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Central Intelligence Agency



Washington, D.C. 20505

20 APR 1984

MEMORANDUM FOR: The Honorable Robert C. McFarlane
Assistant to the President for
National Security Affairs

FROM: [Redacted]
Director of Global Issues

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SUBJECT: China's Arms Trade With Iran

1. The attached memorandum examines Chinese arms sales to Iran. It also provides information on Chinese sales to Iraq and on the large increase in Chinese arms sales to the Third World since 1979. [Redacted]

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2. This memorandum was prepared by [Redacted]
[Redacted] International Security Issues Division, Office of
Global Issues. [Redacted]

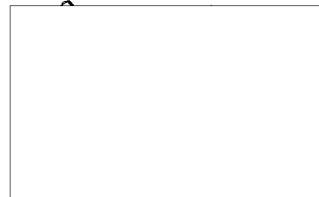
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3. Comments and queries on this subject may be addressed to the Chief, Communist Activities Branch, OGI [Redacted]

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Attachment:

China's Arms Trade With Iran [Redacted]

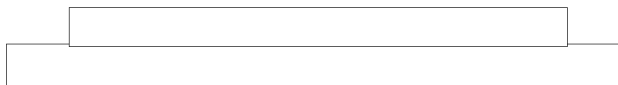
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GI M 84-1007C April 1984 [Redacted]

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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

20 April 1984

CHINA'S ARMS TRADE WITH IRAN

Summary

During 1983 China became Iran's second largest supplier of arms, signing agreements to deliver \$444 million in munitions and support equipment, such as radars and possibly tanks. China has also been a major supplier to Iraq, although sales to Baghdad dropped sharply last year from \$2.2 billion in 1981 and \$1.3 billion in 1982 to only \$300 million in 1983. Beijing takes a neutral position on the war and uses third countries and cover organizations to sell arms indirectly to both Iran and Iraq. China's arms sales to Iran and Iraq are part of a campaign Beijing initiated in 1979 to increase arms exports to earn hard currency. Since then China has sold \$6.3 billion in weapons, almost 95 percent of them in the Middle East and South Asia.

[Redacted]

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This memorandum was prepared by [Redacted] International Security Issues Division, Office of Global Issues. This analysis is based on information as of 20 April 1984. Comments and queries are welcome and may be addressed to the Chief, Communist Activities Branch, OGI, on [Redacted]

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[Redacted]

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CHINESE ARMS TRADE WITH IRAN

In 1983 China, using North Korea and European companies as intermediaries, sold \$444 million worth of Soviet-style military equipment to Iran and became Tehran's second largest supplier after North Korea. Iranian orders included small arms, munitions, and support equipment, such as radars and possibly tanks

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at least \$80 million worth were delivered in 1983. We expect most of the remaining arms to be delivered during 1984. By contrast, in the first two and one-half years of the war Chinese sales to Tehran amounted to only \$55 million and consisted mainly of ammunition and explosives.

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Sales to Iraq

The increase in Chinese sales to Iran coincided with a decrease in sales to Iraq from \$2.2 billion in 1981 and \$1.3 billion in 1982 to only \$300 million in 1983.

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Iraq has been China's major arms customer since 1980, accounting for 60 percent of China's arms sales.

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[redacted] Beijing is apparently willing to risk its arms relationship with Iraq by selling to Iran not only because Iran is a lucrative market but also because Baghdad has been slow to pay. [redacted]

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Military Sales Program

China's military sales to the Third World have changed dramatically since 1979 when Beijing decided to emphasize military sales to developing countries to earn hard currency. From 1980 to 1983 China's arms sales increased almost 10 times over the previous four years. China has signed agreements to sell \$6.3 billion of weapons, 95 percent of them to Iraq, Egypt, Iran, Pakistan, and Libya in the past four years. [redacted]

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China: Military Sales Agreements
with LDCs, 1980-83

	Million US \$
Total	<u>6,263</u>
Iraq	3,826
Egypt	887
Iran	501
Pakistan	436
Libya	305
All other clients	308

[redacted]

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The new policy represents a radical departure for Beijing in the Third World. Earlier China had provided military aid on generous terms to poor clients who often could not afford more costly Western arms. It may be difficult, however, for Beijing to maintain existing levels of military sales once the Iran-Iraq conflict is resolved. More aggressive Chinese arms sales policies could have only marginal results because of increasing competition among suppliers and LDC demands for more modern military equipment. [redacted]

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[redacted]

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Chinese Arms Transactions with Iran
during the Iran-Iraq War

	Million US \$	
	<u>Agreements</u>	<u>Deliveries</u>
Total	<u>501</u>	<u>130</u>
22 September-		
31 December 1980
1981	50	..
1982	7	50
1983	444	80

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Chinese Arms Transactions with Iraq
during the Iran-Iraq War

	Million US \$	
	<u>Agreements</u>	<u>Deliveries</u>
Total	<u>3,822</u>	<u>676</u>
22 September-		
31 December 1980
1981	2,204	268
1982	1,336	218
1983	282	190

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[Redacted]

SUBJECT: China's Arms Trade With Iran

OGI/ISID/[Redacted] (20 April 1984)

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