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✓WII (China-arms sales)

PRIORITY  
F 290803Z NOV 89  
FM (b)(3):10 USC 424  
TO DIA WASHDC PRIORITY  
INFO USCINCPAC HONOLULU HI/ (b)(3):10 USC 424, (b)(3):50 USC  
(b)(3):10 USC 424

~~SECRET~~ SECTION 01 OF 02 (b)(3):10 USC 424

~~SECRET~~ NOFORN NO CONTRACT (b)(3):50 USC 403-1(i)

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

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

COUNTRY: (U) CHINA (CH); IRAN (IR); THAILAND (TH).

SUBJECT: IIR (b)(3):10 USC 424 ARMS SALES APPROVALS AND  
PROFIT DISTRIBUTION (U)

WARNING: (U) THIS IS AN INFORMATION REPORT, NOT  
FINALLY EVALUATED INTELLIGENCE. REPORT  
CLASSIFIED ~~SECRET~~ NOFORN NO CONTRACT  
(b)(3):50 USC 403-1(i)

DEPARTMENT OF DEFENSE

DOI (U) 881127.

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

(b)(3):50 USC 403-1(i) SUMMARY: (S//NF//NC) (b)(1).1.4 (c)  
APPROVAL PROCESS FOR CHINESE FOREIGN ARMS SALES, DIS-  
TRIBUTION OF ARMS SALES PROFITS, AND THE FORMATION OF A  
NEW FOREIGN MILITARY SALES COMMITTEE.

(b)(3):50 USC 403-1(i) TEXT: 1. (S//NF//NC) (b)(1), (b)(3):10 USC 424, 1.4 (c)  
ASKED IF THE CENTRAL MILI-  
TARY COMMISSION WAS INVOLVED IN THE APPROVAL PROCESS FOR  
LARGE VOLUME SALES. (b)(1).1.4 (c) IN THE CASE OF  
SALES TO THE MIDDLE EAST (IRAN/IRAQ) COULD ADDRESS  
THE APPROVAL PROCESS BEFORE THE END OF THE WAR. THE  
APPROVAL FOR NORINCO SALES WAS OBTAINED BY ((DING))  
HENGGAO WITH THE FOREIGN MINISTRY GIVING ITS APPROVAL

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ACTION DIA(1) (U, E, 7, 8)  
(b)(3):10 USC 424, (b)(3):50 USC 403-1(i)

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BASED ON THE END USER CERTIFICATE (b)(1).1.4 (c) INDICATED  
THAT THE WHOLE PROCESS WAS DESIGNED TO PROVIDE AN END  
USER CERTIFICATE FROM A NEUTRAL COUNTRY WHICH WOULD  
EASILY BE APPROVED BY THE FOREIGN MINISTRY AND DING  
HENGGAO. THE ONLY EXCEPTION TO THE APPROVAL PROCESS WAS  
THE REQUIREMENT TO OBTAIN HIGH LEVEL APPROVAL (b)(1).1.4 (c)  
MENTIONED SPECIFICALLY THE NAME OF ((LI)) XIANNTAN  
PRIOR TO THE VISIT OF A FORTY MEMBER IRANIAN DELEGATION  
LED BY THE IRANIAN DEPUTY MINISTER OF DEFENSE IN 1983  
AND ANOTHER IRANIAN DELEGATION LED BY AN IMMAN IN 1984.  
(b)(1).1.4 (c) ALTHOUGH EVERYONE AT THE TOP KNEW  
WHERE THE SALES WERE DESTINED, THEY SIMPLY WOULD NEVER  
ASK THE QUESTION AND THE FALSE END USER CERTIFICATES  
PROVIDED THEIR ABILITY TO DENY DIRECT SALES TO IRAN OR  
IRAQ (b)(1).1.4 (c) MADE OVER 80 PERCENT OF  
HIS SALES TO IRAN THROUGH HONG KONG FRONT COMPANIES AND  
THE HONG KONG BASED BANK MELLI IRAN. (b)(1).1.4 (c) "BANK  
MELLI IRAN MOVED THE MONEY IN AND OUT IN SUCH A WAY THE  
HONG KONG GOVERNMENT COULD NEVER DISCOVER ITS ORIGIN OR  
DESTINATION." FINALLY, (b)(1).1.4 (c) OVER 90 PERCENT  
OF HIS SHIPMENTS OF ARMS TO IRAN AND IRAQ WERE BROKERED  
THROUGH A HONG KONG SHIPPING AGENT. NORINCO SIMPLY  
DELIVERED THE ARMS FOB TO THE CHINESE PORT AND WALKED  
AWAY FROM THE WHOLE AFFAIR

(b)(3):50 USC 403-1(i) 2. (S//NF//NC) (b)(1).1.4 (c) THE RIVALRY  
BETWEEN POLY AND NORINCO WAS OVERSTATED. (b)(1).1.4 (c)  
THAT IN MANY CASES, HE WORKED WITH POLY ON SALES WHICH  
NORINCO COULD NOT COMPLETE. (b)(1).1.4 (c)  
NORINCO'S ADVANTAGE OVER POLY WAS ITS ABILITY TO HIRE  
LOCAL AGENTS FOR NORINCO OVERSEAS (b)(1).1.4 (c) POINTED  
OUT, POLY HAD ITS ATTACHES WHO PROMOTED POLY'S SALES  
BUT THE NORINCO AGENTS, UNLIKE THE ATTACHES OR OFFICIAL  
CHINESE NORINCO EMPLOYEES, COULD PAY THE BRIBES WHICH  
WERE ABSOLUTELY NECESSARY TO COMPLETE THE SALES.

(b)(1).1.4 (c) DIGRESSED INTO A SHORT DISCUSSION ON THE  
NECESSITY OF BRIBES FOR SALES TO THAILAND AND HIS  
PERSONAL INVOLVEMENT IN DISCUSSIONS BETWEEN THE DIREC-  
TOR OF NORINCO, ((ZOU)) JIAHUA AND GENERAL ((CHAWALIT))  
WHICH DATED BACK TO 1986 (b)(1), (b)(3):10 USC 414 (c) IF HE MIGHT  
PROVIDE SOME INSIGHT ON POLY'S SALES APPROVAL PROCESS  
AND (b) SAID THAT HE WAS UNINFORMED ON THAT SUBJECT.  
(b)(3):50 USC 403-1(i) 3. (S//NF//NC) (b)(1), (b)(3):10 USC 414 (c) HE WAS VERY INTERESTED  
IN THE DISTRIBUTION OF PROFITS FROM THE SALES OF CHI-  
NESE MILITARY EQUIPMENT. (b)(1).1.4 (c) AS A GENERAL  
BT

~~SECRET~~ SECTION 02 OF 02 (b)(3):10 USC 424

~~SECRET~~ NOFORN NO CONTRACT (b)(3):50 USC 403-1(i)

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

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

COUNTRY: (U) CHINA (CH); IRAN (IR); THAILAND (TH).

SUBJECT: IIR (b)(3):10 USC 424 ARMS SALES APPROVALS AND  
RULE, PROFITS WERE DISTRIBUTED IN THE FOLLOWING MANNER:

- 30 PERCENT WAS RETURNED TO COSTIND.
- 30 PERCENT WAS RETURNED TO THE MINISTRIES, I.E.  
MINISTRY OF ORDNANCE INDUSTRY.
- 30 PERCENT WAS DISTRIBUTED TO NORINCO FACTORIES.
- 5 PERCENT WAS LEFT WITH THE NORINCO SALES OFFICE.

(b)(1).1.4 (c) WAS VERY PROUD OF THE IMPROVEMENTS WHICH HAD  
BEEN MADE IN NORINCO FACTORIES AS A RESULT OF THE (b)(1).1.4 (c)  
INVESTMENT OF PROFITS IN THOSE COMPANIES. (b)(1).1.4 (c) NOTED  
THAT THE FACTORIES WERE ABLE TO MODERNIZE MUCH OF THEIR  
EQUIPMENT WITH THE FUNDS.

4. (S//NF//NC/OR) (b)(1).1.4 (c) THERE MAY  
PRESENTLY BE SOME EFFORT UNDER WAY TO BRING BOTH NORIN-

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TOR=89333/0804Z

TAD=89333/0810Z

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GO AND POLY UNDER SOME CENTRAL CONTROL. (b)(1).1.4 THINKS THAT A COMMITTEE ON FOREIGN MILITARY SALES HAS BEEN FORMED WHICH WILL INCLUDE DING HENGGAO ((LII)) HUAGUO, ZOU JIAHUA AND ((HE)) PENGFEI (b)(1).1.4 COULD PROVIDE NO FURTHER INFORMATION ON THE COMMITTEE NOR ANY PROSPECTS FOR THE FUTURE RATIONALIZATION OF THE FOREIGN MILITARY SALES PROCESS

COMMENTS: 1. ~~(S//NF//NO//OR)~~ (b)(1),(b)(3):10 USC 424,1.4 (c)

//IPSP: (U) (b)(3):10  
//COMSOBJ: (U) USC 424  
PROJ: (U)  
COLL: (U)  
INSTR: (U)  
PREP: (U) (b)(3):10 USC 424  
ACQ: (U)  
DISSEM: (U)

WARNING: (U) REPORT CLASSIFIED ~~SECRET~~  
- ~~NOT RELEASABLE TO FOREIGN NATIONALS~~  
- ~~NOT RELEASABLE TO CONTRACTOR/CONSULTANTS~~  
- (b)(3):10 USC 424

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