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CIA/EA ----- 87-10030J -----

China's Stake in the Iran-Iraq War

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An Intelligence Assessment

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EA 87-10030J
TCS 3080/87
July 1987

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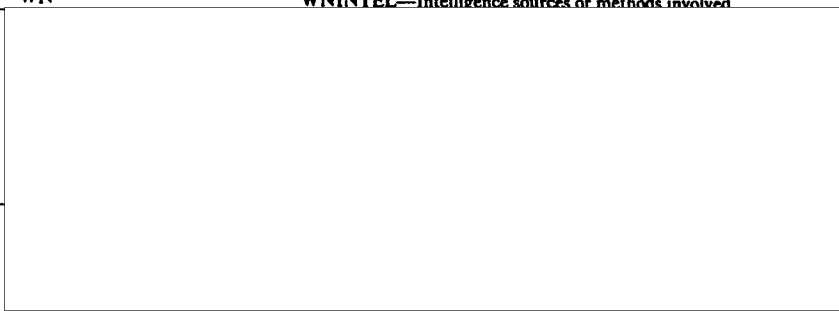
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China's Stake in the Iran-Iraq War



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An Intelligence Assessment

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**China's Stake
in the Iran-Iraq War**

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Key Judgments*Information available
as of 10 July 1987
was used in this report.*

Unless international pressure increases markedly, Beijing is unlikely to stop its highly lucrative arms sales to the Persian Gulf. We estimate Beijing's arms sales to Iran and Iraq add up to roughly \$7.5 billion—75 percent of China's total arms sales since 1981—and that the proceeds have been used to augment a defense budget constrained by economic modernization priorities. Beijing's sales to Iraq were far greater than those to Iran through 1985, but China has become Iran's main supplier of weapons, and sales to both nations were over \$1 billion in 1986. The Chinese decision in late 1985 to begin major sales to Iran was probably in large measure stimulated by the precipitate drop in Iraqi military purchases in 1983 and 1984 and possibly Iraq's inability to pay on contracts.

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Chinese leader Deng Xiaoping time and again reportedly has overruled opposition from the Foreign Ministry on arms sales and probably sees the Persian Gulf sales as contributing to Chinese national interests in several ways beyond financial gain:

- Beijing probably perceives it has helped limit Soviet influence in the Persian Gulf by reducing Iraqi dependence on Soviet arms and providing politically isolated Iran with an alternative to Moscow.
- Beijing has exploited the warming relations with Iran to open a new dialogue on Afghanistan that may lead to bilateral cooperation in support of the Afghan insurgents.
- Iraq and Iran are, in effect, testing new Chinese weapons under actual battlefield conditions, providing Beijing invaluable information for future improvements in these systems.
- China's use of Saudi Arabia as an intermediary for arms deliveries to Iraq has increased bilateral contacts despite Riyadh's continued refusal to switch recognition from Taipei to Beijing.

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Beijing is, however, extremely sensitive to international opinion, and the recent criticism of its HY-2 (Silkworm) missile sales to Iran has raised the stakes for Beijing of continued arms sales. Senior Chinese officials have responded to US criticism of Iranian sales with public statements of feigned surprise at the allegation, continued denials, and whispers that other nations—such as North Korea—have resold Chinese arms illegally to Iran. Beijing is also attempting to deflect the increased negative publicity by focusing world attention on the “superpower buildup” and rivalry in the Persian Gulf.

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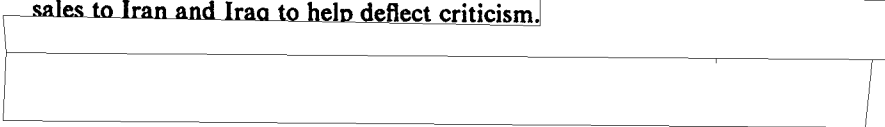
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In our judgment, Chinese leader Deng Xiaoping may consider ending China's Iranian sales only if he is convinced that continued sales might have one or more of the following effects:

- *Severely Disrupt Chinese-US Relations.* Beijing values the deepening relations with Washington both for the technological and economic benefits as well as for the political leverage they provide in Sino-Soviet negotiations. The Chinese are almost certainly deeply concerned about the dangers inherent should a Chinese-built missile strike a US naval combatant.
- *Ostracize Beijing From the International Community.* A 27 June commentary in *People's Daily* showed a concern in Beijing that US charges are convincing other nations that Beijing's arms sales are *the source* of the recent heightening of tensions in the Persian Gulf. To combat this, the Chinese are supporting the new UN Security Council resolution calling for a cease-fire—but have not agreed to link it to mandatory sanctions—and will take every opportunity to declare their support for an early end to the war.
- *Lead to an Iranian Victory.* We believe Beijing wants no winner in the Persian Gulf war, and, if China is convinced that a particular weapon sale or continued sales are tipping the balance, it almost certainly will reject new arms transfer agreements.
- *Expand Soviet Influence in the Gulf.* Kuwait's agreement to accept Soviet assistance is probably perceived in Beijing as a dangerous signal that the more moderate Arab states might be willing to allow the Soviets to play a security role in the Persian Gulf. If Deng sees this as an opportunity created for Moscow by Beijing's sales to Tehran, he may veto future sales as counterproductive to China's efforts to minimize Soviet influence in the region. 

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We believe the Chinese may have leaked news of an embargo on new arms sales to Iran and Iraq to help deflect criticism.



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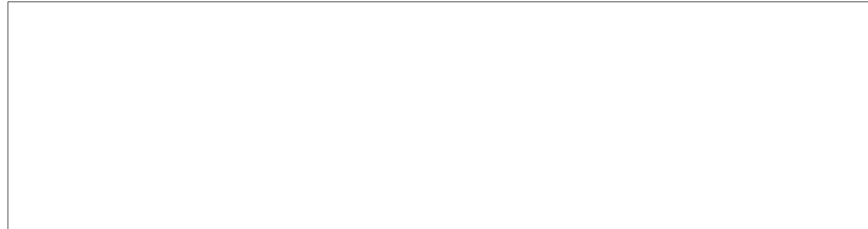


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In our judgment, Chinese military sales at current levels have not given either side a definitive advantage—although they certainly are of greater importance to Iran than Iraq—but have increased the danger to nonbelligerents. The Chinese claim antiship missiles, being installed on the Strait of Hormuz by Iran and delivered to Iraq for use from B-6D (TU-16) bombers, have a 70-percent chance of hitting an unprotected medium-to-large-size ship. In comparison with other antiship missiles used in the Gulf, the HY-2 warhead is three times larger than the Exocet's and seven times larger than the Italian Sea Killer's, making it far more likely to sink a tanker. The HY-2 travels to its maximum range of 95 kilometers in five minutes. Ships protected by active or electronic defense systems may be able to defeat a single HY-2 but could have trouble defending against two or more approaching at once.



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China's Stake in the Iran-Iraq War

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Beijing's Agenda

China historically has been a minor actor in the Persian Gulf, but soon after the Iran-Iraq war erupted in September 1980 an officially neutral China began promoting its political, economic, and strategic interests in the Gulf by selling arms to both sides. China has obtained some \$5.3 billion in contracts with Iraq and \$2.2 billion in contracts with Iran, accounting for roughly 75 percent of China's total sales since 1981. Beijing's sales to Iraq were far greater than to Iran through 1986, but in the same year China also became Iran's main supplier of weapons and sales to both nations were over \$1 billion.

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The Chinese deliver a wide variety of conventional equipment to both sides, most of it dependable, durable, but dated hardware of 1950s design. In 1983, Beijing sold two batteries (eight launchers) of Silk-worm antiship missiles to Iraq and has probably delivered five of 12 batteries of the same antiship missile to the Iranians since April 1986. In addition, Iraq has received four bomber aircraft equipped with C-601 missiles as well as fighters from China, while Iran has received surface-to-air missiles (SAMs) it uses to defend major cities. Long-range field guns and ammunition have gone to both warring states, and Iraq has received over 1,000 anti-aircraft guns. Main battle tank sales to Iraq alone—over 2,500 tanks, [redacted] have made China second only to the Soviet Union in tank exports in the 1980s.

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The Financial Gains

The outbreak of the war coincided with Beijing's decision to enter the world arms market to finance defense modernization at a time of fiscal retrenchment. [redacted] China's leader Deng Xiaoping initiated China's arms sales policy in 1980, stating that, if Warsaw Pact and NATO countries could sell arms, there was no reason China could not sell them too. Defense spending had been hit particularly hard by economic retrenchments, and its share of the state budget allocated by [redacted]

Table 1 Million US \$
**Chinese Arms Agreements
With Iraq and Iran,
1981-86**

	Iraq	Iran
1981	2,200	50
1982	1,300	7
1983	282	448
1984	53	62
1985	20	430
1986	1,400	1,200
Total	5,300	2,200

Beijing has been declining steadily from nearly 18 percent in 1979 to only 8.3 percent in 1987. According to Chinese Government statistics—which we believe are accurate barometers of the trends but disclose only about half of actual levels of defense spending—since 1981 the defense budget has remained fairly static.

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Arms exports have become an important source of revenue for the military, because the military is allowed to retain a portion of the profits from sales abroad. We estimate last year's sales to Iran and Iraq, for example, are equal to 20 percent of the actual defense budget. Moreover, because each component retains a share of its own profits there is intense competition among the various elements of the defense establishment. For example:

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- The Chinese General Staff is one of the principal beneficiaries of this windfall of hard currency earnings. Baoli—known in English as Poly Technologies—a company owned and operated by the General Staff, [redacted]

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[redacted] Baoli is run by Chinese leader Deng Xiaoping's son-in-law and uses its earnings to acquire [redacted]

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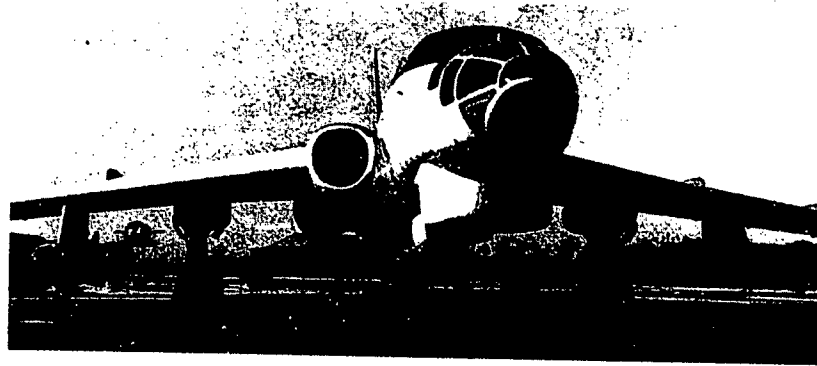
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Chinese B-6D (TU-16) bomber armed with C-601 missiles

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selected military hardware for the General Staff—

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We believe the Chinese calculated that Tehran's alienation of the West over the US Embassy hostages left the Iranians vulnerable to Soviet pressure when the Iran-Iraq war broke out. Chinese media reports in 1980 warned that Moscow's "covetous eyes" were focused on Iran as well as Afghanistan.

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At the same time, the Chinese expanded relations with Baghdad by filling the gap in Iraqi arms supplies created by the Soviet embargo against Iraq during the first year of the war.

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Political Links

Another—albeit secondary—factor in Chinese thinking on arms sales to Iran and Iraq has been Beijing's desire to expand Chinese and limit Soviet influence in Southwest Asia. The outbreak of the Iran-Iraq war, coming as it did on the heels of the Islamic fundamentalist revolution in Iran against the anti-Soviet Shah in January 1979 and the Soviet invasion of Afghanistan in December 1979, heightened longstanding Chinese concerns that Moscow would exploit regional instability to extend Soviet influence in the region.

[Redacted]

[Redacted]

Battlefield Testing

An added bonus for Beijing is the battlefield testing of new weapons, many developed with the funds provided by arms sales and some of which will ultimately be deployed with China's own forces. China's main battle tank was among the first weapon systems modified as a result of Iraqi combat experiences. The tank has been reconfigured with armored side skirts and standoff armor around the turrets—an Israeli innovation—to protect against light antitank weapons. Additionally, the Type 531 armored personnel carrier, which was among the first pieces of Chinese equipment sold to Iraq, is now equipped with an air-cooled engine to avoid overheating in the high temperatures of the Gulf, and new variants have been developed as command vehicles and armored ambulances.

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**Table 2
Major Military Equipment
Sold by China to Iran and Iraq ***

Missiles
HY-2 antiship missile ^b
HN-5 SAM
HQ-2J and HQ-2K SAMs
C-601 antiaircraft missile
Aircraft
F-7 and F-7M (MIG-21) fighters
B-6D (TU-16) bomber
Armor
Type 59/69-II main battle tanks
Type 63/Type 531 armored personnel carriers
Artillery
Type 59-I 130-mm field gun
Type 60 122-mm field gun
Type 54 122-mm howitzer
Type 66 152-mm howitzer
Type 83 152-mm howitzer
Artillery not further identified
Aircraft artillery
Type 59 57-mm antiaircraft gun
Type 55 37-mm antiaircraft gun

[Redacted]

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The B-6D, China's first indigenously built bomber with air-to-surface antiship missiles—an upgraded version of the Soviet TU-16 Badger—has been deployed with Chinese forces only since 1985 and will be battle tested in Iraq.

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[Redacted] all four bombers sold by the Chinese have been delivered to Iraq, along with at least 28 C-601 air-to-surface antiship missiles, a variant of the Silkworm missile that flies at high subsonic speeds at low altitudes. Although both aircraft and missile are of 1950s technology, the missile, with its 500-kilogram warhead and 97-kilometer range, is China's first guided missile, and the Gulf war is Beijing's first opportunity to test its performance under actual combat conditions.

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Beijing has also sold newly developed artillery systems to Iran and Iraq—even before deploying them with Chinese forces. [Redacted] The Iraqis have received China's new, extended-range 152-mm towed howitzer. Despite the fact that this howitzer has been in production for at least two years

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The Chinese copy of the Soviet SA-7 shoulder-fired SAM—acquired by the Iranians—has been combat tested against Soviet helicopters and bombers in Iraq's inventory.

[Redacted] Chinese antitank weapons used by the Iranians are tested against Soviet T-72 tanks, while Chinese tanks sold to Iraq face US TOW missiles.

[Redacted]

A Controversial Policy

The decision to sell arms to Iran and Iraq was made at the highest levels of the Chinese Government, despite protests from the Ministry of Foreign Affairs that arms sales damage China's image in the Third World. [Redacted] military

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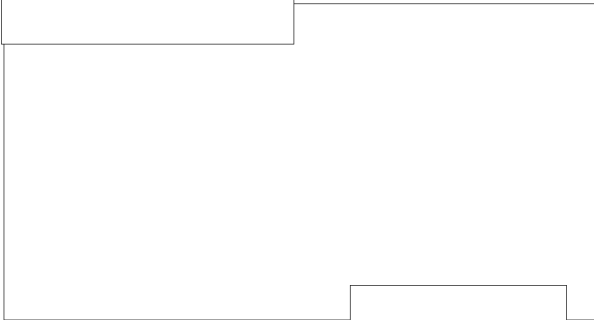
Chinese armored command vehicle exported to Iraq

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leaders have consistently won out over Foreign Ministry objections, claiming that foreign exchange is needed to finance military procurements from the West and provide significant funds to revitalize the defense industries. The military probably points to such programs as the \$1.6 billion purchase in 1984 of the production line and technology for Israel's Python III air-to-air heat-seeking missile as tangible payoff to China's defenses. Most recently, following Secretary of State Shultz's March visit to Beijing, Vice Chairman of the Central Military Commission Yang Shangkun and the president of Baoli³ met with Deng Xiaoping to discuss US demarches on arms sales to Iran.

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Impact of Demarches

We believe US demarches may have helped the Ministry of Foreign Affairs in its efforts to curb the military's arms sales policy. After Secretary of State Shultz visited Beijing in March and reiterated US displeasure with China's continued arms sales to Iran

Ministry of Foreign Affairs officials' efforts to regain control over China's military exports have consistently failed because of the military's political clout and Deng's support for military exports

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³ The Chinese General Staff has used Baoli to conclude over \$3.2 billion in arms sales and over \$520 million in military purchases from abroad since 1984. In addition to Deng Xiaoping's son-in-law as president, the company's senior officials include Yang Shang-kun's son-in-law.

the Central Military Commission ordered a five- to six-month moratorium on sales of military equipment to either Iran or Iraq

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The clearest impact of US demarches, however, has been to increase China's efforts to hide its arms deliveries to Iran, including the use of foreign flag carriers for particularly sensitive cargos, such as the Silkworms, and increased reliance on night loading of such cargos to thwart US reconnaissance capabilities (see inset). Since the Chinese delivery of antiship missiles to Iran became public in March of this year, Beijing has increased its public denials, attacking the charges as "futile slander." It has also embroidered these denials of arms sales with claims that Chinese equipment, particularly the Silkworm missile system, have not only been transferred, but also actually produced, by third countries, such as the Soviet Union, North Korea, and France.

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Regional Relations

China's major arms sale role has not translated into great regional influence, but Beijing's goals are relatively modest and China does not seek to exercise great power in the area. Beijing aims to expand bilateral ties to individual states, to build markets for military and nonmilitary Chinese goods and services,* and also to warn host governments of the Soviet threat to the region. Given its limited aims, we believe Beijing sees itself as having been successful in the region. [Redacted]

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Iraq: Smooth Sailing From the Start

Beijing's willingness to supply arms has strengthened already warm Sino-Iraqi relations, which include party as well as diplomatic ties. In May 1981, Deng

* China's nonmilitary trade with Iran and Iraq is minor and accounts for less than 1 percent of China's foreign trade. Sino-Iraqi annual two-way trade averaged some \$120 million for the period 1981 to 1986. Sino-Iranian trade averaged about \$140 million annually in the same period. [Redacted]

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How the Arms Trade Is Run

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have arranged deliveries through an elaborate system of North Korean middlemen and Hong Kong and Thai front companies.

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In public denials of a Chinese-Iranian arms connection, Beijing points to P'yongyang as a potential source. North Korea may, in fact, be reselling some Chinese small arms it receives as part of a military aid program but has not been involved in the major transfers of Chinese arms to Iran.

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The North Korean Connection

China has been using North Korea as an intermediary for arms sales to Iran since the early 1980s. Defense Ministry-affiliated defense corporations, particularly North China Industries (NORINCO),

and Premier Zhao Ziyang met in Beijing with Iraqi Deputy Prime Minister Ramadan—the most senior Iraqi visit to Beijing in two years—and signed two bilateral agreements on trade and technical cooperation. In 1982 and 1983, respectively, the two sides convened the inaugural sessions of a permanent committee on economic and technical cooperation and a joint committee on trade and economic cooperation.

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Chinese media reports,

however, the number of Chinese workers in Iraq—currently around 15,000—has been dropping since June 1986 in the face of Iraq's inability to repay its more than \$100 million debt to China for these services.

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A Common Cause With Riyadh

We believe Beijing also has tried to exploit Iraqi arms sales to get its foot in the door in Saudi Arabia. China has long sought to persuade Riyadh to end its diplomatic recognition of Taipei and establish relations with Beijing. Although Riyadh continues to refuse to switch recognition from Taipei, Beijing apparently

As an example of their close relations, the manpower-short Iraqis have contracted for Chinese labor for hydroelectric, irrigation, highway, petroleum, dam, housing, and agricultural projects. Estimates of the total number of Chinese workers sent to Iraq between 1981 and 1986 run as high as 20,000, according to

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has had some success at improving ties.

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Despite the lack of diplomatic ties, Beijing has succeeded in expanding Sino-Saudi contacts. Chinese Premier Zhao and then Saudi Crown Prince Fahd became the first leaders of the two countries to meet when they exchanged greetings at the 1981 Cancun summit. Foreign Minister Sa'ud's visit to Beijing in 1982 as part of an Arab League delegation marked the first time a Saudi official had visited China. King Fahd hosted a state banquet for Chinese Muslim pilgrims visiting Mecca in 1984; prior to that year Chinese pilgrims had only met with Saudi leaders in private. Two Saudi trade delegations visited China's Ningxia Muslim Autonomous Region to begin economic cooperation in 1985, Chinese Vice Premier Yao Yilin and Saudi Crown Prince Abdallah met in Oman in November 1985, and Zhao received a delegation of Saudi entrepreneurs in November 1986.

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China's willingness to sell significant amounts of arms to Iran in 1983 created a new momentum in political, economic, cultural, scientific, and technical exchanges as the number of these exchanges totaled more in 1983 than the previous four years combined. Most notably, Foreign Ministry adviser He Ying in early 1983 made the highest level official Chinese visit to Iran since the Islamic revolution, and Iranian Foreign Minister Velayati in September 1983 signed a five-year cultural, scientific, and technical cooperation agreement in Beijing.

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Iran: A Far More Turbulent Relationship

Beijing was among the first to recognize the fundamentalist Khomeini government, but Beijing's relations with Iran since the revolution have seen dramatic swings. Iran, initially, was not a readymade market for China's Soviet-style equipment, but, as sources of spare parts for Iran's Western hardware dried up, Tehran faced the choice of acquiring military supplies from either China or the Soviet Bloc.

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A Breakthrough in 1985

A visit by Iranian parliament Speaker Rafsanjani and Foreign Minister Velayati to China in late June 1985 appears to have inaugurated a much expanded arms

⁵ Sino-Saudi annual two-way trade averaged over \$180 million for the period 1981 to 1986.

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Iranian parliament Speaker Rafsanjani meeting with Chinese President Li Xiannian in June 1986

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Not surprisingly, Beijing's willingness to engage in direct sales to Iran has led to a substantial deepening of relations. In addition to setting the stage for new arms sales, the visit of Iranian parliament Speaker Rafsanjani and Foreign Minister Velayati was marked by meetings with Deng, Zhao, President Li Xiannian, and other senior Chinese leaders. The official press in both countries touted the visit, with Zhao predicting that it would "open a new chapter" and Rafsanjani calling it "a total success."

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relationship. Rafsanjani did not discuss arms sales with Deng Xiaoping or Premier Zhao Ziyang directly; two days after his departure two senior Revolutionary Guard officials met in China with military officers who indicated that China was willing to sell "defensive weapons" through middlemen. We believe Beijing's change of heart was probably in large part stimulated by the precipitate drop in Iraqi military purchases in 1983 and 1984 and possibly Iraqi inability to pay on contracts

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Beijing's dramatic policy shift involved not only the sale of major arms to Iran but also the shipment of weapons directly to Iranian harbors and the training of Iranian missile crews in China:

Cooperation on Afghanistan

Beijing has also exploited the warming relations to open a dialogue with Iran on the Afghanistan problem.

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70-percent chance of hitting an unprotected medium-to-large-size ship—although the Iraqis reportedly had only a 30-percent success rate using HY-2s against Iranian targets. In comparison with other antiship missiles in use in the Gulf, the HY-2 carries a warhead three times larger than the Exocet's and seven times larger than the Italian Sea Killer's, making it far more likely to sink a tanker. The HY-2 has a range of 95 kilometers and travels this distance in five minutes. Ships protected by active or electronic defense systems may be able to defeat a single HY-2, but in our opinion would have trouble defending against two or more approaching at once. [Redacted]

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Beijing apparently sees itself as a bridge between Tehran and Washington on Afghanistan and has taken some pains to keep US officials discreetly informed on these exchanges. [Redacted]

Baghdad's acquisition of Chinese B-6D bombers and C-601 antiship missiles probably will improve Iraq's ability to launch standoff weapons at targets in the Persian Gulf. Most probably referring to Iraq's new bombers, the Iraqi Air Force Commander recently stated that Baghdad is prepared to hit economic and oil targets in Iran using new and stronger weapons. Even though the bombers have a 3,000-kilometer range, the limitations of their 1950s technology suggest that their primary use will be in the upper reaches of the Gulf where they can be protected by Iraqi fighter cover and air defenses. The slow-moving B-6D lacks advanced electronic countermeasures to help protect it from ground-based air defenses and fighter aircraft. Moreover, the onboard radar of the B-6D has demonstrated poor performance in open water search and lacks sophisticated electronic counter-countermeasures and, consequently, is susceptible to jamming by opposing aircraft and ships. [Redacted]

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[Redacted] Beijing may hope that Washington might temper US demarches on Chinese arms sales if it perceives China exercising a positive influence on Iran on the Afghanistan issue. [Redacted]

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Impact on the War

In our judgment, Chinese military sales have not given either side a definitive advantage but certainly are of greater importance to Iran than Iraq—which buys large quantities of arms from the Soviet Union. Iran has been forced to fight an infantry war in order to minimize its equipment disadvantages relative to Iraq. Tehran has been unable to replace armor lost in the war and now has roughly one-sixth the number of operational vehicles that Iraq has. Without the consistent supply of artillery, small arms, and large amounts of ammunition proffered by Beijing, the Iranians would have difficulty sustaining their ground attacks, although Tehran could increasingly turn to other suppliers such as North Korea or East European countries. [Redacted]

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Beijing's supply of antiship missiles to both sides, however, has markedly increased the danger to non-belligerents. The Chinese claim that the HY-2 missiles being installed on the Strait of Hormuz have a

Looking Ahead

Unless international pressure increases markedly, we see little chance that Beijing will stop its highly lucrative arms sales to Iran and Iraq. Beijing seems increasingly concerned, however, about the possible impact of its arms sales on US-China relations and about the potential damage to China's other foreign policy interests from the attention being given to Chinese-made Silkworm antiship missiles in the Gulf.

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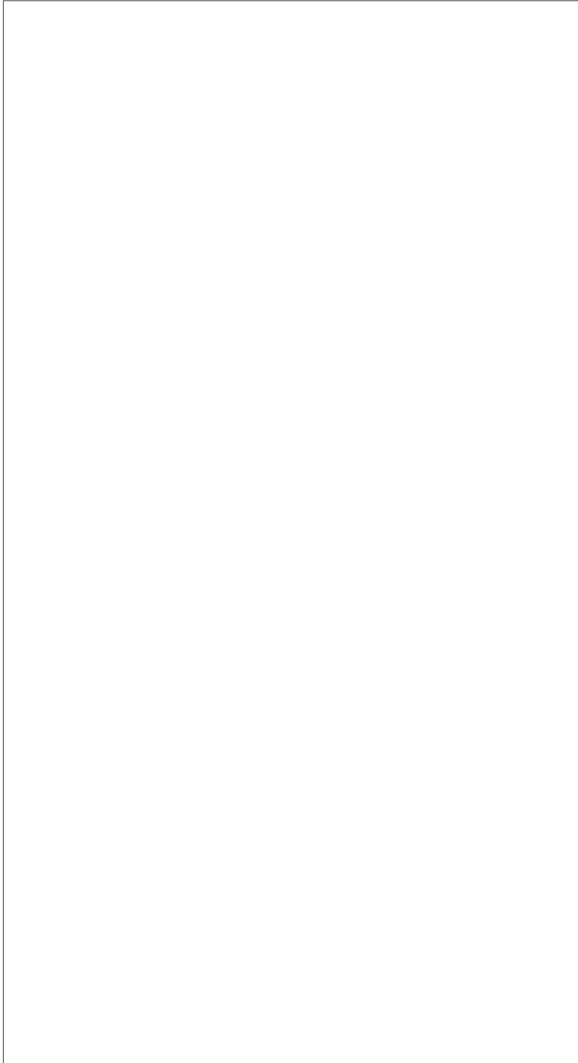


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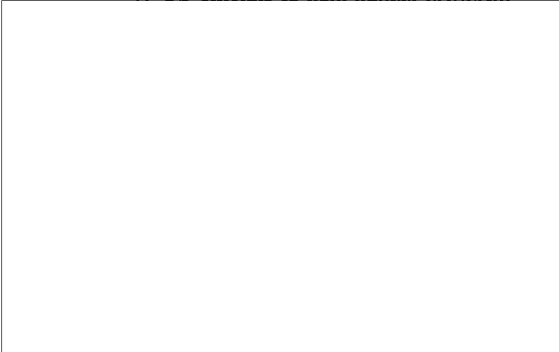


however, Beijing has vented its anger at the adverse publicity. A *People's Daily* commentary of 27 June, which may have been aimed primarily at Third World audiences, charged elements of the US news media and unnamed US Government officials of spreading a "stream of lies" and argued that the United States is in no position to lecture anyone on arms sales to Iran. Beijing is also attempting to deflect the increased negative publicity by focusing world attention on the "superpower buildup" and rivalry in the Persian Gulf.

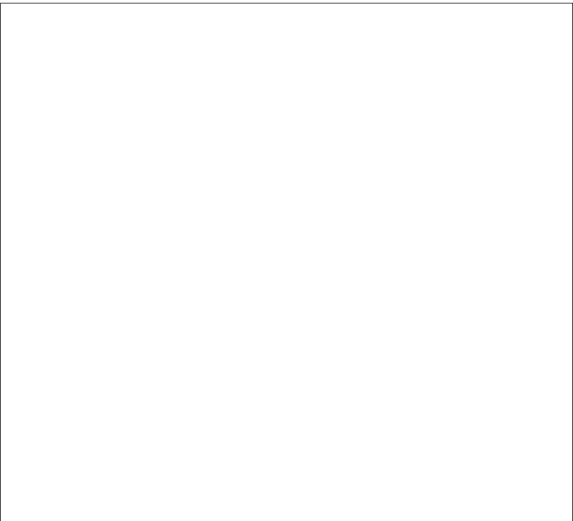


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Beijing reportedly placed an embargo on new sales to Iran in March and may have intentionally leaked this information to US officials to help deflect criticism



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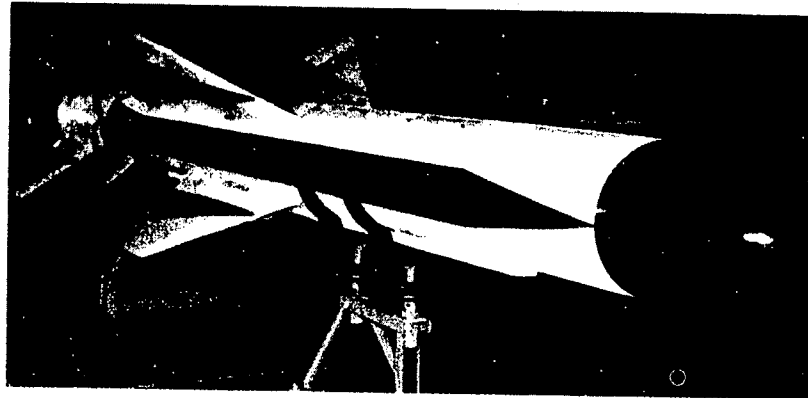
(b)(3)

China wants to protect its image and does not want the issue to escalate to the point that it affects other areas of its relations with the United States. Senior Chinese officials have responded to US criticism of Iranian sales with public statements of feigned surprise at the allegation, continued denials, and whispers that other nations—such as North Korea—have resold Chinese arms illegally to Iran. At a lower level,

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(b)(3)

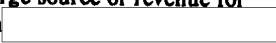
China's C-801 antiship missile



(b)(3)

We believe that any reversal of policy will have to come from Deng himself. In our judgment, Deng may consider ending Iranian sales only if he is convinced that continued sales might have one or more of the following effects:

- *Lead to an Iranian Victory.* We believe Beijing wants no winner in the Persian Gulf war, and, if China is convinced that a particular weapon sale or continued sales are tipping the balance, it almost certainly will reject new arms transfer agreements.
- *Severely Disrupt Chinese-US Relations.* Beijing values the deepening relations with Washington both for technological and economic benefits as well as the political leverage they provide in Sino-Soviet negotiations. The Chinese are almost certainly deeply concerned about the dangers inherent should a Chinese-built missile strike a US naval combatant.
- *Expand Soviet Influence in the Gulf.* Kuwait's agreement to accept Soviet assistance is probably perceived in Beijing as a dangerous signal that the more moderate Arab states might be willing to allow the Soviets to play a security role in the Persian Gulf. If Deng sees this as an opportunity created for Moscow by Beijing's sales to Tehran, he may veto future sales as counterproductive to China's efforts to minimize Soviet influence in the region.
- *Ostracize Beijing from the International Community.* The 27 June commentary in *People's Daily* showed a concern in Beijing that US charges are convincing other nations that Beijing's arms sales are the source of the recent heightening of tensions in the Persian Gulf. To combat this, the Chinese are supporting the new UN Security Council resolution calling for a cease-fire—but have not agreed to link it to mandatory sanctions—and will take every opportunity to declare their support for an early end to the war.

With few other arms markets the size of the Gulf available to Beijing, however, anything short of these potential consequences is unlikely to lead Deng to forgo this extremely large source of revenue for military modernization 

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