

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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US and Multilateral Export Controls for China: Beijing's Agenda [redacted]

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Summary

Aware that US and COCOM export controls for China are being revised, Chinese officials will use bilateral meetings this month to air their complaints about the current process as well as to press for changes. Beijing's top priority is eliminating the need for COCOM review, and Chinese officials will probably press US officials to change US policy unilaterally as well as to influence COCOM to do away with multilateral review. Beijing will also lobby for shorter case-processing times in the United States, and may request assistance from US visitors in expediting cases that have been held up by interagency review. [redacted]

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We expect Chinese officials to press for restrictions to be eased in several areas, including supercomputers, and production technology and equipment for microelectronics, fiber optics, composite materials, and mainframe computers. Beijing will probably hint that China will seek Japanese or West European technology if US technology is not made available. [redacted]

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This memorandum was prepared by [redacted] Office of East Asian Analysis. Information available as of 14 April 1987 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Trade and Technology, China Division, OEA [redacted]

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We expect Beijing to react in a low-key manner to general statements about impending changes in US export controls for China. Beijing will remain skeptical about what the changes will mean in practical terms. In addition, for the next few months, discussions of US technology transfer policy will be overshadowed by China's uncertain domestic environment, and Beijing's preoccupation with other bilateral economic issues. [Redacted]

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The Litany of Complaints

Over the last few years, in public statements as well as private comments to US officials, Chinese leaders have enumerated their frustrations with US and COCOM controls on the sale of sophisticated dual-use and military equipment (see appendix A for a chronology of changes in US and COCOM policies for China). Aware that US and COCOM export control policies are being revised, Chinese officials have reiterated Beijing's concerns in recent bilateral discussions. We expect Chinese officials to register many of these same complaints during meetings later this month:

- **The Level of Technology China May Acquire.** Last November, Vice Foreign Minister Zhu Qizhen remarked to visiting Assistant Secretary of State Sigur that there had been no fundamental relaxation in the level of technology allowed China. In February, China's Deputy Chief of Mission in Washington, Tang Shubei, charged that although less than 1 percent of China's license applications are denied, the statistic is misleading because fear of denial keeps Chinese users and US vendors from signing contracts for many controlled goods. Tang listed the categories of equipment and manufacturing technology most frequently denied licenses for shipment to China: carbon fiber, engineering plastics, special materials for the electronics industry, integrated circuits, optical fiber communications, and computers for scientific work.
- **Lengthy Processing Times.** According to Tang, Chinese statistics indicate that nearly half of their requests for high-tech goods from the United States suffer delays in receiving export licenses. [Redacted] in late February, Tang volunteered that some in China believe US Government agencies deliberately delay cases to block transactions without having to deny the licenses outright.
- **COCOM Review of US Licenses for China.** Beijing considers COCOM review to be a major reason for licensing delays; indeed Premier Zhao Ziyang in 1984 noted that after the November 1983 liberalization of US controls for China, the bottleneck in export licensing shifted from Washington to Paris. Beijing also objects in principle to COCOM review of US licenses. Chinese officials regard the policy as discriminatory, because China is the only "friendly" country (i.e., Country Group V of the US Export Control Administration Act) subject to COCOM consideration. [Redacted]

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And Beijing's Wish List

Chinese officials lobby nearly every visiting US delegation to exert influence in COCOM to do away with required multilateral review of intermediate-level technology sales to China, shorten case processing times within the US Government, and raise the level of technology China may acquire. [Redacted]

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Among these issues, eliminating the requirement for COCOM review of China cases has become Beijing's top priority. Beijing has long regarded a 1985 change allowing countries to themselves license exports in more than two dozen categories as only an intermediate step toward removing China from the list of COCOM-proscribed countries. Beijing has quietly lobbied all COCOM members to accept this change, but recognizes that US support is crucial, because the United States initiates 75 percent of the China cases. At the same time--and as a temporary expedient--Chinese officials have pressed for the United States to implement this change, by ceasing to forward China cases to COCOM. [Redacted]

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During most bilateral meetings, Chinese officials ask their US counterparts to intercede in the resolution of specific cases that have been stalled in the US review process. According to Embassy reporting, for example:

- Vice Premier Li Peng presented to Vice President Bush a list of 21 unresolved export license cases during the Vice President's October 1985 trip to China.
- In February 1986, Vice Foreign Minister Zhu Qizhen pressed visiting Undersecretary of State Schneider to resolve the cases raised by Li Peng.
- Vice Minister of Foreign Economic Relations and Trade Zhang Haoruo presented [Redacted] a list of 30 delayed license cases in December 1986.
- Most recently, China's Vice Minister of Petroleum Industry asked visiting Commerce Deputy Assistant Secretary Searls to check on the status of two licenses for computer equipment used in processing seismic data.

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More generally, Beijing continues to press the United States to streamline the interagency review process, although this issue has become less prominent as delays in COCOM have assumed greater importance to the Chinese over the last two years. [Redacted]

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We expect Beijing to press for greater access to a wide range of dual-use technologies as well. Tang Shubei's list of items currently denied China--primarily involving special materials and information technologies--provides a general idea of the categories in which Beijing will probably press the hardest. [Redacted]

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[Redacted] we believe Beijing may push for some of these items:

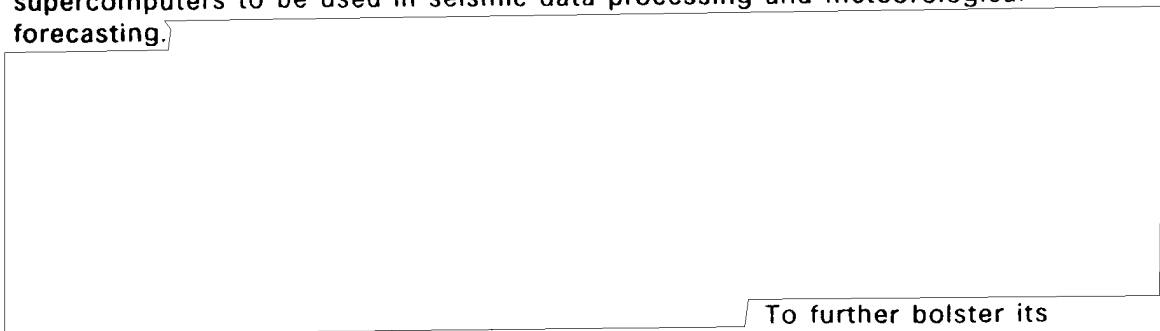
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- **Supercomputers** Beijing has been negotiating with US and Japanese firms for supercomputers to be used in seismic data processing and meteorological forecasting.



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To further bolster its arguments for receiving a supercomputer, Beijing may also point to the recent approval of a supercomputer sale to Taiwan.

- **Microelectronics production equipment.** One of China's highest priorities is the electronics sector, and the development of an indigenous microelectronics capability forms the basis for the advancement of this sector. US and COCOM controls generally restrict the transfer of technologies and equipment that would enable China to produce very-large-scale integration (VLSI) and very-high-speed integrated circuits (VHSIC). Beijing has active VLSI and VHSIC research programs, and seeks a variety of restricted items that are suitable for fabricating sophisticated microelectronics devices. Chinese officials may press for: software and source codes suitable for computer-aided VLSI design, and up-to-date models of equipment used in lithography, dry etching, digital circuit testing, ion implantation, and clean room control.
- **Fiber-optics production technologies.** Beijing views fiber optics as a high priority for upgrading China's severely strained telecommunications network and seeks foreign technology to boost weak indigenous capabilities. Beijing particularly seeks production technology for high-speed (140 megabits-per-second or higher), long-distance transmission links. US policy still restricts transfers of the production equipment and know-how capable of upgrading China's indigenous capability to this level. Beijing seeks other technologies and equipment used in data communications as well; computer networking--for military command and control as well as a variety of civilian applications--will be a priority over the next few years.
- **Composite materials.** China's push into advanced composite materials for defense-related aerospace applications as well as for civilian uses has prompted Chinese requests for controlled equipment and technology. For example, Beijing has approached US, Japanese, and West European firms for carbon- and graphite-fiber production technology. Approval last week of a year-old US



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license application for machinery used in processing graphite fibers will probably prompt other license requests for similar technologies as Beijing probes the limits of the recent approval.

- **Mainframe Computer Manufacturing.** Beijing is reviewing bids from three suppliers [Redacted] for cooperative production of mainframe computers in China. Because the project will be the first to involve full-scale mainframe production--a 1985 kit-assembly deal involving five mainframe computer kits and very limited transfer of US technology has not grown into the larger operation once anticipated--Beijing doubtless expects whatever firm is chosen to face contentious licensing discussions. Beijing's decision on which firm to award the contract to may be influenced by its perception of which government will consider a license application for mainframe production technology more favorably; Chinese officials may attempt to get a preliminary assessment of US policy in this area before awarding the contract. [Redacted]

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A Lukewarm Response to Impending Changes in US Policy Expected

We believe that Beijing's response to US statements this month about further liberalizing export controls for China will be reserved. We expect Chinese officials to voice their appreciation for the changes, but to express concern over the restrictions that remain, as they have after previous rounds of liberalization. We also anticipate that Chinese officials will turn discussions of the licensing changes to other factors--such as preferential financing--that keep US firms from being competitive in Chinese markets, as Vice Minister of Foreign Economic Relations and Trade Shen Jueren did in meetings with US officials earlier this year. [Redacted]

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A major reason for Beijing's anticipated low-key response is lingering skepticism about what the changes will mean in practical terms. Premier Zhao Ziyang greeted the 1983 announcement of changes to US export control policy with a comment about waiting to see if "thunder in Washington" led to "rain in Beijing," according to Embassy reporting. Beijing probably anticipates that licensing delays will continue for especially sensitive cases even after the changes are implemented, and doubtless recognizes that some limits will remain. Moreover, we believe the changes in US policy do not address China's primary concern about export controls--China's treatment in COCOM--about which Beijing will learn little until after COCOM meets to revise its China policy in July. [Redacted]

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The atmosphere in Beijing also accounts, in part, for the toned-down response we expect. While development strategy as a whole is under debate, Chinese trade officials may want to downplay their interest in the sophisticated equipment covered by export controls to preempt charges from critics that a preoccupation with high-tech items has resulted in too little emphasis on the more basic technologies needed to modernize mature Chinese industries. China's difficulties absorbing Western technology have lent credence to proponents of a more restrictive open door policy; for them, China's widely publicized problems using imported computers, microelectronics

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production lines, and scientific instruments are proof that freer Chinese access to advanced Western equipment is not a panacea for the country's economic ills. [Redacted]

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Chinese officials will make it clear to US visitors why and how they would like US and COCOM rules for China eased. But we believe that, from the Chinese perspective, liberalization of export controls is fairly far down the list of what Beijing will be seeking from the United States during this month's bilateral talks. Concerns about the impact of US trade legislation on Chinese textile exports and China's need for more US investment--made more urgent by Beijing's current foreign exchange crunch--will force technology transfer to take a back seat to these other issues for at least the next few months. [Redacted]

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Appendix A

Chronology of Changes in US and COCOM Policies toward China

- 1980 United States moves China from country group Y--which includes the Soviet Union and some East European countries--to group P, created for China alone.
- 1981 In defining parameters of group P, United States adopts the general principle that it will approve exports to China at a technical level twice that approved for the Soviet Union.
- 1983 United States places China along with other friendly non-allied European, African, and Asian countries in group V, and publishes technical guidelines ("green lines") for seven categories of goods (accounting for 75% of cases) to be exempt from interagency review. The change also results in the creation of a "red zone," in which licenses for China carry the presumption of denial, and a "yellow zone," involving intermediate-level technologies that must be reviewed both within the US Government and in COCOM on a case-by-case basis.
- 1984 China becomes eligible for US government-to-government (FMS) military sales.
- 1985 COCOM agrees to expedited handling of China cases involving dual-use goods in 27 categories (accounting for 50% of COCOM China cases). Under new "Administrative Exceptions Notes" (AENs), COCOM countries can export covered items, notifying COCOM afterwards. COCOM requires China to issue end-use certificates specifying that goods will not be diverted to unauthorized users within or outside of China.
- 1986 The new COCOM procedures take effect in February. COCOM discusses further changes in exports of dual-use (International List) items as well as changes in the handling of military (International Munitions List) sales to China.
- 1987 (Jan) United States announces, in general terms, that export controls for China will again be liberalized later this year.
- 1987 (July) COCOM will meet to finalize provisions allowing greater Chinese access to both dual-use and military items.



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