nationwide in 1996, labor arbitrators handled a record 9,737 disputes, more than double the figure in 1995.

The latest signals from the Chinese leadership on this matter are mixed. The most positive signal is the announcement by President Jiang that more state-owned enterprises will convert to shareholding enterprises, with a small number becoming fully privatized. We should temper our optimism, however, for two reasons. First, in many of the state-owned enterprises that are converting to shareholding enterprises, the state has announced its intention to still control a majority share of the assets. This still gives little incentive to managers of state-owned enterprises to focus on the profitability of the enterprise. Second, the Chinese government is forcing the few profitable state-owned enterprises to merge with chronically inefficient

and unprofitable ones. These forced mergers, rather than having the effect of improving the management and efficiency of the inefficient state-owned firm, could instead saddle the profitable state-owned firms with extra debt and extra workers, all of whom have to be taken care of.

Overall, we must conclude that reforms in the state-owned sector will continue to be of a partial nature and that the Chinese leadership has not yet shown that they are willing to take decisive action on this issue. We should encourage the Chinese government to develop private sector mechanisms for dealing with surplus workers. One way is for the Chinese government to continue to allow the growth of boom industries in sectors such as the service economy. More importantly, China must allow private companies and foreign firms greater access to sectors such as financial services and insurance. In so doing, China can begin to shift away the responsibility of state-owned enterprises to provide cradle-to-grave benefits to its workers.

#### *WTO accession and market access*

The other economic issue of vital importance to both China and the United States concerns China's role in the World Trade Organization and issues of access to the Chinese market more broadly. China has made progress in reducing tariffs, and has pledged to bring them in line with other developing nations by the year 2000. This is a step in the right direction, but once again, it is important to temper our optimism. China still has many issues to address in its negotiations on entering the World Trade Organization. Inevitably, these issues will arise too after China inevitably enters the WTO and questions of enforcement and implementation of agreements arise.

First, the Chinese market is still difficult to penetrate because non-tariff barriers remain a significant problem. In 1994 and 1995, China imposed strict barriers on steel and oil imports by imposing import quotas. More recently, the Chinese government announced that they would maintain tight restrictions on foreign access to their burgeoning telecommunications market. While joint-ventures are flourishing in some sectors of the economy, overseas firms are currently barred from operating directly in China's telecommunications market. China's Minister of Post and Telecommunications, Wu Jichuan, was blunt as to why this was the case. In his own words: "Foreigners, when they come, are after profit. As minister, I would not like to share policy-based profits with them." The losers, of course, are not only U.S. firms, but nascent Chinese firms and China's citizenry who must face an imposing state monopoly which needs modernization and thus greater foreign inputs.

The second problem in the Chinese economy still concerns intellectual property rights. While progress has been made, China continues to violate internationally recognized norms on copyright and patent protection. Many of the violators have shifted operations to Hong Kong now under Chinese sovereignty from areas in China where crackdowns have been toughest. The sectors most plagued by this problem are the compact disc and computer software industry. Of particular concern is that many of the firms found to be engaging in these violations are run directly by China's military, the People's Liberation Army: others have been set up by local governments. This leads to the classic problem of "Who Monitors the Monitor?" Put differently, many of the officials in charge of cracking down on violations of intellectual property rights are the same ones running these illegal firms. While China has made progress on this front, they should liberalize even further their laws on market access and joint-ventures. In so doing, U.S. firms can align themselves with Chinese firms, and give Chinese officials an incentive to respect intellectual property rights. Microsoft recently, for example, signed a joint-venture agreement with a firm that was illegally producing Microsoft products. But the entrepreneurialism and cleverness of U.S. firms will only be given full force if China continues to crackdown on illegal firms.

These issues should weigh heavily in our negotiations with China's accession to the World Trade Organization. And while we should insist on stringent standards for China's entry, and establish mechanisms for enforcing provisions during the implementation stage, we must also recognize that China's entry into the WTO is an important goal for the United States. In short, it is too big of a market to leave out of the world system, particularly now that Hong Kong has reverted back to Chinese control. In 1996, Hong Kong and China were the 11th and 15th largest export markets respectively for U.S. exports. Now that they are combined, however, they represent the 6th largest export market, where some \$26 billion worth of goods went in 1996. We should bear in mind that there are strong forces in China that do not want China to enter the WTO. They reason, correctly, that if China enters the WTO, it will be easier for the Chinese leadership to adopt difficult reforms—reforms that will have a negative impact on some sectors within China. Already, there are

signs that the anti-WTO forces in China may be gaining strength. Resolving this issue in a timely manner is thus imperative for both the United States and China.

*Implications for Chinese and U.S. national security*

To return to the main theme of our testimony, we once again wish to emphasize that China's economic security is vitally important to China's national security, and to the stability of the region as a whole. Any serious economic disruption in China would have profound implications for the peace in the region and U.S. security at-large. An unstable China, apart from the significant loss of prosperity in China, might result in millions of Chinese attempting to flood neighboring countries. It might also prompt the Chinese military to take a more active role in governing the country. One way to lessen even the remote possibility of instability in China, however, is to have the United States take a strong and proactive stance in advancing policies that promote the healthy development of China's burgeoning market economy, which could work to keep the military in its place.

This does not mean, of course, that more traditional concerns with regard to security in the region are less important. First, China continues to pursue an active military advancement and weapons procurement program, particularly from Russia. Second, there is evidence that China continues to be a willing participant in the export of missile technology to rogue regimes such as Iran. Finally, there is still the question of China's relations with Taiwan. Particularly now that Hong Kong has reverted to Chinese control, China is once focusing again on reunification with Taiwan on its terms as its top policy objective.

These are important issues that the U.S. will have to continue keeping a close eye on. But these are not the only important issues. China's economic security is vital to upholding peace and U.S. security interests in the region. Understanding China's complex economic environment is, of course, no easy task. Fortunately, the picture is becoming clearer. One consequence of China's 'open-door policy' is that data are now far more accessible than in the past; moreover, the quality of the data are improving as well. A number of sources are at your disposal to help shed light on this important topic including: the Foreign Broadcast Information Service (FBIS); China's Industrial and Statistical Yearbooks, which have data and charts translated into English, as well as Chinese newspapers, which are enjoying increasing editorial freedom on non-political issues in the long, often tumultuous history of the People's Republic. With the help of these sources, and the greater transparency of the Chinese economic system, it is now more possible than ever to base U.S. policy on increasingly reliable and sound data.

Improvements in our data collection, however, are needed. The FBIS service is an invaluable tool for researchers here in the United States. And as this committee controls funding for FBIS, it is in a better position to help oversee important changes. First, FBIS is currently duplicating research already published for free by the Chinese Xinhua news agency. These resources should be put to better use by translating articles not already available.

More important, however, is the need to improve our research collection methods on an important, but neglected topic—that is, China's attempts to 'leapfrog' if you will the United States by developing or purchasing advanced weapons systems. These weapons systems include technology that specifically targets the U.S. military's information systems, including anti-satellite weapons, electronic warfare aircraft, and high powered microwave and laser weapons systems to destroy electronic equipment. One might think of this as a form of what some have referred to as "information deterrence." Articles by officers in the People's Liberation Army of China have specifically written on the need for a strategy to attack vital links to the U.S. military including power stations, civilian aviation systems, broadcast stations, telecommunications centers, computer centers, and so forth.

Obviously, such technology is extremely expensive to develop and acquire, not to mention difficult to use. But in a world of diffuse borders where technology transfers are difficult to control, there is some concern that China will be able to acquire such systems in a relatively short period of time. Others dismiss these fears, arguing that China is decades away from acquiring, much less being able to effectively implement such weapons systems. We are not here to state definitively which side is right. Our concern is that the data we have on this important development in China is sorely inadequate. This reflects a broader concern that we need to focus not only on overall Chinese military budgets, but what weapons programs are being funded and their stage of development. A number of the technologies critical to what the Chinese refer to as "electrical incapacitation systems" is developed for commercial purposes. The concern is that this commercial technology has potential military applications as well. We need to target our intelligence gathering funds on finding out how advanced these systems are in China.

Particularly since this type of technology is available in commercial markets, this brings us full circle to the need to think carefully about how we construct our foreign economic policy as well. While we are certainly not advocating more sanctions on this type of technology, we do need to know what China is doing with this technology and how they are adapting it to suit their military needs. We should encourage greater transparency with regard to these issues. But while China can help in providing some data, it is incumbent upon the United States to develop sound foreign economic policy toward China based on that improved data and better collection methods. And while China, of course, is largely responsible for itself, this does not mean that the United States has no role to play. Sound foreign economic policy on the part of the United States can strengthen the hand of reformers in China, who have already made clear their interest in promoting China's peaceful economic development. It is difficult to understate the importance of doing so.

I am indebted to my colleague Mark A. Groombridge, a research fellow at the American Enterprise Institute, for his help in preparing this report.

**Chairman SHELBY.** To Mr. Wu, I'll ask you both this and you can comment in order. How significant, in economic, social, and political terms, are the promised economic reforms that have emerged from the current Communist Party Congress?

**Mr. Wu.**

**Mr. WU.** The economy of today actually is very high risk for the Communist regime. They tried to solve the industry problem. But there's no way to solve the agriculture problem. Because industrial area today, they can make a number of the state-owned enterprises bankrupt, and even sell some of them to the foreign or joint-venture businessmen. And that make a lot of people laid off of job. And they then become another very serious problem.

Today we heard many protests, many political protests, but actually, they come from the unemployment people.

And this is one side of the issue.

The Communist idea is based on state-run enterprises, state ownership. But if that reality is totally turning down, and the regime will lost their basement. And, you know, the Communist party in China control people, not only by military force, by government institution, not only control the media, and control the propaganda department, but also control your life resources.

But if the people, the common people, can find a life resource from a different resource, then the government loses control.

**Chairman SHELBY.** Ambassador Lilley, do you want to comment?

**Mr. LILLEY.** The Chinese are aware of what their problems are. They know that corruption plays a large role in dissipating the effectiveness of the society. It's not the oil for the engine of progress. It drains off money for private use. And they're conscious of this. They're conscious of the corrosive effects it has on their military, making them vulnerable to foreign influence.

They're conscious of the agricultural problem. They're conscious of the pollution problem, the dirty water problem, the social fallout from the Three Gorges Dam Project. They're conscious of the disparities of wealth that cause flows of populations towards the cities. They are conscious of the fact that the labor union system that they've had, state-owned labor unions, is not representing the workers, and the workers are getting very unhappy. They're getting laid off. They're getting their pay cut. They're getting exploited and have no legal recourse. Anita Chan's book describes a horror story of what they're doing with their labor to get high productivity at a very low price.

These are some of the real problems that they have. And they're trying to address them. They are trying to address the agricultural problem. And we're trying to help them do it, because we think it's crucial that this be taken on and done right.

Certainly in the state-owned enterprise area, foreign inputs will make a significant difference, but the Chinese are afraid of this because of what it would do to their businesses—millions of workers out of work due to bankruptcy and factory closures.

It's a mixed bag. And Mr. Wu's quite right. It's going to cause them problems. I don't think this is going to lead to a Chinese breakup or to civil war. But it's going to be a continuing problem. And they're going to have to look to the outside world for support. And I think this makes China joining the world community a much more likely prospect.

Chairman SHELBY. Ambassador Lilley, in your view, what are the key targets of Chinese intelligence collection efforts in the United States? And what methods basically used there?

Mr. LILLEY. Well, their targets have been pretty standard. Again, I talk from an obsolete base. They're going after our science and technology, there's case after case after case of that. This is in Eftimiades book, they'll get it any way they can get it, legally, or illegally. The cases of illegal procurement are all there, from Livermore Lab, to New Jersey, South Carolina, etc.

Of course, what's changed this somewhat is the Chinese are getting so much from the former Soviet Union, weapons they could never get from us. So they can narrow down what they have to get from us.

Second, they are, of course, after negating Taiwan's influence in the United States. They are constantly working hard at that. This is sort of a shadowy war that goes on. It's been going on for 40 years. It will go on for a long time to come.

Certainly, the Chinese probably believe they have got to accelerate their influence over the American political process. Most of this can be done legally, but we'll listen to what the Senate hearings tell us about the illegal aspects of that. There are some indications that there was an illegal aspect, but we don't know for sure yet.

Those are the three main ones; science and technology, Taiwan, and political influence.

Chairman SHELBY. Well a lot of that comes through their large student attendance in the United States. We understand they have about 100,000 students.

Mr. LILLEY. The students are an interesting case because originally, after Tiananmen, they were pretty solidly against China.

Chairman SHELBY. Yes.

Mr. LILLEY. And there's been a big swing over, away from this. And the nationalistic appeal has been very strong. And a lot of these people are scientifically trained, and they're back in business with China. They're setting up businesses here with links to China. I don't really find this insidious yet.

Chairman SHELBY. It's got a good side to it, too, hasn't it?

Mr. LILLEY. It has inputs into China that are largely legal. They do some activities in the states that are a bit distasteful, I think, from time to time. But, it's not the sort of thing that sends the alarm bells off.

Chairman SHELBY. Senator Kerrey.

Vice Chairman KERREY. Ambassador Lilley, you used a phrase that I found to be sort of interesting, which was that you'd like to see a Congressional system. you led into this by saying that our Committees can perform a useful function in keeping the focus narrow, and keeping the efforts that are there to improve the quality of case officers, making sure that we've got hard-core, long-working case officers that we're willing to pay.

But then you went on to talk about the bias that's in the reporting system. And you suggested that you'd like to see a Congressional system draw this bias out in the reporting.

Can you give me some additional detail on that?

Mr. LILLEY. Okay.

Vice Chairman KERREY. Do you have some specific thoughts or perhaps you'd like to provide it in closed session? I don't know exactly how you'd like to do it, but I'm very much interested in the idea.

Mr. LILLEY. I think the first part probably is better in closed session, operational techniques. Congress does not have to play too important a role there, because that's clandestine business.

Vice Chairman KERREY. Can I use a current example right now?

Mr. LILLEY. Yes.

Vice Chairman KERREY. Very much aware, and I do it myself, I guess, you know, some hot news story will be going on, and the next thing you know I'm devoting 100 hours or something that is urgent, but it's not very important.

And so it's difficult, just in the normal course of work around here, to, perhaps in all walks of life, to keep that focus.

Where would you scale, in terms of its importance to the United States, the issue of campaign finance effort to influence United States elections in '95 and '96. I mean, how would you recommend that Congress order that, in terms of priority?

Mr. LILLEY. Well, first I would say—

Vice Chairman KERREY. Or better yet, how would you recommend that we say to our intelligence people, ordering their own priorities, as far this issue is concerned?

Mr. LILLEY. Well, I'd say two things. First of all, in cases like the Aldrich Ames case, Congress should oversee that process regularly to see that the right thing is being done. I mean, there is a tendency in the community to close ranks and limit the punishments. And I think that there was some problem on that before. Congress can play a role

But more important, I'm suggesting setting up an independent Congressional oversight group. There is a bill in Congress right now I believe, and I'm not sure they're approaching it the right way. There's some idea that Congress could establish a monitoring group to look at the intelligence, and to see that it's objective. And I believe it's passed the House and it's in the Senate now.

The current program, it strikes me, is too grandiose. They're looking for a lot of analysts. I think you could do it with a few good men and women, a small well informed group that is responsible to you and looks at the NIEs and at the daily intelligence, and tells you where they think somebody is trying to put something over on you.



Vice Chairman KERREY. Of course the danger there is that maybe, let's say we establish it, ten years from now we may have to have an independent group that tries to draw the bias out of the monitoring group that's having oversight over the analysis—I mean this thing could feed on itself.

Anyway, I look forward to talking to you.

Mr. LILLEY. We could call it mission creep, proliferation. This could happen. But you would have to excise it. And maybe you should put a five-year statute of limitations on it, test it out for five years. If it doesn't look good, terminate it or force it to be renewed to justify its existence. If you are pleased with, then renew it for the next five years. If you are not, terminate it.

It could in my view, be done by a few people. And I'm not sure you can do it inside government. I'm not suggesting the special prosecutor arrangement, where you get an independent body out there that has a life of its own with 10, 15, 50 investigators looking at this. No. Very few people, that you trust, that know this subject, that you know will give you the straight story.

Vice Chairman KERREY. Mr. Wu, I appreciate it's dangerous to take an anecdote and draw from that anecdote, especially in China, that you now know exactly what's going on. In a '95 visit to China—I went to Hongzhou, and attended Easter services there. It's a relatively prosperous city. and I saw a great deal of prosperity throughout the city.

I was struck by an observed lack of prosperity amongst the Christian congregation there in that church. And I am wondering if, in your view, there is economic persecution based upon religion in China?

Mr. WU. The religious persecution right now is very hot in the United States, also in China. But you do have to know that in the 1950's and 1960's, almost nobody was talking about religious persecution because the religious persecution—the religious in China were totally wiped away.

But the people have come back seeking the truth, seeking the faith. So this has really become a very important indication of the future for China. Today there are about 10 million in the Catholic underground church and about 10 million Christian religious believers countrywide.

We just received a kind of Chinese internal document, a very detailed description of how to put down so-called underground church, and family church. Because, you know, even a person, as a student who demonstrated in protest in Tiananmen Square opposed the Communist government. But they could, in the next couple of years, turn to business and become very pro-China, pro-Beijing government. But once you become a Catholic, you never stand together with the Communists. And the Beijing government realizes this is a big problem. So they worked very hard on this religious persecution.

Vice Chairman KERREY. So you're saying it would be persecution based upon knowing that once I become a Catholic I cannot become a part of the Communist—I can't be a member of the Communists Part.

Mr. WU. Yeah.

Vice Chairman KERREY. Thank you.

Mr. WU. And I want to make some comments about the so-called Chinese spy in United States. Actually there's a lot, and mostly they focus on high-tech. You know many Chinese scholars and Chinese students come over here, some of them trained by the National Security Department, some of them actually not trained by them, they still have a kind of mission. The Chinese people traditionally, under so-called nationalism and patriotism, don't care whether it is a communist government or a democratic government, they just want to do the best for their motherland, so they become a voluntary spy for the Beijing government today in the United States.

Vice Chairman KERREY. Thank you.

Senator BAUCUS.

Senator BAUCUS. I thank the Chairman.

Mr. Wu, you have made an interesting statement that China needs the United States more than United States needs China. Could you elaborate?

Mr. WU. Yeah. Maybe since you are from Montana, you want to sell your grains to China, so you need China because you need a contract. And Boeing Aircraft Manufacturing, they need a contract. They want to sell 100 aircraft. Otherwise Airbus will have to take over.

Let me do this—if you today cut off all the investments in China, cut off all the trade in China, the whole country will go into disaster. Because in the economic development in China, the energy is coming from the West.

Today the capital and the technology from the West, just as fuel in the tank, driving the communist vehicle. Can you imagine last year China became number two recipient of investment, just behind the United States, of the world. Billions and billions of United States dollars put in this country, put in the communist country. Do you have leverage?

If one night the Chinese government says, well, we are a communist country; we want to take over your property—just like they did in 1950. At that time, what we can do? Military involvement? Of course not. No way. Do we have any leverage over there?

Until this moment the communist government is very clear in saying we are a communist country. The membership in the party is increasing. They entirely control the whole country. So it's a very high risk for the foreign investment putting money over there because there is no guarantee. The guarantee is only from the communist leader, just like the Hong Kong issue. Who guarantee 50 years not to change? But nobody ask the question is: After 50 years, change to what? Beijing guaranteed 50 years not to change. Do they have the credit?

Senator BAUCUS. What about other western investment, though, other than American—another industrialized country's investment?

Mr. WU. Yeah. They have the same problem they face over there.

Senator BAUCUS. But my question is: Is there enough there to replace the United States presence?

Mr. WU. They have to join together. I was in Europe, the people asked me the same question. I testified in the European parliament, they say if we don't go Americans go, what should we do? And now you ask me if we don't go, West Europe—

Senator BAUCUS. So what was your answer to them?

Mr. WU. Today there is no way applied the idea of the sanctions or boycott. But you have to be careful on one thing, most of the profit from the trade or foreign investment not only benefits the common people, but benefits the Beijing regime, the Beijing government. Okay.

The former Soviet Union today is laying off the military experts because they don't have the hard currency. And today there is more than 1,000 former Soviet experts, military experts, hired by the Beijing government working in China. They have the hard currency. And the money comes from the West.

Mr. LILLEY. Can I add something to that?

Senator BAUCUS. Sure.

Mr. LILLEY. I do think that—I came to China in '73. It's now 25 years later. The extraordinary changes that came about in China as a result of their decisions in 1978, the Eleventh Party Congress, and the opening up of southern Guangdong province to business entrepreneurs changed the face of China irrevocably. And the role of foreign investment in China is crucial, why would they expropriate it? That would be shooting yourself in the foot.

I mean, you can always talk about expropriation, but the Chinese have gone through the cultural revolution. They have seen the idiocies of Mao's lunatic social engineering. They know this better than we.

And for them to go back and start to unravel the economic reforms, would cause incredible chaos in China. They are hooked on stability. With 30 percent of their GNP going into exports and the highest productivity sector being the foreign-invested sector, some people say five, six times outproducing the state sector, my sense is that that the possibility of expropriation shrinks. You can never, of course, rule it out. But certainly given the logic and the trends of the last 20 years and what we read in this latest party congress and what we see happening, it's all moving in the other direction.

Senator BAUCUS. I wonder if you, Ambassador Lilley, could give more examples of the agricultural problems facing China and how you think they may try to solve them.

Mr. LILLEY. I don't know if I should be talking to you about this. I mean—

Senator BAUCUS. Well, I liked your perspective.

Mr. LILLEY. Certainly the Chinese are aware of their problems in transportation and logistics and storage of agricultural products. They lose a lot awful lot of grain. They had bumper harvests in Manchuria in '96 and no way to transport it to where it was needed so they dumped it in North Korea. They've got to get at the transportation logistics system. They have got to get at the water pollution problem. That's causing them serious problems in China in agriculture. And they know it.

They've got to get into a pricing system that makes more sense than just pumping subsidies.

They realize that in marginal areas in northwest China they are trying to grow fruit trees. And they are getting into marginal areas where those trees will not be able to survive. And they've got to consider seriously about transporting it to where the markets are. And I don't think that's been thought through very carefully yet.

The consumption of land by industry: At one point dropping .5 to 1 percent a year with population going up 15 million per annum. If you go to Lester Brown's straight line projections, it's a horror story. He has been attacked by a lot of analysts. But his is a wake-up call. And the Chinese also say it is.

So there are a lot of problems out there. And they have had this cadre manipulation of peasants and peasants there moving to the cities and being exploited there too. These are big problems.

Senator BAUCUS. I see my time has expired. If I could just briefly, Mr. Chairman, ask one more question?

Chairman SHELBY. Please.

Senator BAUCUS. It's a broad one, so it invites a long answer, but you have to give a very short answer. Where does China see itself going and becoming in the next century, both its leadership and its people? I'm referring to nationalism: does China see itself coexisting with the United States in the next century or dominating its region or what? What's your intuition?

Mr. WU. Statistics tell you that in last year there is about 100 billion capital, 100 billion United States dollar escape from China, move to any foreign country. China has a idiom today: Catch the last train, let's go. And Americans try to view that as confidence, that it's a very good market, very stale market—let's go—make it last. While the Chinese merchant and the Chinese man, Chinese people, want to carry the money out of China, out of their country. They don't have the confidence.

Senator BAUCUS. They what?

Mr. WU. They don't have the confidence. Catch the last train. Let's go.

Mr. LILLEY. I would say a number of objectives: First is be dominant in Asia.

Senator BAUCUS. Excuse me?

Mr. LILLEY. Be dominant in Asia. They see in the future five power circles in the world: Japan, China, Europe, United States and Russia. They want to be one of that big group. And they want to have a say, and the major say, of what happens in Asia. And part of that Chinese formula is the drawdown of United States forces and the buildup of their own forces along with the strengthening of their own economy and what they consider a deterioration in ours. The wave of the future works in their direction.

They also want to be taken seriously by the United States. When they sit down at the table they have nuclear weapons, they have large conventional forces, they have strong trade ties that link us to them which permits them to play us off against the Europeans. They want to have a lot of cards in the deck when they sit down and negotiate.

And I think they want to keep China unified, powerful. And above all, avoid chaos.

Senator BAUCUS. Thank you.

Chairman SHELBY. Mr. Ambassador, before I call on Senator Roberts, would you just elaborate a little bit. I think you used the phrase that they see our forces deteriorating.

Mr. LILLEY. They have said this in a number of their internal documents, that the United States is going through a major military drawdown. Look at the way we have cut out budget and our

military operations. We still have got enough carrier battle groups. But we are cutting back. And they see that as an inevitable trend. And they also see their forces——

Chairman SHELBY. Do they see that as an irreversible trend?

Mr. LILLEY. Well, if they play their cards wrong, they could reverse it.

Chairman SHELBY. Yes, fast.

Mr. LILLEY. And so what they want to do is to throw—blow a lot of smoke at you and say, look, we're backward. Don't take us too seriously so you can but back and—this sort of thing.

But they also see us sharing power with them. We are losing the position as the sole superpower of the world. We have to share it. They don't want to see us pull back too quickly leading to a break down in Asia.

But they would like to balance us. And I think a lot of this comes to bear in areas that are the traditional cockpits of struggle, Korea and Taiwan. If you go back to 1895, we have been fighting over those two places since. And they feel they have their influence there. They have to be taken seriously. And we are already there in a major way in both Korea and Taiwan.

And if you add the South China Sea where they'd like to get their hands on the sea lanes and some of the oil and fisheries that are supposed to be there, we stand in the way, along with ASEAN.

So they've got to think this one through. How do they get along with us? How do they play the great game? It's not a straight line projection. It's how on one hand they entice you, manipulate you, massage you, on the other hand how they pick your pocket.

Chairman SHELBY. But there are also opportunities for us dealing with China aren't there?

Mr. LILLEY. Certainly. I mean, Mike Pillsbury went to China and dealt directly with them. He wouldn't have gotten those valuable documents otherwise.

Chairman SHELBY. Thank you.

Senator Roberts, thanks for your indulgence.

Senator ROBERTS. Thank you, Mr. Chairman.

Ambassador Lilley, on page seven you say that one way to lessen the even remote possibility of instability in China is to have the United States take a strong and proactive stance in advancing policies that promote the healthy development of China's burgeoning market economy which in turn could work to keep the military in its place and then go on to say in the third paragraph, China's economic security is vital to upholding peace and United States security interests in the region.

Like Senator Baucus, I have an interest in agriculture. We'll turn this into an ag hearing, Mr. Chairman.

Chairman SHELBY. If we don't watch you, I know both of you will.

Senator ROBERTS. We will have the support of Senator Kerrey as well.

There is a publication that is widely read in farm circles called Profarmer. It's a very advanced publisher and magazine and a fly-sheet that comes out periodically out of Iowa. The President of Profarmer is now in China. He's got a three-part series called China, an Asian Tiger Poised To Pounce. And he makes the follow-

ing commentary. And I'll try to be quick. He goes back to the days when my predecessor, Congressman Keith Sibelius, who represents a farm district in Kansas as I did in my previous life in the House—and I remember when Keith came back in the '70s and described an image of a nation where city streets moved in rivers of bicycles, people wearing drab Mao suits, and expressionless faces, Chinese peasants struggling to meet government-decreed quotas on plots of land they couldn't own, the only spark of enthusiasm when peasants talked about personal produce from tiny plots behind their simple homes.

Then he comments that they just visited—and I think I'm pronouncing this right Dalian——

Mr. WU. Dalian, yes.

Senator ROBERTS [continuing]. Ringed by brilliantly lit historical buildings worthy of a Disney village where they found thousands of people line dancing to country music. That's a remarkable change.

And then he went on to quote the former chairman, Chairman Deng, who said it doesn't matter what color the cat is as long as it catches the mouse, and suggested with the United States Feed Grains Council, who has spent a great deal of time in China because of the market potential, about them exploiting their obvious comparative advantage over much of the world and that's their cost of labor in the ag sector.

They have scarce farm land and little investment but an enormous pool of cost of labor.

His suggestions are as follows: Focus on labor-intensive, higher-value crops such as fruits and vegetables using the higher per acre revenue to buy more feed grains from the United States with money to spare for other badly needed imports.

A further suggestion: To build up the livestock industry, fueled with United States feed grains and China's vast labor pool, domestic demand for meat could be met with potential exports to the Pacific Rim.

Unfortunately, every time he brought this up, his host emphasized that until they are convinced the United States won't use trade policy to force its social and political values on China, they are going to be self-sufficient in grain production and rely on the labor pool.

Why can't those suggestions work if in fact we could work out our relationship with China on the very issues that Mr. Wu has brought up?

And then he went on to say—and this is the last point that I'll make before asking your advice on this—will the United States some day hope that China won't pressure us to solve some of our own social problems or risk denial to the most awesome and lucrative consumer market the world has ever seen? And the worm would turn.

I point out that last year we passed an unprecedented—I won't say historic—change in the farm bill where we must rely on our markets. And China obviously is the world's biggest market along with the Pacific Rim countries. If this cannot be worked out, it's going to pose problems for us in reversing that United States farm program policy. On the other hand, if you use agriculture as a tool

for peace and understanding, it could lead exactly to what you are referring to in your testimony whereby we could lessen these tensions and achieve more democracy in China and less of a problem worldwide and better manage their entry onto the world stage.

Now I've made a speech, you know; what do you think?

Mr. LILLEY. Well, it's a complicated position you have laid out. I would first seize on your idea of where China becomes powerful enough to condition our human rights policy. They already write a human rights report on us. And they have been highly critical of our handling of the O.J. Simpson case. They attack us constantly. They don't demand that we change, but they say that our system is corrupt and cannot be exported, and they say they don't want any part of it, especially among older people. Younger people are much more attracted by the positive elements of our society.

But that slanging match is going to go on. We are different societies, we approach things differently. You could perhaps let the propaganda people shout at each other and get on with the business of making the world work.

In terms of the farm issue, China is not going to challenge us as a food exporting nation. Did you imply that that would be a problem if we helped them too much?

Senator ROBERTS. No. I am trying to say there is tremendous potential and we ought to use our strengths. We have a great strength in high yield precision agriculture, more especially in grain production, more especially in the Senator from Montana's area and my area and Nebraska and others. We should use our strengths and use agriculture as a tool for peace and understanding. They could go to different markets, rely on their labor pool, and it would make a good fit. But as long as we have these debates in regards to political situations, that seems to be a real obstacle.

I think it will work out because in the end result if you really need the food, you've got to feed your people. And Lord knows, they have a bunch of folks. So——

Mr. LILLEY. They have a serious problem and it seems to me that it is being tackled right at this moment by a number of people working the agricultural problem. And in fact even my modest group in Maryland is working on this. Right now China has a major agricultural delegation in Taiwan talking about how these two agricultural systems can mesh. And they are talking about whether Taiwan can transfer its skills in agriculture to China for economies of scale. There is a problem there because it could take away the eel market exporting to Japan. But China will get a piece of the action and so will Taiwan, because it will be an investor. These issues, however, are fraught with contradictions. But the overall trend is positive. Winrock has put in some money in this. President Li Teng-hui of Taiwan also has put money into this to try to get Chinese agricultural economists trained by our teachers from Iowa State, from Cornell, from Minnesota, to go to China to train them in the most modern techniques. The Chinese seem to be quite receptive to this.

It's one of the most promising programs that we have because it takes it away from the military thugs that looked for simple solutions in getting their political cohorts to start throwing missiles around to solve political problems.

Senator ROBERTS. That was the line I was waiting for, Mr. Chairman. I appreciate it.

Mr. LILLEY. Yes.

Chairman SHELBY. Thank you.

Mr. WU. Sir, can make some comments?

Chairman SHELBY. Yes, Mr. Wu, you can comment.

Mr. WU. Yeah, also relate to Senator Baucus' question about agriculture. I think the Chinese agriculture major problem is ownership problem because the peasants say, I don't know what could happen tomorrow. I borrow the land. I am not interested in making a long-term investment in my land. I just borrow it. I cannot sell it. I cannot, you know, using it, planning for long term. They don't know what's happening.

I went to the peasant families, I visit them. They say most of the women right now are working on the field. The men go to the city to get cash from the construction work. They are not interested in working in the field. They are just growing some grains for food for their family. That's it.

For example, last June, China had a very emergency problem, cotton. They don't have cotton. Why? Because the price is too low. The government controls the price. The price is too low and cotton production uses a lot of labor. The peasants are not interested in growing the cotton. And have to emergency import the cotton from Egypt, maybe from the United States, I don't remember last year. Because the government controls the price, if they pay too much for the cotton and it costs textile products too high, it's not competitive in the international market. But if they pay too low of a cotton price, the peasants are not going to grow cotton because I can get the cash from the construction work in the urban areas.

The major problem is that today the agriculture in China cannot use the high tech or advanced machine or high quality fertilizer, because individual farmers today don't have the ability to do that. And heavily, heavily relying on the government, ask the government to supply this. But the agricultural investment, the budget from the central government is very small because they don't think they can make money from agriculture.

Today the central government just wants to get cash. They are very focused on the foreign investments, trade, export products. They just need the cash to support their political acts. That's familiar, and since 1993 until today, every year they import a lot of quantity of grains. And I would just say in the next maybe one or two decades you will see they need a lot of food to supply the people.

Senator ROBERTS. Well, we'll sell them everything they don't shoot back.

Chairman SHELBY. Thank you, Senator Roberts.

I'm going to pose this question to you, Mr. Wu, and also to Ambassador Lilley. What's your view regarding the general allegation that China attempted to influence elections in the United States? Is this consistent with your understanding of the way China operates? And what specifically would China be seeking to gain by engaging in this type of activity?

Mr. Wu.

Mr. WU. Excuse me, your question is—village election?



Chairman SHELBY. Yes. What is your view regarding the general allegation that China attempted to influence elections in the United States?

Senator BAUCUS. No. That's not the question, Mr. Wu. He asked something else.

Chairman SHELBY. No, I'm speaking—

Mr. WU. First of all, I think this is the first time in the American history that communist cash flowed into your political society. I think never any donation from the Soviet Union or East European Bloc. And today the Chinese communist government is using the money to buy off something, I think actually have some influence also have some impact over there.

For example—I don't have the detail—the machine tool from McDonnell-Douglas, according to Pentagon, is not allowed to export. But later the Commerce Department and the White House, some people approved it, the machine tool export to China. And right now the machine tools are working for the military purpose. That means the money has some impact over there. And this is the first time I think in the American political history.

Chairman SHELBY. Ambassador Lilley.

Mr. LILLEY. Well, at the risk of never getting a visa to China again, I will make a few comments. I've not seen the evidence, by the way, the hard evidence that apparently exists somewhere.

The Chinese, of course, make a statement, we never interfere in the internal affairs of other countries. This is a mantra which is repeated constantly by everybody at every level. This has very little to do with reality. It seems to me, driven by setbacks in their lobbying efforts in 1995 and '96, and their own appraisal of our election system which lends itself to the influence of money, and the porousness of our system, and the vagueness of our laws, it becomes a target of opportunity. The fact that again and again they have been caught doing this type of political work in other countries and been thrown out for it, there's a certain logic to bureaucrats in an embassy getting a strong directive from the center saying get off your duff and get out there and start moving in political actions in the United States. And because they don't know our system well, they turn to a slick operator perhaps, called John Huang, who says, look, I'm plugged in. I'll tell you what to do. This is a very easy way of doing it. And you slide right into this.

I'm not saying this happened. But I'm saying there is a certain logic to this in terms of the way they would think. The blowback has been quite severe. And I notice that the answer is that anybody that says this has happened is branded as anti-Chinese.

Chairman SHELBY. Uh-huh.

Mr. LILLEY. And if you heard that Association of Asian Journalists up there in Boston the other week, they were saying, this is China bashing. I didn't hear one of them condemn these slick guys who were involved. And it seems to me that they have to root out the bad apples. The Chinese community here is a great contributor to the United States. They are, in a word, terrific, what they do with us and for us. And nobody would slight them for a minute. But like any community there are bad apples. The Italian Community can handle the Mafia. There is always this problem of people that corrupt the community.

But my sense is, in going back to Senator Kerrey's question, if you do find this to be true and the evidence is there that they were involved, this should not necessarily damage our relationship with China. We just take the offending parties, and they quietly leave the country. The small guy takes the fall. And frankly, I've had this happen to me a couple of times. We call it preemptive withdrawal. Unfortunately, it gets compounded because of the sanctimony of the high-level Chinese protests of complete innocence. I wish we could have a reality check on this. But usually you get a very emotional response from them. As somebody said, why don't they send Charlie Yin-la Tri back here. That's a good start.

Chairman SHELBY. It would be a big one.

Senator Kerrey.

Vice Chairman KERREY. Of course, this mantra of not interfering in the internal matters of other nations is one that we've changed a few times as well. I remember hearing our politicians chanting it when we had a half a million troops in Vietnam, so this is not a unique slogan.

Mr. Wu, did you imply that democracy in China will not occur? I mean, you said that—you made a statement something to the effect that the imposition of a dictatorship in 1949, the communist dictatorship in 1949 was consistent with the organization under the emperor. And you implied—I think you said something to the effect that if civil war were to occur and a power struggle were to occur and a new leader comes to power in a collapse, in a catastrophic collapse, it probably would not be replaced by a democracy. Do you mean to say by that—I mean—did I hear you correctly?

Mr. WU. Correct.

Vice Chairman KERREY. Do you mean to say by that that it should—and then in answering Senator Robert's question, you went right to, I think, the heart of the problem with not only the economy but in other areas it seems to me. If the law doesn't protect my land ownership, then I'm not likely to be as interested in doing the most that I possibly can to produce for that market and try to maximize my return. But the statement that if the law doesn't protect implies that I've got some kind of democratic rule, because if I depend upon the fiat as you indicated, the unreliable handshake, I'm not likely to have what I need. I mean, what is your own feeling about what United States political leaders should be saying to Chinese political leaders about the rule of law and democracy?

Should we be presuming that it's inevitable that the dictatorship is going to be a part of Chinese political system for the next 100 years?

Mr. WU. If you look in the Chinese history, they always, you know, have chaos, have a crisis and then set up a new dynasties. The Communist regime started, in 1949 is actually one of the dynasties of our history. But this dynasty has a foreign philosophy, a foreign ideology like Marxism-Leninism. That's why I say this is a kind of an overcoat. Actually, it's dynasty, with Mao and Deng, just without a crown. They are using the name—I'm chairman—actually he is the king, he is the emperor, he controls everything. so ever since 2,000 years ago up to today, we Chinese are still in that circulation, traditional feudalism, tyranny system.

Vice Chairman KERREY. Can you connect it with what—I'm sorry to interrupt you. But I don't want to—we've got another panel, and I don't want to drag this question on too long. Can you connect it with what Ambassador Lilley said earlier about a difference between the generations, the older generation saying, we look at the disorder that comes with freedom, with democracy. We look at the corruption and the crime and the disorder that comes with democracy. We don't want to have anything to do with it.

Whereas, perhaps the younger generation is there saying, we are willing to accept the bad because we value the good higher. Is there a generational difference, Mr. Wu, do you think in terms of Chinese attitude towards their own willingness to accept the rule of law and the rough and tumble problems that you always suffer when it's government of, by, and for the people?

Mr. WU. If you want to say the generation is different, that generation, the young generation don't accept the communism—that's different. But China is under the patriotism and nationalism, will keep China still in that kind of tyranny system the next couple years, next couple decades. I don't think that China can right away turn into democratic society.

Vice Chairman KERREY. Okay. Thank you.

Chairman SHELBY. Senator Baucus.

Senator BAUCUS. I have a couple of questions.

One, what is the significance of village elections in China? I mean, are they real, are they not real, are they gathering force? What is your sense on this?

Mr. WU. The election in China is not new. It happened in the 1950s widely in the whole country. We elected the delegates for the People's Congress. At the time I also vote. And everybody understands in the dictatorship system the election means nothing. It actually happened in the Soviet Union and even today happens in Iraq. Why is the American expert or American politician not interested in the election in Iraq and interested in China and say this is a kind of sign of democracy and practice democracy? Now, why does the government, the Chinese government, allow election in the countryside, in the village, but not in the city? Actually, the cities have much better condition for practice election.

Why in the village? Because in the village the control is slipping. They are used to using the so-called People's Commune to control the peasants. People's Communes means there was absolutely nothing you can do about it. But right now the land is divided and borrowed from the government. So the peasants have a kind of rights and power too in the agriculture production. So the People's Commune system has broken down. They need a new style, a new political system to control the peasants: Election.

Senator BAUCUS. So you think it's—from the western perspective, not real. It's a farce, a joke.

Mr. WU. Joke.

Senator BAUCUS. Ambassador Lilley, do you agree?

Mr. LILLEY. I think I would not be quite as stark as my good friend Harry Wu. The current system started in about 1987 when they drafted a new law. It is limited to villages and it's partially an escape valve. They can sometimes throw the rascals out. Get that guy that did these things to you and throw him out of office

and bring in somebody else. In that sense, there's a process that goes on, including a secret ballot.

But I think we have to be very careful not to get romantic about it. There are Americans that go in and see four villages in Fujian and come back and talk about the other 996,000 villages acting in the same way and that's baloney. That kind of thing doesn't help. It's a mixed bag in China. There has been some solid research done on this. When you get into certain villages and areas, all is run by the Party. In other areas you have the Party having very little power. The studies show a very mixed pattern.

I know that the International Republican Institute and Heritage have been over there and taken a look. And certainly the Chinese have paid attention to this through the Ministry of Civil Affairs. Right now I think there is a movement to raise it to the county level which is not yet catching on because the people that are pushing may lose their jobs in the National People's Congress.

But again I'd say it's a mixed bag. It involves a lot of people. There are aspects that are positive; there are aspects that are not. Senator BAUCUS. Thank you.

One more question. What are the institutional biases, United States biases, against China that concern you?

Mr. LILLEY. Well, they are age old. They go back to J. Patrick Hurley and Jack Service in World War II and the horrible fights that happened then about the Chinese communists and Chiang Kai-shek. These arguments are rooted in our system. And a lot of these issues go back in a way to that era. Some of the strains do.

But I would say right now that there is a tendency in certain bureaucracies in order to make China policy saleable to play down the aspect of the Chinese threat. Otherwise uncomplicated Americans will not get the point of cooperation. So you do a selling job—to wit: the Chinese are finally reaching out economically for systems that can work together. They say that China can't master the technology, et cetera, et cetera. And the argument goes on.

We just had a two-day conference at which these viewpoints surfaced. The other bias, of course, is the Chinese are monsters, that they are 10 feet high and are coming over to cut our throats with nuclear weapons. They are threatening Los Angeles. That goes on too. That's not very healthy.

The truth is somewhere in between. The Chinese themselves are divided on this. They don't have one view. There are certainly the economists and others who feel that perhaps the military budgets are a bit high. And these military heavies tend to throw their weight around and get the country into trouble. Also hard core elements in the party do this.

The whole issue of Russian support for the Chinese military is just the tip of the iceberg. Russian transferences to China are viewed in the light of empirical data. But we could go back and look at the past of the Russian-Chinese association in the '50s and identify what we don't know about the current relationship. We have to have a clear idea of what the Chinese want, the items the Russians are willing to sell. You don't just rely on the simple factual data that you have on hand. The tendency for some is to say that the evidence isn't there because you can't put your hands on

it and squeeze it. Our collection, in my view, is not good, hence the analysis flawed. Again, the bias has to be watched carefully.

Senator BAUCUS. That must lead to your conclusion it would be helpful to have an objective outside group to advise us.

Mr. LILLEY. That was the idea behind the creation of the CIA. That you would have the DCI who would sit above the intelligence community and come up with the pure, objective commentary. My sense is that people have, however, historically tended to question that objectivity, the Soviet experience is an example. Also, other things occurred that made people suspicious—the Bay of Pigs, for one.

Senator BAUCUS. Right. Backing up a little bit, do you think that these institutional biases balance? Or do they head in one particular direction with respect to China?

Mr. LILLEY. I would say in balance.

Senator BAUCUS. Pretty much in balance.

Mr. LILLEY. In balance. It may not lead you in any particular direction. And as Mike Pillsbury can tell you, the decisions you make on your military commitments here have to be made 20 years in advance. So you have to come to some judgments.

Senator BAUCUS. My time's up. Thank you very much.

Thank you.

Chairman SHELBY. I want to thank you, Mr. Wu, and you too, Ambassador Lilley, for your presentation, your insightful thoughts and your answers to our questions. We do think we gain a lot from you.

Thank you so much.

Mr. LILLEY. Thank you.

Vice Chairman KERREY. Mr. Chairman.

Chairman SHELBY. Senator Kerrey.

Vice Chairman KERREY. I just would join you in thanking the witnesses for appearing. It was very helpful, and we appreciate your taking the time to come.

Mr. LILLEY. Of course. Thank you.

Senator BAUCUS. Thank you very much.

Chairman SHELBY. Our second panel will be made up of Mr. Milhollin, Mr. Rodman, and Dr. Pillsbury. If you three gentlemen would come to the witness table.

Your written statements will be made part of the record in their entirety, gentlemen. And you may proceed orally to comment on whatever you want to say here.

Dr. Pillsbury, we will start with you. You want to pull that mike up just a little closer to you. You may proceed.

#### **STATEMENT OF MICHAEL PILLSBURY, ASSOCIATE FELLOW, NATIONAL DEFENSE UNIVERSITY**

Mr. PILLSBURY. Thank you, Mr. Chairman. How's this for volume?

Chairman SHELBY. It sounds okay to me.

Mr. PILLSBURY. I was just teasing my friend and mentor, Ambassador Lilley, as I am familiar with his presentation to Harold Brown's committee on the future of intelligence. And it was so riveting and dramatic and televised on C-Span that Former Secretary Brown extended the lunch hour for the entire commission including

giving a chance to Porter Goss and others to ask a few more questions. But today I'm afraid you got him off on agriculture and economic reform so you missed a great opportunity. And I have I'm sure the video tape with your staff of his testimony to the—about his career of 27 years and why he has the—not today, he's not wearing it today—but why he has the Distinguished Intelligence Medal on his lapel.

Chairman SHELBY. We know his background, and that's why we welcomed him here today.

Mr. PILLSBURY. I'm at a disadvantage because I do read current intelligence products. I have quite a good familiarity with the intelligence community's work on China. But you want to have an open session. And I did want to convey some praise I've heard about your leadership and your powerful Co-Chairman's or Vice Chairman's leadership just from intelligence community people in the last few weeks.

This Committee apparently is surveying users and consumers in making its budget recommendations and decisions and not taking the agencies at their face value testimony and comments. And this is creating quite a stir. I must say as a consumer, you have my gratitude for taking this approach.

The man I work for under Secretary Cohen, a former member of this committee, actually is Andy Marshal. And Mr. Marshal's Office of Net Assessment is responsible for looking 20 years ahead for our military acquisition programs, our technology programs, and therefore is a very unusual consumer of Intelligence. It's uninterested—Mr. Marshal I think would be happy to say he's uninterested in current events, current policy. But he is interested in the rise of major powers who in 20 years might have the money and perhaps the historical pride and therefore perhaps the wherewithal and intention to challenge the United States somehow or other.

As you point out in your opening statement, Mr. Chairman, the Chinese leadership group is a very secretive group in many ways. I'm afraid the People's Liberation Army leadership is even more secretive. And that ironically has caused the Pentagon to be perceived in China as China's best friend here in Washington because of our very aggressive program of exchanges with the People's Liberation Army. This program is part of the book I'm going to be talking about today because, although it wasn't at the highest level, the Defense Department wants to have China's top few military leaders come over here for at least a week. And we are finding this past year or two that the top 10 generals in China have never been to the United States. And they have rather unusual perceptions we learn about when they come here when they make comments about—one particularly famous anecdote is when one of the Chinese leader, top generals fired the M-1 tank down in Texas. And he got out and said, I never realized the Americans had a tank like this. Those stores are really quite common now. And it's important to sustain this program of high level exchanges.

But the low level in my low level of research and analysis, it's also important to talk to Chinese colonels and two star generals about their views of future warfare, their views of the United States, where the world is going and to obtain their books and their articles. This is quite hard to do. You can't really subscribe.

The books are often printed in only 2,000 copies and sell out in a few weeks. They don't speak English. You are not allowed to have access to their institutions. And one small breakthrough that began in a modest way 12 years ago has been extended this past year in October is our National Defense University and the Chinese National Defense University have signed a rather long agreement about exchanging documents and faculty and students.

So that's the background of this book. This is not something that's been clandestinely acquired in any way, which makes it all the more surprising because the Chinese authors in the PLA and in their defense technology complex are writing very unfriendly things about the United States. Perhaps the most alarming—and I think on the back of the book you'll see Secretary of Defense Schlesinger, Former Deputy Secretary Bob Elsworth sort of making similar comments about their surprise—is the way the Chinese military analysts are analyzing American vulnerabilities and weak points in great detail. They are not talking about Vietnam or India or Taiwan or a country that's close and weak. They are talking about us. Often they say the United States. Often they say the sole superpower today.

And their analysis of our vulnerabilities is actually quite good. When I was sent to Army, Navy, Air Force, Marine Corps operators to ask, is this true, often the comment was, where did you hear about that? So even unpublicized aspects of our military forces' weaknesses are being analyzed in a way that is almost—I'm afraid gives a lot of Chinese officers the impression that we are a very weak military country. We may look strong. They often open their books or their articles with this sentence: Yes, America looks like it's the strongest power in the world. But this study will explain the 16 major weaknesses and vulnerabilities that makes them easy to defeat if the proper concepts of operation or tactics or better technology are used.

I won't inflict on you—I give some samples in my testimony here of some of these systems they are talking about that China needs to acquire. I will focus on one. As you know in our procurement budget, Secretary Cohen in the QDR reported to Congress that he rejected path one of just readiness only and no revolution in military affairs. He rejected path number two, which our office was a little bit sad to see rejected that the revolution of military affairs should be the central focus of procurement and research and development for the next 10 years. And Secretary Cohen selected path three, a compromise between the two.

But he is endorsing the revolution in military affairs as a goal of the Defense Department and reflected in budget requests.

The Chinese writings about the revolution of military affairs not only are perhaps more positive than we are, they make the claim that the United States will fail in its efforts to have military innovation because it's too arrogant about the Gulf War, because it has too much money to spend and innovation often does not come from the large budgets, the Chinese authors say. But instead other powers may do better over the next 20 years in innovations both in operational concepts and new organizations and in technology. And they give examples of the 1920s when the American Navy pio-

neered in carrier aviation. And kept it secret, I might say, from the British, who took a very different path.

The British idea was to have scout planes only on the deck, no idea of the long term bombing, long range bombing. Americans took a very different path. And the way they did that was to use war games, to actually game imaginary weapons that didn't exist yet, see how young operators would talk about what they would like to be able to do. And through that, not only carrier aviation but also several other concepts, amphibious landings, close air support—there are eight of these concepts that were invented in the '20s and '30s in the kind of way the Chinese write about. That is not too much money was involved. It's creative thinking. And looking at your opponent's vulnerabilities.

Well, what they say our main vulnerability is—actually it's quite interesting—they say we are investing one-third of our defense procurement in stealth aircraft, F-22, joint strike fighter, the rest of the B-2, follow-ons and also stealth munitions. So they urge that some means be found to counter American stealth aircraft. I mention this one because this is an example of what they—and then our own forces use this term now too—called asymmetrical warfare. That is, finding something that's cheap for you, but it's very expensive for your potential opponent, and that might be a sort of war-winning—they often use the term magic weapon.

Now this might be true. They might be able to find some magic weapons over the next 25 years, find our vulnerabilities, and defeat us in some kind of imaginary war we can't even sort of imagine what the scenario might be. But what's more interesting is in the real world now if they think this way, notice the implication about what they can do. And then I think what was so unusual about finding these articles and books is that here are Chinese officers voluntarily giving to somebody from the Defense Department these materials to translate, wishing me well—in fact most recently I was back in China—they know about the book. It's been described in the press. In fact, it's sold out. I would very much encourage you to write a letter to NDU and urge them to reprint it. Five thousand copies are gone now. Some of the last few copies I brought with me today. But the Chinese said to us three weeks ago, four weeks ago, we'll help you with the second volume.

Dr. Rodman and I met with the Chinese National Security Advisor, the head of Chinese Military Intelligence. One of the main authors in here is the general who's the vice president of their Academy of Military Science. And very strangely to me, there is a kind of enthusiasm that Americans, yes, should know more about our Chinese views of future warfare. This is counterintuitive. You would think that they would be upset, as Ambassador Jim Lilley alluded to, that this is whipping up the China threat. I mean, how could somebody publish a book and then talk about China could do all these things in 25 years? Why are they so interested in having us think this way? And frankly, as I say at the conclusion of my remarks, I don't know.

And I don't think the Intelligence Community—in fact, I'm very confident the Intelligence Community does not know because one thing we have neglected—here comes the pitch—in the Intelligence Community is knowledge of the process by which China makes de-



cisions about its future military forces. This is not a glamorous topic. This is not, Did they sell something to Iran, and if so, who knew about it? This is not, How much do they want to get into the World Trade Organization? This is a very kind of boring and dull topic that has to do with the long range future, which as my boss frequently says, Mr. Marshal frequently says, at our collection requirements table for the Intelligence Community, everybody has a seat but one person. The various regional commanders have a seat; the State Department has a seat; the one person who doesn't have a seat is the person who works on the future, 20 years from now, considered to be boring or impossible to know much about.

So that is my pitch to you that if you are surveying user requirements, please don't forget those who work on these nebulous future topics, because we need help.

Chairman SHELBY. Mr. Milhollin.

### **STATEMENT OF GARY MILHOLLIN, DIRECTOR, WISCONSIN PROJECT ON NUCLEAR ARMS CONTROL**

Mr. MILHOLLIN. Thank you very much, Mr. Chairman. Is that about the right distance?

Chairman SHELBY. That sounds good.

Mr. MILHOLLIN. I'm very pleased to be here and honored to testify before this distinguished Committee. I will summarize my remarks which are devoted to three subjects:

First of all, China's export behavior;

Second, our—that is United States'—exports to China;

And then third, I'll just make a few comments on the role of the US Intelligence agencies on the proliferation front.

If you look at my testimony, you'll notice that after the body of the text there are three tables. The first one lists China's exports to Pakistan. The second table lists China's exports to Iran. And the third table is reproduced in a poster up here. And it's also in the testimony. It basically presents China's exports to the rest of the world since about 1980.

Quite a bit has been said about China's export behavior. But I think the Committee should understand that what's going on is not new. This phenomenon has been remarkably consistent since 1980. China is today the most serious proliferation threat in the world and has been for almost two decades.

I remember seeing some cable traffic in 1980 over the question of China's supply to South Africa. The Chinese promises at that time were remarkably similar to the ones we're hearing today. The word mantra has been mentioned. China's, I think, nonproliferation promises probably deserve that label. China has the distinction of proliferating to both India and Pakistan at the same time. You can see this from the table. If you subtracted the Chinese assistance to the programs of Pakistan and India, I think there is a good question whether either of them would have anything like the arsenals they have today. And I suspect they probably would not have even a fraction of their current capability.

I'm afraid that in 5 or 10 years we may be saying the same thing about Iran.

With respect to China's behavior, I think its performance in the missile domain is fairly typical. In the early '90's we, the United

States, caught China exporting missiles to Pakistan. China promised to stop. We then sanctioned China for that behavior. China promised to stop so we lifted the sanctions before they were to expire. But then the behavior continued so we had to impose sanctions again in '93. After another promise we lifted those sanctions before they were scheduled to expire. That promise came in '94. And unfortunately, we know that the missile exports are continuing up to the present time.

The Chinese are not even making promises anymore. This is pretty much a dead topic diplomatically. The Chinese are not talking to us about it. Our people go to China to talk about missile proliferation, and nothing happens. The Chinese talk about our sales to Taiwan. There is no engagement on missile proliferation now with China as I understand it by our officials. It's considered to be pretty much a deadlock. The Chinese aren't talking to us. They don't want to talk about missile proliferation anymore.

The most recent and I think the most disturbing development in this domain is the furnishing to Pakistan of a factory to make missiles. So the Pakistanis soon, perhaps within a year, will begin turning out the kinds of missiles that we have been worried about China supplying components for. That missile is a pretty good missile. It's fairly accurate, and it's solid fuel. It can hit a lot of things in India.

Chairman SHELBY. What's the range there?

Mr. MILHOLLIN. It will be about 150 miles—

Chairman SHELBY. Okay.

Mr. MILHOLLIN [continuing]. Give or take some.

With respect to poison gas, I discovered and wrote in the New York Times a few years ago that China had been supplying Iran with poison gas technology, ingredients for poison gas. That, too, is still going on. I think, based on what I know, that China has been supplying Iran with poison gas ingredients and technology for about five years. That too is pretty much a dead topic as far as negotiations go. And I think the State Department admits that. They admit that poison gas and missile proliferation are still going on and that our efforts to stop China have basically failed and that there is no prospect on the horizon for success. And I guess I'm the bearer of bad news today.

Those two pieces of news are indeed very discouraging.

With respect to nuclear weapon proliferation, the picture is a little more complicated. And the United States is facing a big decision because the Administration, I'm told, plans to certify China for nuclear cooperation. The Administration, I think, will do that. And then it will be up to Congress to figure out what position to take with respect to the certification. That is one of the biggest issues Congress will face soon on China.

My testimony covers China's nuclear proliferation behavior. It's been most egregious in Pakistan. The Chinese have given Pakistan a tested design. They have helped Pakistan make the material to fuel that design. They have done it since about—well since the early 1980s. The design works. This aid occurred at the same time, actually, that China—as I said before—was helping India. So in the early 1980s when both those programs were in the crucial develop-

ment stage, China was giving indispensable assistance to both of them at the same time and doing it secretly.

Today we have, as I said, some ambiguities in the Chinese picture because the State Department is now saying that China has not violated a promise it made in May 1996 to stop nuclear exports to unsafeguarded facilities. I'll repeat that. China has promised not to make nuclear exports to unsafeguarded facilities.

What's going on there is that China is making lots of little exports that may add up to what this Committee could see as a serious violation by China still of its obligation to behave decently on nuclear exports.

One of the things I think this Committee should do is get a report from the Intelligence Community about China's nuclear exports since that promise was made in May 1996.

Two questions in particular seem to be important:

First, whether Pakistani scientists are getting help in visits to China's nuclear weapons sites. I am informed that our officials are concerned about that. The Chinese are hosting Pakistani scientists who may be learning nuclear weapon relevant things at Chinese sites.

The second question that the Committee should pursue is whether China is still prospecting for uranium in Iran. China has been helping Iran find uranium, which will certainly go into the Iranian nuclear bomb program. I'm told that the Chinese may have promised to stop helping Iran prospect, but I suspect that these promises may not be verifiable and may not be performed. So I think the Committee ought to ask specifically about that.

With respect to nuclear cooperation, I recommend that we do not delink different kinds of proliferation. If China continues to proliferate missiles and chemicals, we should not delink that kind of proliferation from nuclear proliferation. If we go down that road, we will be eventually delinking mustard gas proliferation from nerve gas proliferation. Either you proliferate or you don't. And China is still proliferating weapons of mass destruction; until it stops, I don't think we should engage in nuclear commerce with China.

Also another point that I'd like to make is that China is the only major supplier country that does not belong to the Nuclear Suppliers Group. It does not accept the obligations that all the other nuclear suppliers have accepted; and until it does, I don't think we should do nuclear commerce with China.

In my testimony I have also listed a number of United States exports to Chinese companies that in turn have sold very dangerous technology to countries that we are worried about. This is presented in my testimony in detail. For example, China has sold anti-ship cruise missiles to Iran. The United States has exported technology to the very company that helped make that missile. Also, the Chinese have sold a big surveillance radar to Iran. And United States exports went to that company in great numbers before that surveillance radar was sold. I think there's a very good chance that those exports helped make the radar.

So to end here and try to stay within my time, I recommend that the Committee do three things: First, be notified when the Intelligence Community makes a finding on sanctions. We have sanc-

tions findings now that are being ignored by the State Department; second, as I said, the Committee should be informed of all of China's nuclear exports since May of 1996. And third, I think the Intelligence Community should perform an assessment of the impact United States exports are having on China's strategic capabilities.

I am not aware that that's being done. Perhaps it is. If it's not, I think the Committee should arrange for it to be done. And last, I think as much of this information as possible should be unclassified.

Thank you.

Chairman SHELBY. Dr. Rodman.

**STATEMENT OF PETER RODMAN, DIRECTOR, NATIONAL SECURITY PROGRAMS, NIXON CENTER FOR PEACE AND FREEDOM**

Mr. RODMAN. Thank you very much.

I too want to thank the committee and the Chairman for your courtesy and for holding a hearing on what is clearly one of the important issues of our time. I was asked to focus on the foreign policy dimension and to look more broadly at the political relationship between our two countries: What's been happening to it? Why is this happening? Where is it headed?

I still believe that a constructive relationship with China is possible over the long term, even as China grows more powerful. I don't see a conflict between the two countries as inevitable. But a precondition for this is that we be realistic about China and understand with some precision what the strategic problem is.

The basic problem, in my view, is not a misunderstanding. It's not even a series of specific disagreements. I see it as a structural problem, because there have been some fundamental shifts in the international system in the last 10 years.

Let me list four.

The first development was the Sino-Soviet rapprochement. I say "Sino-Soviet" because it began under Mikhail Gorbachev during the Soviet period. The Sino-Soviet rapprochement clearly removed what had been one of three main incentives for the Sino-American strategic partnership in the 1970's and '80's. The reason that China feared the Soviet threat disappeared and this was symbolized by Gorbachev's historic summit visit to Beijing in May 1989.

Second, of course, is Tiananmen which happened only a few weeks later. Tiananmen affected the United States-China relationships in two ways. Rather obviously, first, it undermined the domestic constituency in America that had supported the relationship with China. But simultaneously it persuaded the Chinese leadership that maybe the main threat to the regime was not the Soviet bear anymore; it was western democratic ideas embodied by the United States.

Third was the collapse of the Soviet Union which left, of course, the United States as the sole remaining superpower. This reinforced in Chinese minds the idea that they should start linking up with other—countries including Russia, ironically—to block American predominance. And blocking American predominance, or "hegemony" as they call it, is, I think the dominant theme of Chinese foreign policy today.

The fourth development is China's emergence as a potential superpower in its own right. This means an implicit if not explicit challenge to America's position in the Western Pacific. We are the protector of all those around the periphery of China who have relied on us for their security. And China is now flexing its muscles and establishing itself as a military power in this area where we have up to now had a monopoly.

Now these are fundamental changes in the structure of things. They cannot be undone. They can only be managed. The United States-China relationship can never go back to what it was, to the partnership that it was in the 1970's or '80's. And I share the concern of my colleagues on this panel that American policy sometimes reflects a kind of complacency, which seems to derive from a kind of intellectual and bureaucratic inertia that, oh, for 10, 20 years we were partners, and we dealt with China as a friend.

Now I would say we are suspended somewhere between friendship and rivalry. That's where we are. Where we head in the future is, of course, open.

In this new context of being suspended somewhere between friendship and rivalry, it's inevitable, for example, that a lot of disputes, whether over Taiwan or human rights—issues that were subordinated during the period of common action against the Soviets—now loom larger. They now seem sharper. In fact, they are sharper. The United States and China are more likely to find themselves in contention or dispute over some of these issues that, as I said, were contained or were subordinated, for a long period. And some of these issues, especially the Taiwan issue, could prove very dangerous in the years ahead.

What does this mean for our foreign policy discussion now? For one thing, I've always favored some kind of strategic dialogue with China, a dialogue on the geopolitical issues. In the old days when we were united by the Soviet threat, we had a very close dialogue with the Chinese. In fact, their foreign policy and our foreign policy were sometimes very close. We had parallel preceptions of the world strategic situation.

The Middle East is an example. I remember a time when China saw it as against its own interests to undermine the American position in the Middle East because of the common interest in resisting encroachments. Now we see, as Dr. Milhollin has shown, the Chinese selling weapons in Iran and acting in the Middle East in a way that shows no particular concern for American strategic purposes.

The erosion of this common or parallel strategic perception is a bad omen for the future at a time when most other aspects of the relationship are under fire in the United States.

Secondly, we see a more assertive Chinese foreign policy in some respects. We have seen them use force in two important incidents. In 1995 was the so-called Mischief Reef episode when they expelled some Filipino fisherman from some disputed reefs in an area that has strategic importance and perhaps oil and gas resources. It was the first time that China had used force against an ASEAN state. The second episode was the Taiwan Strait crisis of March of last year.

Now the Chinese may have miscalculated some degree in both these situations. The Mischief Reef episode had the consequence of accelerating the entry of Vietnam into ASEAN. Vietnam is China's historical rival, and I don't think the Chinese were happy to see Vietnam brought into ASEAN so fast. The Taiwan Strait episode, of course, had other effects. It helped to repair the United States-Japan relationship. The United States-Japan relationship was badly frayed at that time by trade disputes and Okinawa disputes. I think public opinion in Japan was very deeply affected by what China did.

So the Chinese may not always understand the consequences of what they are doing.

Now what are the conclusions I draw from this? First of all, as Dr. Pillsbury explained, the Chinese may see us as weak. They may think that American is in decline. When Dr. Pillsbury and I were in China together a few weeks ago—it was fascinating to talk to the think tank people in China about this subject—is America in decline? Because it was a very fashionable subject for them for a while just as it was here for a while. They are not sure whether it's happening or not. But they are fascinated by the prospect.

If China comes to the conclusion that the United States is weakening in the Western Pacific, that we are not going to be a superpower there for the long term, they will of course assume that they can fill the vacuum. It's up to us to prove their premise wrong. Therefore the most important requirement of a China policy is that the United States maintain its strength, that we maintain our military primacy, that we maintain our alliances and friendships in the region. I think no China policy makes any sense unless we are prepared to spend the money that is required to maintain our primacy in the region.

And second, there are the analytical priorities that Dr. Pillsbury explained very well. We ought to be learning more about how the Chinese think, how they make decisions. They may be seriously miscalculating. We need to figure out what exactly what is on their minds, how they make decisions, and how we can affect this. After all, effective deterrence presupposes that you can have an influence on the thinking of the other side.

In addition I support the idea of more transparency. It's extraordinary the kind of things they still try to cover up. I mean, they don't even tell you exactly where the headquarters of their defense ministry is. They greet visitors at a building which is not really where their headquarters is.

If military exchanges on our side are just an exercise in sentimentality, then they do more harm than good.

And finally again, I second what Dr. Pillsbury said about how the Chinese are looking very closely at our vulnerabilities. And it's up to us to make sure that those vulnerabilities are being corrected, and that we are paying attention to them as well.

So in the end it comes down to being honest with ourselves. We need to be realistic. We need to base policy on neither panic nor illusion. And we have to show the same utter seriousness and lack of sentimentality about the relationship that the Chinese themselves are demonstrating.

Thank you very much.

Chairman SHELBY. Thank you, Dr. Rodman.

Dr. Rodman and Dr. Pillsbury, as you note, the conventional wisdom today is that the PLA is at least a decade away from fielding an all around force capable of sustaining power projection. But how long will it be, given current trends, before a United States President has to think twice about sending carriers into the Taiwan Strait or to taking other actions to defend United States vital interests in the area? What do you see as the most immediate threat to United States forces on such a mission? Dr. Rodman?

Mr. RODMAN. Shall I start?

Chairman SHELBY. Yes.

Mr. RODMAN. I'm not a military expert, but it seems to me, having served myself in the Executive Branch, that this is a near-term problem. If the Chinese are acquiring very sophisticated antiship missiles from the Russians like the SUNBURN and other missiles and torpedoes that can do damage to American aircraft carriers, then an American President is going to think twice about the next skirmish that comes along. If the Chinese can pose the threat of higher casualties, then any American President, I think, is going to feel a higher level of inhibition about challenging them.

For the last 10 to 20 years we have had an easy monopoly of power. For a long part of that time the Chinese were our partners against the threat from a different direction. Now the Chinese are reducing their land forces and putting their emphasis on their navy and their air force and their missile capabilities. And this impinges directly on our forward presence and our friends in the area who happen to be around the periphery of China. I think the Chinese naval strategy resembles what Soviet Admiral Gorshkov espoused at one point, which is that while the Soviet Navy could never challenge the United States Navy across the board, it could, in a "limited sphere of strategic activity," pose a potent threat—enough to give us pause or to complicate American decisions. This is something that the Chinese can achieve and that can affect the political and psychological balance in the region in the next five years.

Chairman SHELBY. Do you two gentlemen agree with that assessment? Both of you?

Mr. PILLSBURY. Yes.

Mr. MILHOLLIN. I would just like to add that the transfer from Russia to China of advanced military technology is a big event in sort of the strategic history of the world. And I don't think we understand it very well. And it could be the most—

Chairman SHELBY. It's a lot more profound than we have come to know.

Mr. MILHOLLIN. I think so. And it could be the major determinant in framing an answer to that question.

Chairman SHELBY. Okay.

Mr. MILHOLLIN. That is, in a way it's a military proliferation phenomenon that we are seeing.

Chairman SHELBY. Dr. Pillsbury, do you agree?

Mr. PILLSBURY. Yes.

Chairman SHELBY. Thank you.

What's the PLA's role in national security decision making? How, if at all, is this role expected to change as the new leadership consolidates its power?

Dr. Pillsbury, do you have a—do you think it will change? And what is the role?

Mr. PILLSBURY. It's a very big role. As your opening statement indicated, this is an area of great secrecy in China. If I had to guess—and I advertise myself as somebody who works in the future, not the current situation, but I guess it would increase. It's increasing.

Chairman SHELBY. Okay.

Senator Kerrey.

Vice Chairman KERREY. Well, I appreciate it, Mr. Chairman. We all have to go vote so I am going to try to hold this down to a minute.

Let me first of all say that I may waste an awful lot of things in my life. But one of the things I am most economical about is my ideas. I get them early, and I hang onto them forever. And one of the most important parts of our political system is the transparency that you have observed the Chinese do not have. And as long as they are not transparent, it seems to me it's one of their greatest vulnerabilities.

To that end, Mr. Pillsbury, I don't need it right now because there's not time to do it, but anything that you could provide us specifically as to what would improve our capacity to develop open source analysis which is increasingly what we depend upon to make good judgments in the political arena, both to keep the sense of urgency in place and perhaps to respond to specific situations would be—in this Committee, certainly would be very responsive to any specific suggestions you could give us.

And though it's not going to be possible, given the amount of time we've got here, I'd also appreciate very much both your—if it's written or perhaps to staff, a response to Mr. Milhollin's suggestions about what this committee ought to be doing with proliferation. And I find the older I get, the more specific the recommendations are tends to impress me. And I appreciate the specificity of those recommendations and with both of your working knowledge of this subject of proliferation in China. As well, Mr. Rodman, I note in your testimony that you suggest that we've got to find some shared agenda, some things where in a constructive engagement China and the United States can reach agreement in order to be able to continue that engagement. And obviously in the area of proliferation we have strong disagreement. So anything you could do in—any hints you could give us in response to Mr. Milhollin's suggestions, it would be very much appreciated.

Thank you.

Chairman SHELBY. Senator Baucus.

Senator BAUCUS. And that was basically going to be one of my questions, too. I was very disheartened, Mr. Milhollin when you said that we are at a deadlock—nothing is going on. I would like your suggestions on how we can break that deadlock. And if you could get that back to the Committee somehow—your best suggestions on how we do that?

Mr. MILHOLLIN. You want that later, I assume, rather than right now.

Senator BAUCUS. Yes, right. We haven't got time.

Mr. MILHOLLIN. Sure.



Senator BAUCUS. Thanks.

Chairman SHELBY. Thank you, Senator Baucus.

Gentlemen, we appreciate your views today. We appreciate you appearing. You know what we are under now, a time constraint. We will stay in touch with you, but I think your views and your candor will be very helpful to this Committee.

Vice Chairman KERREY. Thank you very much.

Chairman SHELBY. This will conclude the hearing.

Thank you.

The committee is adjourned.

[Thereupon, at 12:23 p.m., the Committee was adjourned.]

