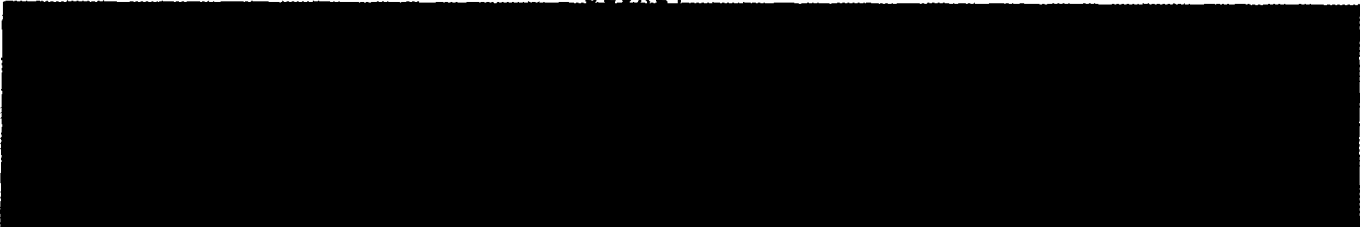


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TO RUEKJCS/JOINT STAFF WASHINGTON DC (b)(3):50 USC 403-1(i) //

RUCJACC/USCENTCOM REAR MACDILL AFB FL (b)(3):50 USC 403-1(i)

RUHQHQA/USCINCPAC HONOLULU HI (b)(3):50 USC 403-1(i) //

RUEAIIA/DIRNSA FT GEORGE G MEADE MD (b)(3):50 USC 403-1(i)

RUEHC/SECSTATE WASHINGTON DC (b)(3):50 USC 403-1(i)

RUEAIIA/CIA WASHINGTON DC

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(b)(3):10 USC 424

BT

EZ1:

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

EZ2:

COUNTRY: (U) CHINA (CH); IRAN (IR); IRAQ (IZ).

COMBINE: COMPLETE

SUBJECT: IIR (b)(3):10 USC 424 /NORIN GROUP, NORINCO AND CHINESE ARMS SALES (U)

WARNING NOTICE: (U) THIS IS AN INFORMATION REPORT, NOT FINALLY EVALUATED INTELLIGENCE. REPORT CLASSIFIED-SECRET, NOT FORN

DEPARTMENT OF DEFENSE

DOI: (U) 840101-910322.

REQ: (U) (b)(3):10 USC 424

(b)(3):10 USC 424

SOURCE: (S/NF/WN) / (b)(1),(b)(3):10 USC 424.1.4 (c)

SUMMARY: THIS REPORT OUTLINES THE ORGANIZATIONAL STRUCTURE OF THE NORIN GROUP AND NORINCO, DISCUSSES DETAILS OF THE DECISION MAKING PROCESS OF THE ARMS SALES COORDINATION COMMITTEE AND PROVIDES INSIGHTS INTO TECHNOLOGY ACQUISITION BY NORINCO AND OTHER CHINESE DEFENSE INDUSTRIES.

TEXT: 1. THE DIFFERENCE BETWEEN THE CHINA NORTH INDUSTRIES GROUP (THE NORIN GROUP: ZHONGGUO BEIFANG GONGYE JITUAN;

(b)(3):10 USC 424, (b)(3):50 USC 403-1(i) ) AND THE CHINA NORTH INDUSTRIES COMPANY (NORINCO: ZHONGGUO BEIFANG GONGYE GONGSE;

(b)(3):10 USC 424, (b)(3):50 USC 403-1(i) ) IS AS FOLLOWS: THE NORIN

GROUP IS A MINISTERIAL-LEVEL ORGANIZATION DIRECTLY SUBORDINATE TO THE STATE COUNCIL. IN 1988 THE MINISTRY OF ORDINANCE INDUSTRY (MOI), MINISTRY OF ELECTRONICS INDUSTRY (MEI), AND MINISTRY OF MACHINE BUILDING (MMB) WERE MERGED TO CREATE THE MINISTRY OF

(b)(3):10 USC 424.  
(b)(3):50 USC 403-1  
(i)

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MACHINE BUILDING AND ELECTRONICS INDUSTRY (MMBEI) AS PART OF THE  
GENERAL STREAMLINING OF STATE ORGANIZATIONS. STATE COUNCILOR  
(ZOU) JIAHUA (b)(3):10 USC 424,(b)(3):50 USC 403-1(i) WHO WAS A CLASSMATE OF PREMIER  
(LI) PENG IN THE SOVIET UNION WHEN THEY WERE BOTH YOUNG (NFI)  
CONVINCED THE LATTER TO MERGE THESE THREE MINISTRIES IN AN EFFORT TO  
EXPAND HIS CONTROL. HOWEVER, WITHIN A RELATIVELY SHORT TIME PERIOD  
(NFI) IT BECAME OBVIOUS THAT THE NEW MMBEI WAS UNABLE TO COPE  
EFFECTIVELY WITH ITS MANY NEW AREAS OF RESPONSIBILITY, ESPECIALLY IN  
HANDLING ARMS PRODUCTION FORMERLY THE RESPONSIBILITY OF MOI.  
CONSEQUENTLY, THE NORIN GROUP WAS CREATED IN LATE 1988 TO TAKE OVER  
THE OLD MOI RESPONSIBILITIES.

2. ~~SECRET~~ THE NORIN GROUP ORGANIZATIONAL STRUCTURE IS IDENTICAL  
TO THAT OF THE OLD MOI AND AS A MINISTERIAL-LEVEL ORGANIZATION  
ANSWERS DIRECTLY TO THE STATE COUNCIL. THE OLD TERM "MINISTRY OF  
ORDINANCE INDUSTRY" WAS NOT RESURRECTED BECAUSE IT WOULD HAVE CAUSED  
ZOU JIAHUA TO LOSE FACE IN HAVING TO ADMIT THE FAILURE OF HIS PLAN.  
SINCE THE OLD MOI WAS COMPOSED MOSTLY OF NORINCO OWNED OR MANAGED  
FACILITIES, THE NAME NSORIN GROUP WAS ADOPTED. THE NORIN GROUP  
HAS A CORPORATE HEADQUARTERS OF ABOUT 300 PEOPLE, WITH SEVEN OR  
EIGHT DEPARTMENTS, INCLUDING PRODUCTION, RESEARCH & DEVELOPMENT,  
SALES & MARKETING, ETC. THE PRESIDENT OF THE NORIN GROUP IS ((LAI))  
JINLIE WHO HOLDS A MINISTERIAL-LEVEL POSITION AND REPORTS DIRECTLY  
TO THE STATE COUNCIL THROUGH ZOU JIAHUA. THERE ARE FOUR VICE  
PRESIDENTS (VP) PRESIDED OVER BY ((ZHANG)) JUNJIU, WHO IS THE  
EXECUTIVE VICE PRESIDENT. TWO OF THE OTHER THREE VP'S ARE ((WANG))  
DECHEN AND ((YU)) GUICHEN. IN ADDITION THERE IS A SENIOR  
CONSULTANT, ((TIAN)) RUIZHANG, WHO SITS AT THE VP LEVEL BUT IS NOT  
REALLY A VP (NFI). THE NORIN GROUP IS SUBORDINATE TO BOTH THE STATE  
COUNCIL AND THE COMMISSION ON SCIENCE, TECHNOLOGY & INDUSTRY FOR  
NATIONAL DEFENSE (COSTIND). THE GROUP ANSWERS TO THE STATE COUNCIL  
FOR ADMINISTRATIVE AND BUDGETARY MATTERS, AND TO COSTIND FOR  
RESEARCH & DEVELOPMENT, SALES, AND PRODUCTION MATTERS. IT CONDUCTS  
NO BUSINESS OF ITS OWN AND PRODUCES NOTHING IN ITS OWN RIGHT,  
FUNCTIONING STRICTLY AS AN ADMINISTRATIVE CLEARING HOUSE.

3. ~~SECRET~~ NORINCO, THE COMPANY, FALLS UNDER NORIN GROUP  
HEADQUARTERS, AS DO NORINCO'S FACTORIES AND RESEARCH INSTITUTES,  
AND ALL OF NORINCO'S FRONT COMPANIES, JOINT VENTURES AND FOREIGN  
SUBSIDIARIES. NORINCO EXISTS AS A SEPARATE ENTITY UNDER THE NORIN  
GROUP, AND HANDLES ALL BUSINESS TRANSACTIONS, PRODUCTION, SALES, AND  
RESEARCH AND DEVELOPMENT. THE CURRENT PRESIDENT OF NORINCO IS  
(WANG) LIANSHENG (b)(3):10 USC 424,(b)(3):50 USC 403-1(i) WHO REPLACED ((ZHOU))  
PEIDE IN NOVEMBER 1990. WANG LIANSHENG MADE HIS NAME AS AN EXPERT  
ON THE DEVELOPMENT AND PRODUCTION OF ARTILLERY IN THE OLD MOI, AND  
HIS SELECTION AS NORINCO PRESIDENT UNDERSCORES THE IMPORTANCE OF  
CONVENTIONAL ORDINANCE TO THE COMPANY. ZHOU PEIDE WAS PUNISHED BY  
BEING "KICKED UPSTAIRS" TO THE SALES & MARKETING DEPARTMENT OF THE  
NORIN GROUP, WHERE HE HAS NO REAL POWER OR AUTHORITY, AND BECAUSE HE  
IS POLITICALLY TAINTED NO ONE WILL DEAL WITH HIM. IN ADDITION, ZHOU  
PEIDE DID NOT GET ALONG WITH LAI JINLIE, NORIN GROUP'S PRESIDENT,  
WHO REGARDED ZHOU AS A THREAT TO HIS OWN AMBITIONS TO ATTAIN THE  
NORIN GROUP PRESIDENCY AND MINISTER STATUS. BY KEEPING ZHOU IN THE  
NORIN GROUP STAFF HEADQUARTERS ZHOU HAS BEEN NEUTRALIZED EFFECTIVELY  
UNDER LAI'S CONTROL.

4. ~~SECRET~~ CADRE KIDS--(b)(1),1.4(c) CLAIMS APPARENTLY THERE ARE FEW  
CADRE KIDS AT NORIN/NORINCO. ((YAO)) MINGDUAN, WHO IS THE  
DAUGHTER OF ((YAO)) YILIN, STATE COUNCIL VICE PREMIER AND MEMBER OF  
THE STANDING COMMITTEE OF THE CCP POLITBURO, CURRENTLY WORKS FOR  
NORINCO COMPANY IN CANADA (NFI). IN ADDITION, YAO'S SON ((YAO))  
MINGWEI, IS THE PRESIDENT OF THE CHINA NATIONAL MACHINERY AND  
EQUIPMENT IMPORT AND EXPORT CORPORATION (CMEC).

5. ~~SECRET~~ OTHER MINISTERIAL LEVEL COMPANIES--IN ADDITION TO THE  
NORIN GROUP, THE FOLLOWING DEFENSE INDUSTRY COMPANIES ARE AT THE

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MINISTERIAL LEVEL UNDER THE STATE COUNCIL: THE CHINA NUCLEAR ENERGY INDUSTRY CORPORATION (CNEIC); THE CHINA NATIONAL ELECTRONICS IMPORT-EXPORT CORPORATION (CEIEC); THE CHINA SHIPBUILDING TRADING COMPANY (CSTC); THE CHINA NATIONAL AERO-TECHNOLOGY IMPORT-EXPORT CORPORATION (CATIC); THE CHINA NATIONAL MACHINERY AND EQUIPMENT IMPORT AND EXPORT CORPORATION (CMEC), AND THE CHINA PRECISION MACHINERY IMPORT-EXPORT CORPORATION (CPMIEC)/CHINA GREAT WALL INDUSTRY CORPORATION (GWIC). EQUALLY IMPORTANT IS THE FACT THAT CPMIEC AND GWIC ARE ONE AND THE SAME ORGANIZATION, AND THE NAME USED IN THE BUSINESS TRANSACTIONS DEPENDS UPON THE TYPE OF VENTURE INVOLVED. FOR EXAMPLE, THE CPMIEC NAME IS USED FOR MILITARY-RELATED HARDWARE DEALS, SUCH AS THE SALE OF SILKWORM MISSILES TO IRAN DURING THE 1987 GULF CRISIS, WHILE COMMERCIAL SPACE LAUNCHES ARE HANDLED UNDER THE GWIC LOGO. THE PRESIDENTS OF THE ABOVE NAMED COMPANIES HAVE THE STATUS AND AUTHORITY OF MINISTERS DIRECTLY UNDER THE STATE COUNCIL. THE MINISTRY OF MACHINE BUILDING AND ELECTRONICS INDUSTRY (MMBEI) AND THE MINISTRY OF AEROSPACE INDUSTRY (MAS), LIKE THE NORIN GROUP, ARE ADMINISTRATIVE CLEARING HOUSES ONLY, WITH THE "REAL POWER" (NFI) RESIDING IN THE PRESIDENCIES OF THE COMPANIES. AS WITH THE NORIN GROUP, THESE ORGANIZATIONS ARE SUBORDINATE TO THE STATE COUNCIL FOR BUDGET AND ADMINISTRATION AND TO COSTIND FOR PRODUCTION, SALES, AND RESEARCH AND DEVELOPMENT.

6. ~~SECRET~~ THE SMALL ARMS SALES COORDINATION COMMITTEE, WHICH MANAGES ALL FOREIGN ARMS SALES, IS CHAIRED BY ((LIU)) HUAQING, VICE CHAIRMAN OF THE MILITARY COMMISSION (MC) OF THE CHINESE COMMUNIST PARTY. IT INCLUDES REPRESENTATIVES FROM COSTIND, NORMALLY ((DING)) HENGGAO, THE MINISTRY OF FOREIGN AFFAIRS (MFA), POLYTECHNOLOGIES, AND THE SEVEN MINISTERIAL-LEVEL DEFENSE INDUSTRIES COMPANIES, NORIN GROUP, CNEIC, CEIEC, CSTC, CATIC, CMEC, AND CPMIEC/GWIC. THE COMMITTEE DOES NOT MEET ON A REGULAR BASIS. DING HENGGAO, THE DIRECTOR OF COSTIND, IS THE FOCAL POINT OF THE COMMITTEE. DING WILL CALL THE COMMITTEE INTO SESSION BASED UPON A DIRECTIVE FROM ABOVE ((LIU HUAQING ACTING FOR THE MC)) OR AS A RESULT OF AN INITIATIVE FROM BELOW (A COMPANY HAS A POTENTIAL SALE). A COMPANY PROPOSING AN ARMS SALE TO A FOREIGN COUNTRY MUST CLEAR THE PROPOSAL THROUGH DING HENGGAO. IF THERE IS NO APPARENT PROBLEM WITH THE SALE, SUCH AS A SENSITIVE FOREIGN POLICY IMPLICATION OR PRODUCTION ISSUE, DING HENGGAO HAS THE AUTHORITY TO APPROVE THE PROPOSAL FOR THE COMPANY INVOLVED, WITH NOTICE GIVEN TO LIU HUAQING. IF DING HENGGAO PERCEIVES A POTENTIAL PROBLEM WITH THE PROPOSED SALE, HE WILL CALL THE COMMITTEE INTO SESSION TO DISCUSS IT. SINCE THERE IS NO STANDING LIST OF MUNITIONS WHICH MAY NOT BE SOLD TO CERTAIN FOREIGN COUNTRIES, CHINA'S ARMS SALES POLICY AT ANY GIVEN TIME IS DETERMINED BY "CHANGING INTERNATIONAL AND ECONOMIC CONDITIONS". DING HENGGAO IS PRIVY TO THE TOP LEADERSHIP'S LATEST THINKING AND ON THAT BASIS MAKES A DETERMINATION TO CALL THE COMMITTEE INTO SESSION. IF THE PROPOSAL INVOLVES FOREIGN POLICY SENSITIVITIES, THE MFA REPRESENTATIVE WILL OUTLINE THE IMPLICATIONS OF THE SALE, BUT DOES NOT MAKE THE FINAL DETERMINATION. ALTHOUGH MFA REPS ARE USUALLY "RIGID" IN THEIR OPINIONS, IF THE COMPANY PROPOSING THE SALE CAN CONVINCE LIU HUAQING THAT THE USE OF FALSE END USER CERTIFICATES AND THE ABSENCE OF MARKINGS ON THE WEAPONS WILL PROVIDE SUFFICIENT PLAUSIBLE DENIAL, THEN LIU CAN OVERRIDE THE CONCERNS OF THE MFA REP. IF LIU STILL HAS MISGIVINGS, HE CAN EITHER DISAPPROVE THE SALE OR BRING THE ISSUE UP TO THE MC FOR FURTHER DISCUSSION. IN SENSITIVE CASES GREAT CARE WILL BE TAKEN TO INSURE THAT THERE ARE NO CHINESE CHARACTERS OR FACTORY MARKINGS ON THE PRODUCT TRACEABLE TO CHINA. DEPENDING ON THE CASE, THE COMMITTEE ALSO DETERMINES WHICH COMPANY IS BETTER SUITED TO COMPLETE A DEAL. IF, FOR EXAMPLE, POLYTECHNOLOGIES HAS BETTER ACCESS TO A FOREIGN GOVERNMENT FOR THE PURPOSE OF MAKING AN ARMS SALE THAN A COMPANY SUCH AS NORINCO, THEN THE COMMITTEE WILL TASK POLY TO CONTINUE TO ACT ON BEHALF OF THE

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CHINESE DEFENSE INDUSTRIAL COMPLEX. POLY WILL GET A PERCENTAGE OF THE PROFITS FOR FINDING THE OPPORTUNITY BUT MAY NOT NECESSARILY BE THE ONLY COMPANY INVOLVED IN THE DEAL. IN CASES OF GOVERNMENT-TO-GOVERNMENT WEAPONS SALES, THE SAME COORDINATION COMMITTEE WILL BE CALLED INTO SESSION TO DETERMINE HOW BEST TO MEET THE ORDER. A SALE OF OFF-THE-SHELF ITEMS, FOR EXAMPLE, MAY REQUIRE THE EQUIPMENT SUBDEPARTMENT OF THE GENERAL STAFF DEPARTMENT TO COORDINATE WITH NORINCO COMPANY TO MODIFY A SYSTEM TO MEET THE SPECIFICATIONS REQUIRED BY THE FOREIGN BUYER. ALTHOUGH DING HENGGAO SERVES AS THE FOCAL POINT FOR THE COORDINATION COMMITTEE, HE HAS CHARGED ((HE)) PENGFEI, THE DIRECTOR OF THE EQUIPMENT SUBDEPARTMENT (ESD) OF THE PLA GENERAL STAFF, TO PROVIDE THE NECESSARY STAFF WITHIN THE ESD TO HANDLE THE COMMITTEE'S ADMINISTRATIVE WORK ON HIS BEHALF.

7. ~~XXXXXXXXXX~~ THE DISTRIBUTION OF PROFITS FROM SALES MADE BY ANY CHINESE DEFENSE INDUSTRIAL COMPANY IS PREDETERMINED, WITH 20 TO 30 PERCENT GOING DIRECTLY TO COSTIND, WHICH USES THE MONIES TO FURTHER R&D FOR THE CHINESE MILITARY. DEFENSE-RELATED COMPANIES TRANSFER THE MONEY FROM THEIR OWN ACCOUNTS TO THE ACCOUNT OF XINSHIDAI, COSTIND'S UMBRELLA CORPORATION, WHOSE ONLY FUNCTION IS TO MANAGE THE MONIES MADE BY THE OTHER DEFENSE RELATED COMPANIES. ALTHOUGH MANY PRODUCTS CARRY THE XINSHIDAI LABEL, IT PRODUCES NOTHING. XINSHIDAI IS ALSO USED AS A CORPORATE FRONT TO GIVE FOREIGN COMPANIES THE ILLUSION THAT THEY ARE NOT REALLY DEALING WITH OR CONTRIBUTING DIRECTLY TO THE CHINESE MILITARY INDUSTRIAL COMPLEX.

8. ~~XXXXXXXXXX~~ FOREIGN TECHNOLOGY ACQUISITION CONTINUES TO BE ACTIVELY PURSUED BY CHINA'S DEFENSE INDUSTRIES. THEY ACTIVELY SEEK FOREIGN TECHNOLOGY TO ENHANCE CHINA'S OWN DEFENSE POSTURE AND TO ENABLE DEFENSE INDUSTRIES TO SELL ITEMS ABROAD WHICH ARE NOT PRODUCED AS A MATTER OF COURSE IN CHINA. IN THE CASE OF NORINCO, ONE OF THE NORINCO RESEARCH INSTITUTES (NFI) HAS A DEPARTMENT CALLED THE INDUSTRIAL INFORMATION DIVISION. THIS ORGANIZATION SCOURS OPEN SOURCE MATERIAL FOR THE LATEST DEVELOPMENTS IN FOREIGN TECHNOLOGY WHICH MIGHT BE OF USE TO CHINA. FOR EXAMPLE, A FEW YEARS BACK NORINCO EXPERIENCED PROBLEMS WITH THE PURITY OF ITS STEEL. THEY WERE ABLE TO LOCATE A U.S. SCIENTIST WHO HAD DEVELOPED A PROCESS FOR "WASHING STEEL WITH OXYGEN" TO REMOVE IMPURITIES. NORINCO INVITED HIM TO CHINA TO DISCUSS HIS METHODS AND WERE ABLE TO GLEAN ENOUGH INFORMATION TO APPLY HIS PROCESS SUCCESSFULLY (NFI). THE SAME METHOD WAS APPLIED TO OBTAIN DR GERALD ((BULL))'S 155 MM ARTILLERY TECHNOLOGY.

9. ~~XXXXXXXXXX~~ NORINCO WILL ALSO PROCURE, LEGALLY OR ILLEGALLY, TECHNOLOGIES IT NEEDS TO MEET A PROPOSED SALE. IN ONE PARTICULAR INSTANCE IN THE MID-1980'S, AN UNNAMED "MOUNTAINOUS" MIDDLE EASTERN COUNTRY DESIRED TO MAKE A LARGE PURCHASE FROM CHINA OF U.S. ARMY 105 MM HOWITZERS, MODIFIED FOR PACK MULE/MAN PACK TRANSPORT. ALTHOUGH CHINA DID NOT PRODUCE THE WEAPON, NORINCO PURSUED THIS LUCRATIVE DEAL BY REQUESTING ASSISTANCE FROM ITS MANY OVERSEAS SUPPLIERS. IN ITS REQUEST FOR ASSISTANCE, NORINCO DID NOT ASK FOR AN ENTIRE HOWITZER, BUT INSTEAD A SPECIFIC COMPONENT FROM EACH SUPPLIER. IN THIS WAY NORINCO WAS ABLE TO SUCCESSFULLY PRODUCE THE HOWITZER WITH LOW VISIBILITY. NORINCO ALSO RECEIVED "MAJOR ASSISTANCE" FROM AN ITALIAN FIRM (NFI) IN THE PRODUCTION OF THE HOWITZER FOR THIS DEAL. IN CASES WHERE AN OVERSEAS SUPPLIER BECOMES "NERVOUS" ABOUT PROVIDING CERTAIN ITEMS, NORINCO SIMPLY DOUBLES THE PRICE IT WILL PAY FOR THE PART AS AN INCENTIVE. SOURCE JOKED THAT HE OFTEN TOLD HIS SUPPLIERS TO "TAKE IT OR LEAVE IT, YOU WILL EITHER GET RICH OR GET CAUGHT, ITS YOUR CHOICE." WHEN NORINCO ACQUIRES A FOREIGN ARTILLERY PIECE FOR A NEW LINE OF PRODUCTION, THEY ALWAYS ACQUIRE LARGE NUMBERS OF EACH TYPE OF ROUND THE GUN FIRES. THESE ARE THEN USED FOR TESTING, AND EVENTUAL PRODUCTION OF THE AMMUNITION TO BE LATER SOLD ALONG WITH THE ARTILLERY PIECE.

10. ~~XXXXXXXXXX~~ CHINESE DEFENSE RELATED COMPANIES ENGAGED IN ARMS

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SALES OVERSEAS DEPEND UPON MILITARY TRANSPORTATION TO MOVE THEIR PRODUCTS FROM INTERIOR FACTORIES TO TRANSHIPMENT POINTS. IN CHINA EVERY IMPORTANT RAILHEAD, OVERLAND CONVOY STAGING AREA, AND PORT FACILITY HAS CONTINGENTS OF PEOPLE'S LIBERATION ARMY (PLA) SOLDIERS WHOSE JOB IT IS TO INSURE THAT MILITARY-RELATED SHIPMENTS GET PRIORITY ATTENTION. ARMS APPROVED FOR SALE TO OVERSEAS CUSTOMERS USE THE PLA TRANSPORTATION NETWORK AND REQUIRE PRIOR APPROVAL FROM COSTIND. WITHIN COSTIND ((LI)) XIAOLIN (STC: 2621/2556/2651) IS THE MAN WHOSE "CHOP" IS NECESSARY FOR THE REQUIRED SHIPPING DOCUMENTS.

11. ~~XXXXXXXXXX~~ VISITING FOREIGN DELEGATIONS ARE KEPT OUT OF VIEW IF A POTENTIALLY SENSITIVE ARMS DEAL IS INVOLVED, AND THEIR MOVEMENTS IN BEIJING ARE RESTRICTED. THEY ARE USUALLY HOUSED IN THE COMPLEX LOCATED IN THE "FRAGRANT HILLS" (XIANGSHAN) OUTSIDE OF BEIJING. IN THE CASE OF FOREIGN MILITARY VISITORS, UNIFORMS ARE NOT WORN TO KEEP A LOW PROFILE, SO AS NOT TO ALERT THE INTERNATIONAL COMMUNITY.

12. ~~XXXXXXXXXX~~ DING HENGGAO CONTROLS A GROUP OF SEVEN OR EIGHT CHINESE INDIVIDUALS WITH PARANORMAL ABILITIES FOR "SPECIAL PROJECTS". SOME ARE QI GONG MASTERS, SOME CAN ALLEVIATE PAIN FROM TERMINALLY ILL PATIENTS, OTHERS LEVITATE OBJECTS AND READ MINDS. WHEN THE "FATHER OF CHINA'S ATOMIC BOMB" FELL TERMINALLY ILL A FEW YEARS AGO, CHINA'S TOP LEADERSHIP "ZHONGNANHAI" AUTHORIZED ONE OF THESE PARANORMALS TO ATTEND TO HIM IN ORDER TO TAKE AWAY HIS PAIN AND ALLOW HIM TO DIE PEACEFULLY, AS A REWARD FOR SERVING HIS COUNTRY. ONE OF THESE INDIVIDUALS ASSISTS STATE PRESIDENT AND MC EXECUTIVE VICE CHAIRMAN ((YANG)) SHANGKUN WITH HIS QI GONG EXERCISES. AT EXCLUSIVE STATE BANQUETS AT DIAOYUTAI SOME OF THESE INDIVIDUALS MIGHT BE BROUGHT FORWARD TO AMAZE SPECIAL GUESTS. ON ONE OCCASION A FEW YEARS AGO, ((BAO)) (NFI), AN IMPORTANT HONG KONG SHIPPING MAGNATE, WAS TREATED TO A PARANORMAL DEMONSTRATION, AND WAS SO AMAZED THAT HE WANTED THE MAN TO COME TO HONG KONG TO ASSIST HIM WITH A PROBLEM. HOWEVER, THESE MEN ARE NOT ALLOWED OUT OF CHINA. BAO WAS STILL SO IMPRESSED THAT HE SENT TO THE MAN A VOLVO 720 LUXURY SEDAN EQUIPPED WITH A CELLULAR PHONE AND TELEVISION WHICH THE MAN STILL DRIVES IN BEIJING TODAY.

13. ~~XXXXXXXXXX~~ THE OVERWHELMING VICTORY OF THE ALLIED FORCES IN THE RECENT GULF WAR HAS SHOCKED MANY IN THE CHINESE DEFENSE ESTABLISHMENT AND ERODED THE TIME-HONORED BELIEF THAT "THE WILL OF MAN" CAN OVERCOME TECHNOLOGY. THE "OLD MEN" IN ZHONGNANHAI, SUCH AS ((WANG)) ZHEN, PLA ELDER AND VICE PRESIDENT, ARE STILL TRYING TO COME TO GRIPS WITH THIS. HOWEVER, MORE "FORWARD THINKING" INDIVIDUALS, SUCH AS LIU HUAQING AND ((YANG)) DEZHI, FORMER CHIEF OF GENERAL STAFF, ARE NOT SURPRISED. THE IMPACT OF THE RECENT EVENTS IN THE GULF HAS BEEN SIGNIFICANT FOR NORINCO, SINCE MOST OF THE T-69-2 TANKS KILLED BY THE ALLIED FORCES IN IRAQ WERE PRODUCED BY NORINCO. MOREOVER, THESE EXPORT MODELS WERE BETTER THAN THOSE IN THE PLA INVENTORY. ON THE WHOLE, NORINCO REMAINS CONFIDENT THAT THERE WILL ALWAYS BE A MARKET FOR CHINESE ARMS.

14. ~~XXXXXXXXXX~~ IRAQ STILL OWES CHINA OVER FIVE BILLION US DOLLARS FOR PREVIOUS ARMS SALES. SHORTLY BEFORE THE GROUND CAMPAIGN STARTED DURING THE RECENT CONFLICT, AN IRAQI DELEGATION (NFI) WENT TO BEIJING TO REQUEST ADDITIONAL ARMS (NFI). CHINA DENIED THE REQUEST NOT ONLY BECAUSE OF THE POLITICAL SENSITIVITIES INVOLVED, BUT ALSO BECAUSE OF BAGHDAD'S OUTSTANDING DEBT. ALTHOUGH THE IRAQIS OFFERED CRUDE OIL SHIPMENTS AS PAYMENT FOR THE OUTSTANDING DEBT, BEIJING REFUSED, SINCE IT ALREADY GETS ALL THE FOREIGN CRUDE IT NEEDS FROM OTHER SOURCES. ON THE OTHER HAND, CHINA WILL NOT UNILATERALLY DISCOUNT THE RESUMPTION OF ARMS SALES TO IRAQ IN THE FUTURE, "WHEN THE POLITICAL SITUATION STABILIZES".

15. ~~XXXXXXXXXX~~ AMONG PLA PERSONALITIES OF NOTE ARE ((CHEN)) XIAOLU, SON OF THE LATE MARSHALL ((CHEN)) YI. CHEN XIAOLU WAS PREVIOUSLY AN ATTACHE IN THE UNITED KINGDOM (NFI) AND IS CURRENTLY WITH THE

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BEIJING INSTITUTE OF INTERNATIONAL STRATEGIC STUDIES. WHILE IN THE  
UK, CHEN SPENT A GREAT DEAL OF PERSONAL FUNDS WHILE AN ATTACHE TO  
ACQUIRE PERSONAL COMPUTERS, AND PARTICULARLY LIKED THE MACKINTOSH.  
UPON HIS RETURN TO CHINA, CHEN WAS INSTRUMENTAL IN CONVINCING THE  
HEAD OF CHINESE MILITARY INTELLIGENCE TO MAKE AUTOMATION A PRIORITY.  
CHEN'S WIFE IS ((SU)) HUINING OF COSTIND'S FOREIGN AFFAIRS BUREAU  
AND IS THE DAUGHTER OF ((SU)) YU, FORMER MEMBER OF THE PARTY  
MILITARY COMMISSION AND A PREVIOUS FIRST POLITICAL COMMISSAR OF THE  
PLA ACADEMY OF MILITARY SCIENCE. SHE IS RESPONSIBLE FOR ASIANDX, A  
YEARLY EXPOSITION SPONSORED BY COSTIND TO MARKET CHINESE ARMS.  
THE MAJORITY OF HER TIME IS SPENT EXPLAINING TO POTENTIAL FOREIGN  
CLIENTS THAT IT DOES NOT MATTER FROM WHICH DEFENSE COMPANY THEY  
PURCHASE A WEAPONS SYSTEM, THAT AS LONG AS THE REQUIREMENT IS PASSED  
TO XINSHIDAI, THIS WILL LOCATE THE APPROPRIATE SUPPLIER.  
COMMENTS: 1. (S/NF/WN)

(b)(1),(b)(3):10 USC 424,1.4 (c)

//IPSP: (U) (b)(3):10 USC 424  
//COMSOBJ: [REDACTED]  
PROJ: (U)  
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PREP: (U) USC 424  
ACQ: (U)

DISSEM: (U).  
WARNING NOTICE: (U) REPORT CLASSIFIED-~~SECRET~~ NOT RELEASABLE  
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