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Inquire: DOC5D
Item No: 481640

CDSDTG:
130423Z AUG 87

HEADER:
RR RUEAI A
DE RUEKJCS #2281 2250419
ZNY CDE
R 130419Z AUG 87
FM JCS WASHINGTON DC
INFO RUEADWD/OCDA WASHINGTON DC
RUEAAA/CNO WASHINGTON DC
RUEAHQA/CSAF WASHINGTON DC
68(3)10 USC 403-10
RUEAI A/CIA WASHINGTON DC
RUEHC /SECGCSTATE WASHINGTON DC
RUEAMCC/CMC CC WASHINGTON DC
RUETI AH/DIRNSA FT GEORGE G MEADE MD
RUEAMCC/CMC WASHINGTON DC
68(3)50 USC 403-10

RUEALCX/SAFE
68(3)50 USC 403-10

R 130414Z AUG 87
FM 68(3)10 USC 424
TO RUEKJCS/DIA WASHDC/ 68(3)10 USC 424
68(3)10 USC 424

BT

CONTROLS:

SECRET

SERIAL: (U) IIR

BODY:

PASS: (U) 68(3)10 USC 424, 68(3)50 USC 403-10

COUNTRY: (U) CHINA (CH); SYRIA (SY); JORDAN (JO);
IRAN (IR); IRAQ (IZ); THAILAND (TH)

SUBJ:  (U) IIR POLYTECHNOLOGIES, NORINCO, AND PRC ARMS EXPORTS

WARNING: (U) THIS IS AN INFO REPORT, NOT FINALLY EVALUATED INTEL

DOI: (U) 870804

REQS: (U)

SOURCE: (U) (b)(3):10 USC 424, (b)(3):50 USC 403-1(i)

SUMMARY: NORINCO CONTINUES TO PROFIT BY WEAPONS SALES TO IRAN AND IRAQ QITH REVENUES FOR THE TH FIRST SIX MONTHS OF 1987 EXCEEDING THE SAME PERIOD IN 1986. HOWEVER, NORINCO'S POLICY HAS BEEN TO AGGRESSIVELY MARKET ITS PRODUCTS THROUGHOUT THE WORLD AS A HEDGE AGAINST A DOWNTURN IN MIDDLE EAST BUSINESS. MEANWHILE, POLY-NORINCO FRICTION CONTINUES AND COSTIND TRIES UNSUCCESSFULLY TO BRING ORDER TO THE CHINESE ARMS EXPORT ARENA.

TEXT: 1. (U) NORINCO ARMS SALES TO IRAN AND IRAQ:

THAT NORINCO ORIGINALLY ONLY SOLD WEAPONS TO IRAQ, BUT IN THE LATTER PART OF 1985 RECEIVED THE GO-AHEAD TO ALSO SELL WEAPONS TO IRAN. HE SAID THAT BECAUSE OF DANGERS INVOLVED IN TRAVEL TO THE MIDDLE EAST, NO NORINCO SALES PERSONNEL COVER BOTH IRAN AND IRAQ SINCE AN OFFENDED PARTY MIGHT SEEK REVENGE. SALES TO THE MIDDLE EAST HAVE BEEN VITAL TO NORINCO'S SURVIVAL.

THAT LARGELY DUE TO ITS IRAN/IRAQ SALES, NORINCO'S 1986 REVENUES EXCEEDED 1985'S, AND REVENUES FOR THE FIRST HALF OF 1987 EXCEEDED THE FIRST HALF OF 1986. YET NORINCO RECOGNIZES THAT IT MUST RAPIDLY DIVERSIFY ITS CUSTOMERS BECAUSE OF THE POSSIBILITY OF THE IRAN/IRAQ MARKET DRYING UP (SEE BELOW). AS A RESULT, IT HAS RECENTLY AGRESSIVELY PROMOTED SALES TO OTHER COUNTRIES. RECENT SALES TO THAILAND, "ANOTHER SOUTH ASIAN COUNTRY", AND SOME AFRICAN COUNTRIES AS EXAMPLES OF NORINCO SUCCESSES. HE SAID THAT NORINCO HAS LANDED IMPORTANT CONTRACTS WITH TWO BLACK AFRICAN COUNTRIES, BUT DID NOT IDENTIFY THEM. HE ALSO NOTED THAT NORINCO WISHES TO Expand ITS MARKETS IN LATIN AMERICA, BUT HAS NOT SUCCEEDED TO DATE.
That an order was issued by the state "around the time ((Yang)) Shangkun visited the United States" (May 1987) to stop arms shipments to Iran and Iraq. Yet Chinese arms companies are still being allowed to service existing contracts and implied that as a result this order has not affected Norinco's business to date. Furthermore, that even after the Iran/Iraq war ends, he believes Norinco sales to the region will remain high for several years since both sides have indicated that they will need to build up their currently depleted war reserve stocks. Iran continues to meet its contract obligations with cash payments, while Iraq, which can procure arms from many different sources (unlike Iran in view), has requested to defer payments. Norinco reps have indicated in recent months that Norinco is suffering serious cash flow problems because of the failure of third world customers to meet contract obligations. To indicate Iraq was also contributing to Norinco's financial woes. That Norinco will send a business rep to Syria and Jordan.
Inquire: DOC6D
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CDSOTG:
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HEADER:
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RUEAAA/CNO WASHINGTON DC
RUEAHQ/CSAF WASHINGTON DC

(b)(3):50 USC 403-1(c)

RUEAI/ CIA WASHINGTON DC
RUEHC /SECSTATE WASHINGTON DC
RUEAMCC/CMC CC WASHINGTON DC
RUEI/AH/DIRNSA FT GEORGE G MEADE MD
RUEACMC/CMC WASHINGTON DC

(b)(3):50 USC 403-1(c)

RUEALGX/SAFE
(b)(3):50 USC 403-1(c)

R 130414Z AUG 87
FM (b)(3):10 USC 424
TO RUEKJCS/DIA WASHDC/
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CONTROLS:

SECTION 02 OF 03 (b)(3):10 USC 424

SECRET

SERIAL: (U) IIR (b)(3):10 USC 424

BODY:

PASS: (U) (b)(3):10 USC 424; (b)(3):50 USC 403-1(c)

COUNTRY: (U) CHINA (CH); SYRIA (SY); JORDAN (JO);
IRAN (IR); IRAQ (IZ); THAILAND (TH)

SUBJ: (U) IIR POLYTECHNOLOGIES, AROUND 11 TO 18 AUGUST 1987. THE REP'S VISIT TO SYRIA WILL BE TO WORK OUT THE TERMS OF A CONTRACT SIGNED IN 1986 WITH SYRIA FOR NORINCO'S SALE OF "SEVERAL TONS OF SPECIAL EXPLOSIVES." THAT THE ACTUAL END USER IN THIS CASE WAS SYRIA. IN ADDITION, THE REP WILL VISIT JORDAN TO WORK OUT PROBLEMS ON AN AMMUNITION/EXPLOSIVES CONTRACT WHICH NORINCO HAS WITH IRAQ.

SILKWORM SALES/POLY-NORINCO FRICTION: RESPONSIBILITY FOR THE SILKWORM SALES TO IRAN ON POLYTECHNOLOGIES, INC. IF NORINCO HAD DONE SUCH A THING, WHICH HE SAID WAS CONTRARY TO MINISTRY OF FOREIGN AFFAIRS GUIDANCE, "NORINCO WOULD HAVE BEEN CLOSED DOWN" (BY THE AUTHORITIES). BUT POLY IS SO WELL-CONNECTED, THAT IT IS IMMUNE TO PRESSURE. EXPLAINING POLY'S POWER, NOT ONLY POINTED TO ((HE)) PING ((SON-IN-LAW OF ((DENG)) XIAOPING) AND ((HE)) PENGFEI (SON OF THE LATE MARSHAL ((HE)) LONG), BUT SAID (APPARENTLY BASED UPON RUMORS IN CHINESE CIRCLES IN BEIJING) THAT ((YANG)) SHANGKUN IS A STRONG BEHIND THE SCENES SUPPORTER OF POLY.終於, HE SAID THAT ACCORDING TO HIS KNOWLEDGE, NO ONE IN POLY HAS BEEN PUNISHED TO DATE FOR THE SILKWORM MISSILE SALES, NOR DID HE BELIEVE THAT ANYONE WOULD BE IN THE FUTURE. MEANINGLESS, THAT POLY AND NORINCO REMAIN AT ODDS. HE SAID "POLY IS NORINCO'S BIGGEST COMPETITOR. THEY FREQUENTLY TELL POTENTIAL CUSTOMERS, 'WHATEVER NORINCO OFFERS, WE'LL SELL YOU AT A 5 PER CENT CHEAPER PRICE.' " POLY HAS REPORTEDLY RECENTLY MOVED TO AGGRESSIVELY MARKET AMMUNITION AND EXPLOSIVES WHICH MAY BRING IT INTO YET MORE COMPETITION WITH NORINCO, ALTHOUGH POLY DID NOT HAVE THE CAPABILITY TO MARKET SPECIAL EXPLOSIVES.

COSTIND ATTEMPTS TO ASSERT CONTROL - WITHOUT SUCCESS: THAT THE COMMISSION ON SCIENCE, TECHNOLOGY, AND INDUSTRY FOR NATIONAL DEFENSE (COSTIND) HAS RECENTLY BEEN ATTEMPTING TO PROMULGATE ARMS EXPORT CONTROL REGULATIONS.
WHILE (SECRET) THAT THERE IS A CONSENSUS THAT SOME ORDER MUST BE BROUGHT TO THE PRC ARMS EXPORT FIELD, THERE IS CONSIDERABLE DISAGREEMENT ON SPECIFICS. ALREADY, (SECRET) SEVERAL DRAFT VERSIONS OF REGULATIONS HAVE BEEN CIRCULATED WITHOUT ACTION. FURTHERMORE, (SECRET) TO FEEL COSTIND DID NOT HAVE SUFFICIENT CLOUT TO ENFORCE ANY REGULATIONS WHICH MIGHT BE ISSUED.

COMMENTS: (SECRET)

//COMSOF (SECRET)
//IPSF: (SECRET)
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CDSĐTG:
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INFO RUEADWD/CSSA WASHINGTON DC
RUEANAA/CNO WASHINGTON DC
RUEAHQ/CSAF WASHINGTON DC

(b)(3):50 USC 403-1(i)

RUEAIIA/CIA WASHINGTON DC
RUEHC /SECSTATE WASHINGTON DC
RUEAMCC/CMC CC WASHINGTON DC
RUEITAH/DIRNSA FT GEORGE G MEADE MD
RUEAMCC/CMC WASHINGTON DC

(b)(3):50 USC 403-1(i)

RUEALQX/SAFE
(b)(3):50 USC 403-1(i)

R 130414Z AUG 87
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CONTROLS:
SECTION 03 OF 03 (b)(3):10 USC 424

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BODY:

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COUNTRY: (U) CHINA (CH); SYRIA (SY); JORDAN (JO);
IRAN (IR); IRAQ (IQ); THAILAND (TH)

SUBJ: (U) IIR POLYTECHNOLOGIES,

(b)(3) (b)(1)(B) (b)(6) USC 424