

042518 Air Force Association, National Defense Industrial Association, and Reserve Officers Association Capitol Hill Seminar with Rick Fisher, Senior Fellow at the International Assessment and Strategy Center; and Gordon Chang, Columnist for Forbes, on “China: Emerging Peer Danger” (For additional information on AFA/NDIA/ROA seminars contact Peter Huessy at phuessy@afa.org).

MR. RICK FISHER: (In progress) -- it’s also useful to focus my attention and thinking on China’s strategic developments, and I thank Peter again for the opportunity to do that.

I’ve just returned from the road myself, attending the DSA arms exhibition in Kuala Lumpur last week, and also following the Chinese again two weeks before that at the FIDAE Air Show in Santiago, Chile. I can talk about that if you have questions, but they weren’t dealing in nukes so much at either of those forums.

But to get to the meat here, just to offer some highlights and developments of the last year in China’s strategic nuclear capability development, the new rocket force is now entering its third year with an elevated status and the ability to contribute to new joint force strategies to a much greater degree. The Pentagon has confirmed what were glimmerings of reports on the Chinese web a year ago that China has tested an air-launched ballistic missile. It’s not clear what this missile is based on, but reports from informal Chinese sources indicated that the missile carrier first flew in late 2016. It’s certainly interesting that the Pentagon is confirming the development of this likely either medium range or intermediate range layer in addition to all the other Chinese layers of missiles.

Last year saw the formal unveiling of a new version of the Dongfang 31, the DF-31AG, which again in formal Chinese sources suggest may be armed with multiple warheads. There was another test of a larger 10 warhead capable DF-41, and we’re waiting for the emergence of China’s new strategic bomber, likely a flying wing concept similar to our B-2. Last year the annual Pentagon report spoke more clearly to the development of a third generation of ballistic missile submarine. In December of last year China and Russia held their second missile defense command post exercise, an endeavor that always raises concerns about missile offense cooperation.

We’ve also been able to pick up new data points about the proliferation of Chinese “civilian”, quote-unquote, solid fueled spaced launch vehicle families, solid fueled space launch vehicles that could easily form the basis for increased solid fueled ICBM production. This is a simple exercise that I try every year. The Pentagon, of course, tells us that there are anywhere from 70 to 100 Chinese ICBMs, but really doesn’t go into more detail. Good for them, we don’t need to be revealing all our sources and methods. But at least from an open source perspective, we really don’t get the full flavor for the development of Chinese nuclear attack capabilities. What I try to do is provide at least a thumbnail estimate of the number of warheads that may either be in the force soon

or not too distant future.

This chart simply lists the types of ICBMs, what is known about their maximum warhead load, and then assumes one unit which after discussions over many years with multiple experts, it appears that an ICBM unit consists of six launchers. Whether there are reloads for those launchers remains something of a debate. But if we just assume one launcher and one missile, the warhead total approaches 500. If we assume two units with one reload each, the Chinese could quickly exceed 1,000 warheads. Given that we've self-limited ourselves, along with the Russians, hopefully to about 1,500 warheads, this is not a calming state of affairs. The discussions in the last administration to even further reduce American warhead levels to 1,000 certainly did not settle well with me.

Last year -- this is basically a slide that I also had in my last year's update -- it's basically the clearest indication from a Chinese open source about their new small nuclear warheads. This is a slide that was part of an education briefing for some Chinese soldiers. What unit of the Chinese military is not clear, but at a minimum it appears that the Chinese are at least, for their DF-41, considering an armament of one 5.5 megaton warhead, six 650 kiloton warheads, or 10 150 kiloton warheads. It's a data point. For those of us who live in the open realm, it's a very important one.

In terms of liquid fueled ICBMs, it doesn't appear that there has been much change in terms of the types of DF-5s that are in the rocket force. There's a single warhead DF-5A, DF-5B, which U.S. sources say may have up to three warheads, and then the new DF-5 Charlie which can carry up to 10 warheads. The DF-5 MIRV buses are derived from the Long March II space launch vehicle types, which also have been launching multiple satellites for about 20 years. It's simple technology and inexpensive. It would be very attractive to the Chinese.

What we don't know really, in my opinion, is how many DF-5s there are. On the right we have a photo, perhaps from the early 1990s, maybe late 1980s, of DF-5s stored horizontally in a tunnel. Noting the work of Dr. Phil Karber and highlighting the thousands of kilometers of tunnels that the Chinese have built to house and hide their strategic arsenal, it really stands to reason that the old open Pentagon number of 20 DF-5s was never realistic. I never believed there were simply 20. But how many? That has not been revealed publicly.

The DF-41 may start formal deployment this year -- 10 warheads. And the rail-based version is coming along. There have at least been cold launch pop tests of their rail launcher which is very likely based on designs originally produced in the Ukraine.

Last year's formal revelation of the 31 AG, we've been seeing images appearing on, of all places, Chinese automobile web sites. Automobile hobbyists have very active web sites in China. They take pictures of lots of things and put them on the web.

Those web sites are usually one of the best sources of early pictures of new TELS. The one on the right is from 2013 thereabout. They included 16 BF-31 AGs in their big

anniversary parade last year, as a possible indicator. There may be up to three units of this ICBM deployed already.

And now the buildup of theater strike. The DF-26, a 4,000 kilometer range IRBM is deployed in at least one unit. I would assume a second and third in this build up as well. But there will be additional layers.

The air-launched ballistic missile, according to my sources, has been tested a number of times and is likely to be deployed on a new version of the SHAD-H6K medium bomber. Again, the 3,000 kilometer radius of the bomber would be added to the range of the missile, which would very handily put it within the intermediate range category. This missile should also be watched for potential anti-satellite applications.

In 2006 the Chinese revealed a solid-fueled air-launched space launch vehicle that looks a lot like the Orbital Pegasus. It was only revealed in model form at the Juhi (ph) Show. It hasn't appeared in real form, but one can assume that much of the development for that system has at least informed the new air-launched ballistic missile, meaning that space applications have probably been included in its eventual mission set.

Third, we have sea-launched anti-ship ballistic missiles on the way. This slide is from the presentation made by a Chinese admiral to a university class about future trends in the Chinese navy. One student took out his cell phone and took pictures of all the slides. All the slides were placed on Chinese web pages. According to my information sources, it is possible that the testing of short range anti-ship ballistic missiles has started. I would expect the Chinese to deploy medium and then intermediate range ship-launched ballistic missiles as well.

The current short range ballistic missile threat to Taiwan is remaining kind of static at about 1,200 short range ballistic missiles and 4-600 land attack cruise missiles. Back in 2011 Russia General Viktor Yesin (ph), who at the time was being very friendly to many people here, wrote a very good report about China's strategic arsenal in which he stated that he thought there were at least 130 nuclear armed SRBMs in the rocket force back then, in the Second Artillery. But what is very interesting is that for about six or seven years the two major short range ballistic missile companies, CASIC and CASK (ph), have been marketing a second generation SRBM.

The Chinese call this a fourth generation SRBM, but for simplicity sake we'll call it the second generation. Instead of having one TEL and one missile, one TEL can carry up to eight SRBMs, especially the SRBMs that are based on artillery rockets, satellite guided, precision guided. So if you do the math and assume one large new SRBM plus four smaller ones, you very quickly reach 1,200 missiles. If you assume the number of reloads based on the first generation SRBMs, you quickly reach numbers over 4,000.

We have not yet seen the Chinese begin the rearmament or replacement of their SRBMS, but at the Malaysian Arms Show last year NORECO (ph), which produces artillery rockets for the army, revealed a new SRBM, Fire Dragon 280A. It's about as

capable as the new CASIC and CASK SRBM, but the Chinese basically gave me a non-denial that it was in army service. So if the army is getting the second generation SRBM, it's now probably too long before the rocket force gets their second generation missiles as well.

Fire Dragon 280A has a 300 kilometer range, Mach 6 speed, and is maneuverable. It's impressive. We've just recently received the clearest imagery of China's second generation SSBN and the newest version of their SSN within the last month, because of a big parade off of Hainan Island presided over by Xi Jinping.

Four Type 094 SSBNs today. The third generation Type 096 is expected in the early 2020s. How many of those? Four, five. And the 096 is expected to be armed with a third generation of SLBM, the JL-3, usually described as being derived from the DF-41. I'm not completely sure about that, but it will be a larger, more capable, probably multiple warhead armed missile.

China could initiate a very impressive ICBM surge because of its development of new solid fuel space launch vehicles. This is the CASIC family, which starts with a one-and-a-half ton, five ton, and then a 20 ton payload capable solid fuel SLV. The 20 ton SLV is larger than the solid rocket booster on the space shuttle. In addition, there are private companies that are coming along as well, LAND-SPACE (ph) and a few others. On the right we have the first image of the solid rocket motor for the KC-21, the 20 ton capable SLV.

Bombers, I mentioned those. A lot of expectation from informal Chinese sources that the bomber might appear in prototype form as early as this year.

And then strategic defenses continue. Laser, ground-launched -- last year at the Paris Air Show the Chinese revealed a new large phased array radar to manage theater range defensive missiles. I've already mentioned my concern about Chinese cooperation with Russia. The strategic dimension is something that we really need to pay attention to, and I hope does have some impact on our consideration of our future warhead levels.

Finally, as if we didn't have enough things to worry about in terms of strategic threats, now we have to factor in China's military plans for the moon. The story is not mine, but in the latest issue of this magazine, Andrei Chang (ph) cites an American source citing that the PLA recently held a conference on military activities on the moon. The PLA probably holds thousands of conferences, as does our military.

The consideration of the moon as a military asset is certainly logical given the entire dual-use nature of China's manned space program. And we've had some indications from top Chinese officials that they are indeed considering military use of the moon. Andrei Chang's article makes clear that they intend to use the moon to target American deep space intelligence assets.

On that cherry note I'll end and take your questions.

(Applause).

MR. GORDON CHANG: Thank you, Peter. Rick, it's an honor to be at the same event with you. Thank you all for coming today.

Never before in the history of our republic has such a large adversary threatened us. Never before has the threat been so pervasive. And never before have we been so ill-prepared to defend ourselves.

But, of course, we will defend ourselves because we have no choice. As you can see from today's program, China is an emerging threat. But whether China is emerging or not, it is dangerous, and the struggle we have with Beijing has now become existential, because ladies and gentlemen, we are in the fight of our lives with the People's Republic of China.

The Chinese state and the Chinese Communist Party, across all domains and on every continent, actually now poses a threat to the United States and confronts us. Before we discuss China's military challenge, which is essentially my topic, we need to take a look at China's challenge to the entire international system. China not only wants to rule the world, it wants to overthrow the world's rules-based system and replace it with its own, the imperial system. In that imperial system the Chinese emperor ruled all under heaven, *dor tiensa* (ph) as the Chinese phrase it.

Today's system has been developed essentially from the 1648 Treaty of Westphalia, which recognized the sovereignty of individual states. Today, those states compete and they cooperate in a framework largely developed after the Second World War by the United States, of treaties, conventions, rules and norms. The Chinese, however, have a different idea.

Foreign Minister Wong Yi (ph) in September wrote an article in *Study Times*, which is the newspaper of the Communist Party's Central Party School. In that article he said the Xi Jinping thought -- and that's Communist Party lingo for a body of ideology -- that Xi Jinping through has, quote, "made innovations and transcended the traditional Western theories of international relations for the past 300 years." Wong Yi's reference to 300 years obviously points to the Treaty of Westphalia, and it tells us something.

It confirms what we've been hearing by Xi Jinping, the Chinese ruler, that he has been talking with words and phrases and invoking the imagery of the *tientsa* (ph), the imperial period, where the Chinese rule did indeed govern all under heaven. What they're saying is of course the Chinese don't want to live within the current Western-based, rules-based international systems, that they want to change it. They want to replace it altogether.

If you understand this, then you understand the context for what Rick was just talking about and what others have mentioned. It's now the fashion in Washington -- and

this is a good thing -- we're not talking about China not as a partner or as a friend, but we're talking about it as a, quote-unquote, "revisionist power." Yes, it's revisionist, but indeed it is much more than that.

It has become, like it was in the 1950s, a revolutionary power. To understand China's revolutionary goals, we're taking a look at four things today. First of all, China's military goals, its nuclear arsenal, its relations with Russia, and its support for North Korea.

Let's get started, China's military goals. This is really easy, folks. You can summarize this in three words, China wants to dominate the world.

China in 2016 seized a U.S. Navy drone from international waters in the South China Sea. Its spokesman said that it took, quote-unquote, "an unidentified object out of the water." And it did so, the Chinese told us, to preserve freedom of navigation, to prevent that object from interfering with vessels.

In fact, the Chinese long tailed the USNS Bodich (ph), the U.S. Navy unarmed reconnaissance ship. The crew of the Bodich at the time was trying to hail the Chinese by radio, telling them that the drone belonged to the U.S. Navy, but to no avail. The Chinese went into a small boat, they took the drone, and by radio, indicating that they heard us, said that they were going to keep it.

The site of the seizure, which was 50 nautical miles northwest of Subic Bay, was so close to the main Philippine Island of Luzon that it was outside the cows tongue. That's about 80 to 85 percent of the South China Sea that China claims within what we now know as the 9-dash line, but on the most recent map is defined by 10 dashes. The intentional taking of what our Defense Department called a sovereign immune vessel of the United States was an act of piracy and it was an act of war.

Beijing now thinks that it can do with impunity whatever it wants. China is lawless. We have spent decades trying to enmesh China into this system of laws, and it has not worked.

China is lawless because it thinks it should be the only sovereign state in the world. Because it thinks it is the only sovereign state, it can do whatever it wants, whenever it wants.

The second topic, China's nuclear weapons arsenal. You heard a lot from Rick. There is no doubt China is modernizing its arsenal, its warheads, and more important its delivery systems. My primary concern is not about the technical advances or about the rapid increase in their number of warheads. My primary concern is China's unwillingness to join with the four other recognized nuclear powers and disclose the size of their arsenal.

The reason why disclosure is important is because disclosure would mean that it

would be willing to work within the framework of the world's arms control regime. In other words, work with the United States and Russia to provide assurance to other parties. At this moment, we've got to be clear, we are on the brink of another nuclear arms race.

Russia is violating the Intermediate-range Nuclear Forces Agreement, INF, and at the same time China is churning out nukes, as Rick Fisher will tell you, at a very fast pace. And so, we have to respond. Admiral Phillip Davidson, who has been nominated to replace Admiral Harry Harris as PACOM commander, recently testified before Congress. He testified that the American response to all of this should be to abrogate the INF Treaty.

He believes that the INF Treaty is no longer in American interest because the United States is at a disadvantage. The reason why the United States is at a disadvantage is because China is not a signatory to it. China, not a signatory, is developing missiles that are covered by the treaty. Those missiles can strike American carrier strike groups far from China's shores. Because of that, at this point we have no ability to defend against China's hypersonic missiles.

Davidson argues that the INF Treaty needs to be changed. These are his words, quote, "In the Indo-Pacific the absence of the INF Treaty would provide additional options to counter China's existing missile capabilities, complicate adversary decision-making, and impose costs by forcing adversaries" -- by the way, that's probably China -- "to spend money on expensive missile defense systems."

And while we're on the topic, there is one more reason why we should walk away from INF. We should walk away from INF because Russia has been violating it. It has been clear that they've been violating it since at least the middle of the last decade. In other words, for most of this century.

I'm in favor of arms control treaties. I'm in favor of INF in particular, which after all is called the cornerstone of European security. But under no circumstances do I believe that we should stay in any treaty where the other side is violating it openly and we either refuse or are unable to enforce compliance.

And, of course, it is untenable to stay in the INF Treaty, or any other treaty for that matter, largely because the Chinese are not parties to arms control treaties. So Beijing's intransigence on arms control means -- maybe not today -- but it means the end of the world's arms control regime.

That brings us to our third topic, China's relationships with Russia. The dominant narrative in this town and elsewhere is that okay, China and Russia are two big states. They have been at each other for centuries. They cannot form an enduring partnership.

Analysts point to all of the matters that complicate the relationship between Beijing and Moscow. But we should also take note that the most important thing that has divided China and Russia has been their territorial disputes. In a series of agreements,

the most important of which was in 2008, China and Russia have settled their very long border.

Yes, these two states have had problems, but now more important, they have two leaders. They have two leaders who see the world in the same way, who believe they have the same primary adversary -- which is us -- and two leaders who believe that they need each other. Therefore, they talk about each other as being the preferred partner for them.

So let's not be surprised that Vladimir Putin and Xi Jinping are acting in concert. They are coordinating their foreign policies and they often move in tandem. Such as in the middle of 2013 at the height of the Syrian civil war, we saw Chinese vessels sortie in the Eastern Mediterranean along with the Russians in an apparent warning to America and other NATO vessels to stay out of that conflict.

In 2016 we saw the Chinese and the Russian navies exercise together in the contested waters of the South China Sea in what the Xi-juan (ph) News Agency, the official Chinese media outlet, called, quote, "joint island seizing missions." And since that island seizing mission, the Chinese and Russian navies have drilled in that contested body of water as well.

The Russians have started to sell the Chinese their most advanced weapons, with recent deliveries of the S-400 anti-missile system. Even when their interests conflict, and they do, especially in Central Asia, we are seeing China and Russia compete under a veneer of cooperation and within the same framework. That, more than anything else, certainly more than words, indicates the enduring nature of the new partnership between Moscow and Beijing.

The Russians and the Chinese are closer than they have been at any time since the early 1950s. In simple terms, these two big states are standing together. Xi Jinping summed it up in June 2016 when he said that China and Russia should be friends forever.

Whether their friendship is forever or is fleeting, we have to understand that we are now facing two very large states that have worked closely together. And, we're also facing their proxies, such as North Korea, and that is the fourth topic for today.

There is no question that Beijing armed Pyongyang, which we talked about in detail last year. Last year we mentioned how North Korea would not be a threat to the United States or the international community were it not for the Chinese. Before we talk about what's happening today, I'll just review very quickly what we discussed last year.

As mentioned, Chinese parties have been supplying continuously, over the course of decades, components, equipment and materials for North Korea's nuclear weapons program, including most recently uranium hexafluoride, semi-processed fissile material. China has also been providing equipment to the North Korea ballistic missile program, most notably the launchers, the transporter erector launchers that Rick talked about. We

saw that first in the big military parade on April 15, 2012 when we saw the KN-08, a liquid fuel three state missile. That was interesting, because we saw it for the first time. What was even more fascinating, ladies and gentlemen, it was carried by a Chinese TEL.

The New York Times reported that after that incident we talked to the Chinese and they said, oh no, we only just sold the chassis and the North Koreans told us they wanted it for their logging vehicles, an explanation which makes no sense. Sources in the U.S. intelligence community -- and yes, I am revealing that some people do leak -- sources in the U.S. intelligence community, when they're really pissed off about the Chinese, will tell you that the New York Times got that story wrong. The Obama administration didn't talk to the Chinese after the military parade. They talked to the Chinese before the parade, and Beijing went ahead with the sales of the chassis to the North Koreans anyway. And I don't have to tell you why that makes a difference. We're not really concerned about North Korea's longest range missiles as weapons. We can destroy them on the pad. We're concerned about their mobile missiles.

Also, last year's military parade in Pyongyang we saw, again, on a Chinese chassis, we saw a big ugly canister. We don't know what's inside that canister, but some people say it was -- Rick Fisher, you talked about the DF-31 -- some people say it was a DF-31. With a range of at least 5,000 miles, its launch from North Korea it can hit the West Coast of the United States.

Some people say it was even a longer range Chinese missile, one that could reach all of the U.S. with a range of 8,700 miles. I think that's probably wrong, but I'm not a missile guy. The point is, we need to start asking Beijing some questions about how come the North Koreans have Chinese and Chinese looking equipment in their inventory?

Beijing says it takes its proliferation obligations seriously. But seriously, that's not the truth. Beijing must know about all of these transfers to North Korea by state enterprises and by large private businesses. If Beijing doesn't know about them, it's because it doesn't want to know. You cannot run a police state and then disclaim knowledge of what happens inside that state.

China is a recidivist proliferators, but maybe not a smart one. Let's end on a happy note here. The Chinese in general tightly control countries that they think are vassals, as arrogant overlords are wont to do. The North Koreans are vassals, in the minds of the Chinese. The Chinese today have treated the North Koreans pretty poorly, as in imperial times Chinese emperors didn't think too much of the people that they ruled.

Xi Jinping sees himself as governing all under heaven, and that includes North Korea, a tributary state. Kim Jong-un, the ruler of North Korea, views things in a slightly different light. As the Chinese should know, but apparently do not, Kim does not like being treated as a vassal. Nobody likes being treated as a vassal, especially Koreans, especially North Koreans.

On March 8th we learned just how much Kim Jong-un didn't like the Chinese. On

March 8th, in this very town, you had two senior envoys of South Korea's President Moon Jae-in transmit an offer from Kim Jong-un to the president of the United States, one Donald John Trump, to talk directly, Kim to Trump, without the Chinese in the room. Kim wanted to have his first foreign meeting with Moon Jae-in, the South Korean president. His second foreign meeting was going to be with the president of the United States.

Xi Jinping said uh-uh. Kim, you're a vassal, you're coming to Beijing, and that's exactly what happened at the end of March. The Chinese summoned the North Korean leader, who doesn't like to travel, who doesn't like the Chinese. He went there.

Let's unpack this particular visit. Xi Jinping forced Kim there. That undercuts all these Chinese narratives that the Chinese don't have great influence over their North Korean friends. Many analysts, especially Chinese ones, like to say there's all this friction between us and the North Koreans. We can't really control them.

Well yes, icy relations between Beijing and Pyongyang are real, and yes, Kim does not like the Chinese. But that doesn't mean the Chinese aren't in control. Chinese officials don't expect obedience all the time. They support the North Koreans whether the North Koreans are compliant or not because the Chinese are confident that in the long run the North Koreans know their place.

The Chinese note that they have influence, they just chose not to exercise it all the time. When China really wants something, it pulls the strings. We saw at the end of last month, Xi Jinping pulled the string.

Another point to unpack, during the meeting between Kim and Xi Jinping in the magnificent Chinese capitol, Xi Jinping, acting like a Chinese emperor, gave a lot of gifts to Kim Jong-un, \$394,000 worth of jewelry and porcelain, primarily. To make matters worse, Xi allowed media to photograph that. Well, the giving of those gifts was a violation of UN sanctions.

The fact that the Chinese wanted these picture to be broadcast can be translated from the Mandarin in this way. Xi Jinping to Donald Trump, quote, "I'm violating UN sanctions. Even worse, I'm going to prove I'm violating sanctions. I'm going to rub your nose in it. And Mr. American president smarty pants, what are you going to do about it?"

Xi Jinping is lucky that the president of the United States is not me and Chang, because if it were, President Chang would have immediately in response given the Taiwanese an F-15 with this painted on the side. Me and my friends stop aggressors. My wife is in the room so I won't tell you what I really want painted on the side of that F-15.

(Laughter).

In any event, if Trump's summit with Kim, which will probably occur sometime

in June, if it goes well we can ignore the Chinese violation. Who cares about pottery. But if it doesn't go well, we need to impose costs on China.

The way that we would start to do that is to go at their weak point, which is their fragile big banks. We know that Chinese banks, despite many warnings from the Obama administration and from the current one, are continuing to launder money for the North Koreans. Bloomberg, a few weeks ago, reported that the Trump administration declined to impose any costs on the Agricultural Bank of China and China Construction Bank, China's second and third largest banking institutions. They declined to impose costs for money laundering for the North Koreans.

We also know that China's number one and number four banks are also involved in money laundering for the North Koreans. There's the Industrial and Commercial Bank of China, the world's largest bank as ranked by assets; and the worst violator of them all, the Bank of China, named in a 2016 UN panel of experts report, for devising and operating a money laundering scheme for the North Koreans in Singapore. That means -- count them -- one, two, three, four, China's four largest banks are money laundering for the North Koreans.

We need to either impose very large fines, hundreds of millions of dollars or even billions of dollars. What the Obama administration did in 2013, 2014 and 2015 on European banks for violating the Iran sanctions, that would be good. What would be even better is we employ Section 311 of the Patriot Act and declare one or more of these big Chinese banks a primary money laundering concern.

MR. : Stay tuned.

MR. CHANG: Stay tuned. But they haven't done it yet. By doing that, after a waiting period, it would mean that those banks would be no longer able to do business in the dollar, the world's dominant currency, which essentially for a bank like Bank of China, would be a death sentence. Money laundering is bad. It's not the only thing that the Chinese are doing.

Yes, it's true that compared to two years ago the Chinese are better enforcing UN sanctions. But compared to two months ago, they're much worse. In the last two months we've learned a number of things, not only about Chinese banks laundering money, we've also seen new North Korean workers turn up in China in the border areas, a clear violation of UN sanctions. We're seeing more Chinese investment into a number of different North Korean areas, especially the trade zone, Rojing Sumbun (ph), and China is importing sanctioned iron alloys from North Korea.

Now that Kim wants to ditch the Chinese and make friends with us, China is -- by giving more aid to North Korea -- is probably doing this. It is probably trying to get North Korea back into its orbit. Previous American presidents have been hesitant in imposing costs on the Chinese and calling them out, and this one has been reluctant as well, although he has made some progress.

We're not going to have any enduring solutions to China, whether on North Korea or elsewhere, until we're willing to confront the Chinese and do that in public. We cannot have peace in Asia. We cannot have peace, perhaps, anywhere in the world, until we are willing to say what we all know, that China is not just a rival. It is not just a revisionist power, it is first and foremost an existential threat.

Thank you.

(Applause).

MR. HUESSY: We're running late, but Rick and Gordon would be happy to take some questions, just make your questions short, no speeches. Steve Travor from Congressman Pearce's office.

MR. STEVE TRAVOR: Rick, just a quick question about the air shows. Do you have a sense who the buyers are that are interested in acquiring Chinese weapons?

MR. FISHER: There is substantial interest in the cheap Chinese capable kit, with the FC-1 JF-17, with roughly 85 percent of the performance of an F-16, but about less than one quarter of the price. A lot of countries are interested, but they're also afraid of having to deal with Chinese standards and logistics and stuff, so that's why the sales haven't really picked up. The Chinese engine is coming along, and that will bring things up.

Both in Latin America and in Asia the Chinese have been trying to do end runs around the local military leadership to try and get the politicians to buy the weapons. That hasn't worked very well for them. At least in Latin America, this latest show indicated that they were changing tracks.

They're going to start working with the militaries. They're going to try to get them on side. It's a longer, more patient process, but it may work initially in Uruguay where they may sell some lead in fighter trainers, supersonic lead in fighter trainers, the L-15.

That's what I see. The Chinese have pushed and pushed. They haven't had much big success in major arms sales, but now they're adopting a more patient strategy and that will probably be more competitive.

MR. TRAVOR: And how about their rocket sales?

MR. FISHER: The Brazilians are on the cusp of putting into service a new land attack cruise missile that they developed themselves. It will be the first time that capability will be seen in Latin America. When the Brazilians put that into service, there are already alternatives that other countries may take. The Indians are pushing the Bramos, and the Chinese have been pushing their families of SRBMs in Latin America

for about a decade. If Brazil gets this guy, the Peruvians might go Chinese, the Chileans might go with Bramos.

MR. TRAVOR: Thank you.

MR. FISHER: It's all happy, all good.

MS. : Thank you very much for your presentation. There's hundreds of billions of dollars embedded in Western real estate, high end real estate, that is laundered money. New York City is building tower after tower strictly for the laundered Russian and Chinese money markets. How significant is that in leveraging the ability of the United States to go into the laundered money in other areas? That pretty much dirties up a lot of people who don't want to be exposed, if you pull the laundering thread.

MR. CHANG: What you're seeing really is a phenomena of a failure of confidence on the part of the Chinese in their own system. In 2015 Bloomberg said the net capital outflow from China was \$1.0 trillion. We don't have a number from 2016 or 2017, but 2016 was like \$1.1 trillion, \$1.2 trillion. In 2017 it went down because the Chinese went the Latin American route and basically became a banana republic by having unannounced capital controls. It really got terrible.

I sort of think that -- I understand your point about laundered money, but these are people who are leaving their country.

MS.: I meant the American, I meant the receptor countries.

MR. CHANG: The way I look at this is that you have a lot of Chinese who want to get out of Dodge. There's a lot of concerns I have about China, but Chinese putting money into U.S. real estate is really not one of them unless they're trying to buy something close to Coronado.

MS. : You were saying that we won't call the Chinese on their money laundering vis-à-vis the (weapons ?). I'm saying that nobody can call the Chinese on their money laundering because everybody is dirty.

MR. CHANG: There are two different things. There's money coming out of the country and going into real estate, which is, I think, a very different phenomena of Chinese banks handling money for North Korea. Those handling the money for North Korea are usually in specific transactions, such as the sale of chemical weapons to Syria, just to pick an example from today's headlines. So I think they are two very different things.

MS. : What if the same people -- there's actually a crossover?

MR. CHANG: I'm sure that Chinese banks are involved in both. But you can call a Chinese bank for the activity that we don't like, and we've got to remember that

money leaving China weakens the Chinese state and helps, in a sense, ours. So I'm much more tolerant about them buying -- overpaying to buy the Waldorf Astoria, in a deal that makes no sense. It's like the Japanese overpaying for the Rock Center and the rest of it. So I don't get too upset about that. There's a lot of other things that we've got to worry about in connection with China. But you're right, all that money flows through Chinese banks. The biggest of the Chinese banks handle the majority of the funds, so you do have criminals handling similar transactions. But I'm really worried about what they're doing to support North Korea much more than inflating real estate prices in Manhattan.

MS. : (Off mic) -- along the lines of whether the White House -- (Off mic).

MR. CHANG: Oh, I see what you're saying. There is a Chinese bank, of course, in Trump Tower.

MR. : (Off mic) -- what can we do to try to prevent Moscow and Beijing from further coalescing?

MR. FISHER: In the 1980s we invested in a number of information activities. We had specialized organizations in the State Department. Radio Free Asia came along. First and foremost what we should be doing is creating new information campaigns that highlight the differences between Russia and China, and highlight the developments in the eastern part of Russia that are things that the Chinese are doing that have been and continue to be viewed as threatening by local Russians.

In Moscow the Chinese money is so deep that the Putin government is not going to undertake any strong reaction to what the Chinese are doing to try to absorb eastern Russia. But that shouldn't stop us from highlighting these contradictions in areas where the Russians and the Chinese do have long-standing differences. We should not make this alliance easy for Mr. Putin. That's just a very simple preliminary response.

Secondly, we should be taking this far, far more seriously and responding far, far more seriously. If they are engaging in strategic cooperation, offensive and defensive, then we need to re-evaluate our strategic posture in a very fundamental sense. If that means a return to late Cold War levels of warheads and such, then so be it and let's get on with that, and make sure both Putin and Xi understand that it is their collusion that is forcing these choices.

MR. CHANG: You know, many people say that we should try to split Moscow from Beijing. I find that to be a really difficult thing because both of them are engaging in unacceptable behavior, which is very difficult for the U.S. to cotton up to one of them. So I think that we take a page out of Reagan's playbook, drill like crazy, reduce the cost of hydrocarbons, tank the Russian economy, which is miniscule and which is already fragile, and get rid of Putin. You get rid of Putin and then Xi Jinping wakes up and says, holy cow, I've got to do something about being on better terms with the U.S.

Also, if we designate a Chinese bank as a primary money launderer, we tank the

financial system in China, we endanger their economy. Without their economy their political system is in trouble. As a matter of fact, if I were Donald John Trump I'd get on the phone to Xi Jinping and say, I'm speaking for the next 10 minutes and comrade Jinping you're not going to say anything except yes at the end of this. And if you don't say yes, you're going to be out of business in a couple of months.

But what I would say is that if he doesn't get out of the business of laundering money for the North Koreans, and getting out of the business of transferring technology and equipment to the North Koreans, plus any number of other things we might want to put on the agenda, then I'm going to designate one or more of your big four banks as a primary money laundered and I'm going to see what happens. I would do that, but I don't think, for maybe the reason you talked about, he'll do that. But nonetheless, if this struggle is as serious as Rick and I think, then very well that may be an acceptable outcome or acceptable cost for dealing with a very difficult pair of countries.

MR. HUESSY: With that, Gordon and Rick, thank you very much.

(Applause).