

INQUIRE=DOC33D
ITEM NO=00294929
DTG

210659Z DEC 95

CONFIDENTIAL SECTION 01 OF 03

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SERIAL: (U) IIR

/***** THIS IS A COMBINED MESSAGE *****/

BODY

PASS: (U)

COUNTRY: (U) CHINA (CH).

SUBJECT: IIR COSTIND COMPANY UPDATE (U)

WARNING: (U) THIS IS AN INFORMATION REPORT, NOT
FINALLY EVALUATED INTELLIGENCE. REPORT
CLASSIFIED CONFIDENTIAL

DEPARTMENT OF DEFENSE

DOI: (U)

REQS: (U)

SOURCE: (C)

SUMMARY: (C) COSTIND ELECTRONICS RELATED BUSINESSES
ARE BEING RESTRUCTURED. CHANGES INCLUDE NEW PRESIDENT
FOR THE FLAGSHIP COMPANY KNOWN AS GALAXY. LINKS TO AND
ROLE OF THE COSTIND NO. FOUR BUREAU DISCUSSED, ALONG
WITH SINO-US JV COMPANY NAMED HUA-MEI.

TEXT: 1. (C) THE BEIJING BASED COMPANY KNOWN AS
GALAXY AKA YINHE (STC-- 6892/3109) WHICH IS A
COMMERCIAL ENTERPRISE SUBORDINATE TO THE COMMISSION FOR
SCIENCE AND TECHNOLOGY FOR NATIONAL DEFENSE INDUSTRY
(COSTIND), WILL UNDERGO A LEADERSHIP CHANGE BY EARLY
1996. THE CURRENT PRESIDENT, ((WANG)) ZHIYUAN (NO
STC), WILL BE TRANSFERRED TO BE A MEMBER OF COSTIND'S

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SCIENCE AND TECHNOLOGY COMMITTEE (KEJIWEI) WHERE HE WILL SERVE ESSENTIALLY IN AN ADVISORY CAPACITY. HE WILL BE REPLACED BY ((DENG)) CHANGRU (PHONETIC), AGED 55, WHO IS CURRENTLY THE DEPUTY BUREAU CHIEF OF COSTIND'S NUMBER FOUR BUREAU OR DISIJU (STC-- 4574/0934/1444).

2. (c) THE NUMBER FOUR BUREAU IS PART OF COSTIND HEADQUARTERS IN BEIJING. IT IS ALSO KNOWN AS THE ELECTRONICS BUREAU (DIANZIJU, STC-- 7193/1311/1444) AND IS RESPONSIBLE FOR TELECOMMUNICATIONS AND RADARS. THE BUREAU CHIEF, ((XIE)) ZHICHAO (PHONETIC) WILL REMAIN THE SAME. AS THE BUREAU CHIEF, XIE NOT ONLY RUNS THE BUREAU BUT HE ALSO HAS POLICY OVERSIGHT RESPONSIBILITIES FOR ALL OF THE COMMERCIAL ACTIVITIES SET UP BY THE NO 4 BUREAU. GALAXY IS THE NO 4 BUREAU FLAGSHIP COMMERCIAL ACTIVITY AND XIE HAD A DIRECT HAND IN RECOMMENDING DENG BE MADE THE NEW PRESIDENT OF GALAXY. DENG WILL BE DEMOBILIZED WHEN HE MOVES INTO THE NEW POSITION.

3. (c) THE LEADERSHIP CHANGE IS PART OF A REORGANIZATION AND RESTRUCTURING OF GALAXY TO BRING IT IN COMPLIANCE WITH RECENT CENTRAL MILITARY COMMISSION GUIDELINES ON MILITARY PARTICIPATION IN COMMERCIAL ACTIVITIES (NOTE-- NO SPECIFICS ON THE GUIDELINES WERE GIVEN). AS A SMALL PIECE OF THIS REORGANIZATION, THE ZHUHAI NEW GALAXY-CO (XINYINHE, STC-- 2450/6892/3109) WILL BECOME DIRECTLY SUBORDINATE TO THE HEAD COMPANY IN BEIJING.

4. (c) ONE OF THE GALAXY ACTIVITIES IS BEING THE CHINESE PARTNER IN A SINO-AMERICAN HIGH TECHNOLOGY JOINT VENTURE (JV) BASED IN GUANGZHOU. THE JV IS KNOWN AS THE HUA-MEI COMPANY (STC-- 5478/5019) FOR SINO AND AMERICAN. THE JV IS INVOLVED IN FIBER-OPTICS AND BROADBAND TELECOMS TO SUPPORT PAGING SYSTEMS, CELLULAR COMMUNICATIONS, VIDEO TELE-CONFERENCING AND RELATED COMMUNICATIONS ACTIVITIES. THE US SIDE IS MAINLY RESPONSIBLE FOR PROVIDING THE ADVANCED TECHNOLOGIES TO SUPPORT SETTING UP THESE KINDS OF SYSTEMS IN CHINA.

5. (c) THE SENIOR COSTIND OFFICIAL WHO IS RESPONSIBLE FOR THE GALAXY RESTRUCTURING, THE PERSONNEL CHANGES AND THE OVERALL BUSINESS ENTERPRISE SIDE OF COSTIND IS VICE CHAIRMAN, LTG ((HUAI)) GUOMO. AS PART OF THE PROCESS, THE NUMBER FOUR BUREAU CHAIRMAN XIE WAS SCHEDULED TO MAKE A COMPREHENSIVE REPORT ON THE WORK TO HUAI ON 951220, TO GET FINAL APPROVAL FOR THE CHANGES.

COMMENTS: 1. (c) [REDACTED]

[REDACTED]

2. *let* [REDACTED] GALAXY PRESIDENT WANG ZHIYUAN IS THE SON OF THE FORMER MAYOR OF SHANGHAI AND CURRENT HEAD OF THE ASSOCIATION FOR RELATIONS ACROSS TAIWAN STRAITS, ((WANG)) DAOHAN (STC -- 3076/6670/3211). THE YOUNGER WANG IS CONSIDERED TO BE AN INCOMPETENT BUSINESSMAN WHO GOT THE POSITION AT A TIME WHEN PLA FRONT COMPANIES NEEDED THE "PRINCELING" SONS AND DAUGHTERS OF SENIOR OFFICIALS IN ORDER TO PROVIDE THE POLITICAL CONNECTIONS TO GET THE COMPANIES APPROVED AND SET UP.

3. *let* A RUMOR [REDACTED] HAS NOT BEEN ABLE TO VERIFY IS THAT THE GUANGZHOU MILITARY REGION COMMANDER, GEN ((LI)) XILIN, IS CONNECTED TO THE CHINESE SIDE OF THE HUA-MEI JOINT VENTURE. SUPPOSEDLY LTG ((NIE)) LI, RETIRED COSTIND VICE CHAIRMAN AND WIFE OF COSTIND DIRECTOR ((DING)) HENGGAO, IS THE CHINESE SIDE REPRESENTATIVE IN THE HUA-MEI COMPANY. AGAIN, [REDACTED] CLEAR THAT THIS HAS NOT YET BEEN CONFIRMED [REDACTED] ALSO SURMISED THAT THIS WAS A TIDBIT TO ENTICE INTEREST IN THE COMPANY AND ITS ACTIVITIES.

4. *let* [REDACTED] THE RESTRUCTURING REFERRED TO IN THIS REPORT TO BRING THE COSTIND COMPANIES INTO COMPLIANCE WITH RECENT MILITARY COMMISSION DIRECTIVES IS ANOTHER OF MANY REFERENCES TO NEW DIRECTIVES CROPPING UP. AS OF YET, THE SPECIFICS OF THE DIRECTIVES HAVE NOT BEEN MADE PUBLIC, BUT THE PLA SEEMS TO BE MOVING IN THE DIRECTION OF CLARIFYING WHAT ACTIVITIES ACTIVE DUTY PLA ORGANIZATIONS AND PERSONNEL MAY PARTICIPATE IN. AT THE SAME TIME, THIS REPORT INDICATES THE PLA WILL CONTINUE TO HAVE BUSINESS ACTIVITIES BUT ACTIVE DUTY PERSONNEL'S INVOLVEMENT WILL BE REDUCED. IT IS NOT LIKELY THAT THERE WILL BE ANY SIGNIFICANT CHANGE IN THE BENEFITS THE PLA ACCRUES FROM ITS ENTERPRISES, ONLY IN HOW THEY ARE ADMINISTERED. STILL, THE DETAILS REMAIN TO BE SEEN.

5. *let* THE GALAXY JOINT VENTURE COMPANY IN GUANGZHOU RAISES A LONG TERM CONCERN OVER TECHNOLOGY TRANSFER TO CHINA. IT IS VERY EASY TO LOSE TRACK OF COMPANIES SUCH AS HUA-MEI AS BEING PLA VENTURES. THE FACT THAT THEY HAVE US PARTNERS ALSO ADDS COMMERCIAL LEGITIMACY AND MASKS THE SUBORDINATION. THAT HUA-MEI IS A COSTIND-LINKED COMPANY INDICATES THAT THE TECHNOLOGY WILL HAVE

SOME MILITARY APPLICATION IN ADDITION TO ACKNOWLEDGED CIVIL APPLICATIONS. THE COSTIND LINK ALSO INDICATES THE TECHNOLOGIES BEING ACQUIRED FILL A GAP OR VOID IN THE CHINESE S AND T BASE. ONE MORE DEDUCTION THAT EMERGES IS THAT THE TELECOMS RELATED TECHNOLOGIES VERY LIKELY HAVE C4I APPLICATIONS.

6. (e)

