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Ronald Reagan Library

Collection Name MEESE, EDWIN: FILES

Withdrawer

File Folder CHINA - GENERAL (12/18/1981-03/26/1982)

DLB 6/26/2015

FOIA

Box Number CFOA 160

F02-019/1

COHEN, WARREN

23

| ID | Doc Type | Document Description | No of Pages | Doc Date | Restrictions |
|-------|------------|--|-------------|-----------|--------------|
| 31613 | MEMO | CLARK TO THE PRESIDENT, RE UNITED STATES RELATIONS WITH THE PEOPLE'S REPUBLIC OF CHINA R 12/2/2011 F2002-019/1 | 2 | 3/26/1982 | B1 |
| 31616 | MEMO | HAIG TO THE PRESIDENT R 12/18/2007 NLRRF2002-019/1 DOCUMENT PENDING REVIEW IN ACCORDANCE WITH E.O. 13233 | 2 | 3/25/1982 | B1 |
| 31617 | LETTER | DRAFT TO DENG ZIAOPING R 12/18/2007 NLRRF2002-019/1 | 3 | ND | B1 |
| 31619 | LETTER | DRAFT TO ZHAO ZIYANG R 12/18/2007 NLRRF2002-019/1 | 2 | ND | B1 |
| 31620 | LETTER | DRAFT TO HUANG HUA R 12/18/2007 NLRRF2002-019/1 | 2 | ND | B1 |
| 31621 | COMMUNIQUE | DRAFT R 12/18/2007 NLRRF2002-019/1 | 2 | ND | B1 |
| 31622 | LIST | OF PRINCIPLES R 12/18/2007 NLRRF2002-019/1 | 2 | ND | B1 |

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|-------|----------|--|-------------|----------|--------------|
| 31623 | OUTLINE | OF ALTERNATIVE APPROACH TO THE CHINESE | 1 | ND | B1 |
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24 DEC 1981

China

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THE WHITE HOUSE
WASHINGTON

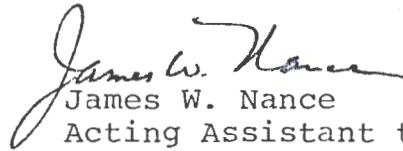
December 24, 1981

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF COMMERCE
THE COUNSELLOR TO THE PRESIDENT
THE DIRECTOR OF CENTRAL INTELLIGENCE
THE CHIEF OF STAFF TO THE PRESIDENT
THE DEPUTY CHIEF OF STAFF TO THE PRESIDENT
THE CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: Impressions of China

Recently, a friend of the President, Mr. Douglas Morrow, completed a trip through the People's Republic of China. He prepared the attached memorandum for the President on his observations. Because it is so informative and interestingly written, the President asked that you be provided a copy for your edification.

FOR THE PRESIDENT:



James W. Nance
Acting Assistant to the President
for National Security Affairs

Attachment

IMPRESSIONS OF CHINA

September-October 1981

TO: The President
FROM: Douglas Morrow

November 30, 1981

I'm certain that you have been kept fully informed by those more expert than I, - State, NSC, Ambassador Hummell, etc. But, for whatever it may be worth, herewith some impressions. I'll start with some condensed versions of exchanges I had on subjects which the Chinese initiated and seemed eager to discuss.

These exchanges were with:

Xie Li, Secretary-General, in Beijing
Wang Chuliang, Deputy Secretary-General, in Beijing
Xu Xinxi, Chief of the North American Division, in Beijing & throughout China
Gu Yiren, North America Division staff, Beijing
Zhao Yujiang, " " " " " "
Xin Yu, Vice-Director, Foreign Affairs Office, Chongqing
Zhang Dong Hui, Foreign Affairs Office, Chongqing
Bai Yufong, Deputy Director, Foreign Affairs Office, Shaansi Province
Liu Lienlian, Foreign Affairs Office, Shaansi Province
He Kejing, Deputy Chief of Reception, Shaansi Province
Wang Liang, Director of Foreign Affairs, Jiangsu Province
Su Gen-hua, Division Head of Reception, Foreign Affairs Office, Jiangsu
Lei Huanwen, Deputy Mayor, Wuxi
Jin Xun, Chief of Protocol, Foreign Affairs Office, Wuxi
Shen Jinzhi, Foreign Affairs Office, Wuxi
Mr. Shih, Deputy Director, Foreign Affairs Office, Shanghai
Mr. Xu, Deputy Division Chief, Foreign Affairs Office, Shanghai
Mr. Xie, Foreign Affairs Office, Shanghai
Jiang Zhi Sin, Chief of Reception, Foreign Affairs Office, Quangdong Province
Ho Chi Chuan, Foreign Affairs Office, Quangdong Province

And various others throughout the country.

Before getting into it, I want to make clear that, meticulously and carefully, anytime I said anything beyond "hello" and goodbye" I prefaced it with, "I have nothing to do with the government, and cannot speak for it, the President, the State Department, or anybody else. I am only a private American citizen. If you are interested in my personal opinion, I'll try to answer your question. But it is only one man's opinion". They always acknowledged this disclaimer and insisted that they'd like to hear whatever I might have to say.

Throughout China, there was an almost absolute consistency in the Chinese rhetoric. Any differences were in style, not substance. Some were more deft or direct than others, but the basic positions and reactions were uniformly identical. Therefore, I will use a generic "they" in synthesizing their views and reactions.

They are preoccupied with three subjects which constantly recurred in discussion:

TAIWAN AND THE U.S. POSITION WITH RESPECT THERETO

They are absolutely obsessed about Taiwan. Claim that by reason of history, background, tradition, family, etc., Taiwan is Chinese and must rejoin the "motherland" as "one China". They gave me all the arguments and rationale with which you are familiar. They claim that reunion is the immutable wish of the Chinese people, both on the mainland and on the island. But that this inevitable reunion is being thwarted by the obdurate leaders on the island.

I expressed regret that they had this problem, but suggested that it was a "Chinese" problem which should be settled between themselves, - mainland and island.

"But," they said, "the U.S. makes a solution difficult by siding with the island."

"I don't believe we've sided with anybody," I said, "We have a long-standing friendly relationship with Taiwan, which I hope will continue. And we now have a new embryonic friendship with the mainland, which I hope will expand and strengthen. Nothing could please me more than to see the mainland and the island amicably resolve their problem."

"But that is not your government's position."

"Why do you think that?"

"Because you sell them weapons. That is not amicable to us."

I said, "It would not be amicable only if you are expecting the island to attack the mainland. Do you expect that?"

Very firmly, "That is absolutely impossible."

"I agree. Is it also impossible that the mainland would ever attack the island?"

"Ever is a very large word. But why does the President think we might?"

"I don't know whether the President thinks that or not. But many Americans might believe it to be a possibility. After all, you did lob shells into the offshore islands in the past. If something like that happened, I suspect that the sympathies of most Americans would be with the island. Perhaps that affects the government's attitude."

"But all that could easily change. All the President has to do is stop arming Taiwan."

"Not if the American people continue to have a sympathetic concern for Taiwan."

It is interesting that they pretend to believe (gamesmanship) that the President can make such decisions regardless of the sympathies of the American people. I pointed out to them that at that very moment the President was having a very difficult time with the AWACS sale. The vote then was about 57-43 against. And that unless he could persuade the people, through their elected representatives, of the desirability of this sale, there'd probably be no sale. That, I said, is how our system works.

They asked my opinion as to whether the President would succeed in his persuasion. I said that it would be close, but my guess was that the President would succeed.

A little triumphantly, and a bit naively, they said, "Why, then, can't he also persuade them that the U.S. should not sell arms to Taiwan?"

"That might be very difficult as long as there is a perceived possibility of an attack upon Taiwan. It might be easier, however, if the mainland publicly pledged that, however anxious it might be for reunion with the island, it would never use force to achieve that goal."

Shortly thereafter, Chairman Ye's 9-point proposal to Taiwan was announced and they immediately gave me an English translation with the question, "Isn't this reasonable and generous?"

I agreed that it was...as far as it went. And expressed regret that it didn't include a 10th point which unequivocally foreswore the use of force in effecting reunion. That might have had a positive influence on the American public.

They persisted in pretending (more gamesmanship) that they couldn't understand why American public opinion was hostile to them.

I said that it wasn't as much hostility to the mainland as it was sympathy for the island, a subtle but real distinction. "I have referred to the average American's concern for Taiwan. But it may surprise you to learn that the average American knows very little about Taiwan...its background, history, politics, or anything else. He hasn't the faintest idea who Chiang Ching-Kuo is, or who Chiang Kai-shek was. He is not even too sure where Taiwan is..."

They interrupted in surprise, "Then why their concern about Taiwan?"

"Because, by and large, the American people have an instinctive sympathy for the underdog, for the little fellow. Especially if they think his survival is being threatened by a big fellow. And, most particularly, if they are on friendly terms with the little fellow. They may not know much about the background and complexities involved. It is enough that they perceive 16 million people on an island being under possible threat from a billion people. In such a circumstance, predominant American public opinion, historically, is almost instinctive."

There was what I can only describe as an off-balance silence. I had the impression that they had never heard this viewpoint before. I decided to pursue it, but very affably, "In some ways, it is vaguely similar to our relationship with Israel. Again, the average American, though somewhat more knowledgeable, does not really grasp all the complexities involved in the Middle East. And, other than oil, doesn't care much. But when he sees 2½ million people trying to survive and make a life for themselves in the desert, surrounded by 70 million avowed enemies, there is an instinctive sympathy for this embattled underdog. Particularly if these people have been kicked around for centuries, climaxed by a Holocaust. It is so instinctive that you could find people in, say, Four Corners, Iowa, who have never even seen a Jew, who are supportive of Israel."

They were still so off-balance by my rationale for the American viewpoint re; Taiwan that they seemed to welcome a diversion. "That," they replied "is not a good analogy. The American position regarding Israel is dictated by the American Jewish lobby, which, you have to admit, is very powerful."

I shook my head, "It is not powerful, but it is influential. And there is a difference. Power is having the ability to do something. Influence is having an opportunity to try to persuade someone else to do something. They don't have much power, but they do have influence. And their influence is respected because they are pretty smart people. You don't actually believe, do you, that 6 million American Jews have the power to dictate policy to over 200 million non-Jews?"

"But they control the American media which gives them the power to regiment American public opinion."

I could not honestly discern whether they actually believed that the American media was controlled by Jews, or whether this was more gamesmanship.

I had a feeling they might believe this and said, "Whatever gave you the idea that Jews control the American media?"

"Because it is a fact."

"Give me an example."

I would have sworn they would come up with the N.Y. Times. But, you won't believe this, they said, "For example, the Washington Post."

I managed to keep a straight face and remarked that Katherine Graham would be surprised to learn that she was Jewish, to say nothing of Ben Bradlee. I then said, in a friendly and conciliatory manner, that because our two countries had been apart for so long it was only natural that there might be gaps and misunderstandings, on both sides in our perceptions of each other.

I then proceeded to give them a rundown on the principal American media. I named the 6 or 8 most influential American newspapers, TIME and NEWSWEEK, the wire services, and the three networks. I stated that unless a mass conversion had taken place during my absence, policy and editorial control in these diverse media was overwhelmingly in the hands of non-Jews. And I ticked off the names of the key personnel at all these various media, with particular allusion to the network news departments.

On balance, I pointed out, the effective influence of Jews upon the various significant American media is roughly in ratio to their proportion of the population.

Unless they are potential Oscar winners, they seemed genuinely taken aback.

I then switched gears to get them off the hook and remarked that the supportive attitude toward Israel continues despite Begin's often obdurate and sometimes inexplicable behavior.

They jumped at this and expressed amazement that America would countenance this, particularly when continued support of Israel jeopardized America's relations with the Arabs, particularly with respect to needed oil.

That, I said, simply emphasizes the extent of the American sympathetic instinct for an embattled underdog. I suggested that this sympathy might not be as broad if Israel had a population of, say, 50 million. We might not be as patient with some of Begin's inflexibility. But, under the circumstances, our level of tolerance is pretty high.

They regained their balance and challenged me with this, "If the American instinct for the underdog is so strong, why didn't you support us in the forties when we were in conflict with the Nationalists? We were the underdogs then."

"You were also communist. And in that early stage of the Cold War there was automatic antipathy to anything communist. It represented unwelcome intrusion into the affairs of others. Aggressive expansion. Subversion. Etc. Little or no distinction was made between Soviet communism and Chinese communism."

"But there is a distinction. We, too, deplore Soviet hegemony. We are at odds with them on that. And we have not engaged in hegemonism."

"On the whole, that seems to be true, so far. And the distinction you make may be one of the reasons for the renewal of our relationship. With time, conditions and positions change. After all, in the past, you managed two reconciliations with the Nationalists. True, they didn't last. But I am confident that time and changing conditions will resolve your problem with Taiwan through a third and, hopefully, final reconciliation."

"How long are we expected to wait?"

"Until a peaceful reunion with the island would be in the best interests of both you and the island."

"That is the situation now."

"Perhaps not. You acknowledge that your standard of living is significantly lower than that of the island. If, somehow, reunion were effected tomorrow, you might be opening a terrible can of worms. Is it not possible that your people might grow increasingly restive as they learn more and more of the wide gap between their conditions and those on the island? You are making slow but steady progress in providing better conditions for your people. Would you not be well advised to concentrate on that? To devote yourself to raising your standard of living until it reaches a point where your people would not be confronted with such a gap and possibly become dissatisfied? And the Taiwanese would not fear that a reunion would threaten their standards?"

I then expressed the hope that nothing I had said, as a personal opinion, had been offensive.

They smiled and said, "Not at all. It has been a friendly, enlightening and entertaining discussion. We hope you will return soon again for more valuable exchanges."

"I hope it will be possible, and look forward to it."

I thought that was a gracious windup to the discussion. But they initiated an amusing epilogue. The mao tai was raised and they said, smiling, "Perhaps you'll return as Vice-President..."

I frowned and groaned, "I thought we were having an amiable discussion aimed at better understanding and friendship. I feel friendly, but apparently you don't."

Surprise and shock. "My intention was very friendly."

I shook my head, "Anybody who would wish elective office on me is no friend. I'd rather do a term in a state penitentiary..." Laughter. "...why would you wish that on me?"

"Because you have a big muscle in your head."

I took my head in my hands and moaned, "Now you've turned on me again."

"But that was meant as a compliment."

"Perhaps. But couldn't you have said, at least, a "small brain" instead of a big muscle?"

Much laughter. "You have a delightful humor. Apparently, so does your President. Did you get it from him, or did he get it from you?"

"Neither. We both have spent most of our lives in Southern California breathing very "funny" Los Angeles air."

You never heard such yocks. Apparently, our smog is as well known around the world as Coca-Cola!

In summary, I sensed an underlying and troubling (to the Chinese) ambivalence in the Chinese posture re: Taiwan. They are almost as obsessed with their desire for extended U.S. friendship and technical assistance. And I got the feeling that they suspect their preoccupation with Taiwan might affect the development of their relationship with the U.S. When we were discussing the idea of an attack upon Taiwan, I remarked that the whole discussion was probably academic. I commented that the Chinese were too wise and too patient to allow their preoccupation with 16 million islanders prejudice the emergence and progress of 1 billion mainlanders. Of course, I did not mention the U.S. But I believe they are conscious of this. And I have a gut feeling that they dread the possibility of having, at some point, to make a choice between maintaining an expanding relationship with the U.S. and the regaining of Taiwan.

I also have a hunch that, were it not for their renewed relationship with the U.S. and their desire for its expansion, the possibility of a move upon Taiwan would be very real...if, as, and when they had accumulated the wherewithal to mount such a move.

NEED AND DESIRE FOR U.S. TECHNOLOGICAL ASSISTANCE

The phrase they use is "mutual cooperation". And they are almost as obsessed with this as Taiwan.

I got the impression that the "technology" they need and want is, at this time, not necessarily at the state-of-the-art sophisticated level. The expertise they most immediately need seems to be managerial. To a great extent, they suffer from the inevitable inefficiency and clumsiness of bureaucratic supervision, at both the central state and local project levels. As a result, the country abounds in paradoxes.

Example: One of their largest refineries. On the bank of the Yangtse River. Initial construction in mid-fifties. Initial capacity about one million tons annually. Original equipment still in operation. By our standards, pretty Rube Goldberg. Later expanded to 3 million tons. Slightly better technology. Few years ago expanded to 6 million tons. Still not comparable to ours, but they make it work. Totally Chinese designed, engineered, built and operated.

Until recently, the crude was transported from a field about 300 miles away by ocean-capable tankers, 50-75 thousand tons capacity vessels. Then they built a pipeline from the field to a terminus across the river from the refinery. Pretty impressive achievement, right?

Not quite. They are bringing the oil across the river, about a mile, in these relatively large tankers! There were three at dock when I was there. And I believe there are three more. You can imagine the awkwardness and expense of maneuvering ocean-capable tankers back and forth across a mile of river.

When I inquired why they didn't extend the pipeline across the river or use less expensive and more maneuverable tug-propelled barges, the director of the plant, a little sheepishly, said that the petroleum ministry didn't want the tankers lying idle. I asked if there might be other enterprises, - grain, textiles, machinery, etc., - which could use these bottoms for coastal or export movement.

"That's possible," he acknowledged, "but these vessels come under the petroleum division."

Bureaucracy is bureaucracy is bureaucracy.

Example: A truck engine plant. Early industrial revolution. Badly lighted and ventilated buildings, poorly maintained. They assemble the engines (not on a line) from some components they manufacture and, mostly, components brought in from other plants around the country. Of course, we do this also. But we have excellent transport. Theirs is barely 20th century. No highways as we know them. No large trucks or trailer-rigs as we know them. And a railroad system that is limited and still in transition from steam engines. So production flow, slow at best, is dependent on consistency of supply of components from other plants and reliability of delivery. If either one fouls up, things grind to a halt. They had little or no capacity for storage to stockpile components.

We visited a variety of manufacturing facilities, - heavy, medium and light industry, - and everywhere there is an archaic feeling. The work gets done by sheer mass of plentiful dogged labor. But the various facets of planning, production and distribution reflect a lack of imaginative and expert managerial capability.

They are quite candid in admitting their weakness at the higher planning and managerial levels. And your mouth waters at the potential mutual benefits to be gained if we supplied that expertise in some sort of joint venture arrangement. But, at the present time, as much as they want and need that from us, there are several factors working against any easily arrived at accommodation.

First, their basic ideological dilemma. How do they justify adapting key elements of their communist system to capitalist management techniques?

Second, even if they could rationalize that, there is strong resistance at the various bureaucratic levels which presently dominate management. They want to protect their turf.

And third, even if the above two factors could be overcome, negotiating such arrangements with them would be very difficult and aggravating. Even in areas where they have had some experience, they are very tedious and wary bargainers. Hard to pin down unless and until, after exhaustive back-and-forthing, they believe they have squeezed out the best bargain possible. You can imagine what it would be like negotiating in an area where their experience and awareness is very limited.

Notwithstanding all of the above, there are visible indications that their approach to industrial development and modernization is undergoing significant change. I'll touch on this later. And also suggest why, however difficult it may presently be, we should pursue various business arrangements with them.

THE SOVIET UNION

This is their third major obsession. And there is an uneasy underlying ambivalence. There are several areas in which they are very critical of the Soviets. But their rhetoric is somewhat muted because, uncomfortably, they realize that they are talking about another major communist state. And their analysis becomes quite convoluted in their effort to dissociate Soviet "communism" from their version. To give the impression that their's is the real thing and the Soviet's an aberration.

They point proudly, and to a great extent deservedly, to their accomplishments on behalf of their people. They feel that in 22 years, deducting the 10 year Cultural Revolution, they have made more "people progress" than the Russians have in 67 years. They attribute this to their emphasis on investment for people rather than for the military. They heatedly condemn Soviet "hegemony" because it threatens Soviet neighbors and the rest of the world and, concurrently, deprives their own people.

With casual humor, I suggested that this was the basis for the long-standing American aversion to communism. I joked that "we were critical of the Soviets before you were."

A bit uneasily, they attempt to distinguish between their communism and that of the Soviets, "We are different. We reject hegemony."

"Now," I said, "But what about later? When you have brought your people to an acceptable standard of living? When you have modernized your technology and economy? When you have developed a modern military capability? What then?"

They shrug, "Why would hegemony interest us? What do our neighbors have that we need or want? People? We have enough. Territory? We have enough. Raw materials and resources? We have enough. We are only interested in what will benefit the Chinese people. Imitating Soviet hegemony is not in our best interest."

I nodded and said, "I understand." But I refrained from saying that I would not want to bet my life on it. "After all, in recent years most of your reforms and changes, both in agriculture and industry, however first-stage and experimental, seem to be borrowed more from our system than from the Soviets."

They smile and say, "We have much to learn from you."

Almost casually, when discussing the Soviets, they suggest that a Soviet attack upon them is, at some point, a real possibility. And then, casually and confidently, they add, "Of course, we are not afraid of that."

"Why not?"

Very matter-of-factly, "Because of the Chinese people."

They pretend to believe that they could hold off the Soviets by sheer numbers.

Their posture on this subject is so casual and matter-of-fact that it leads me to believe that they are a hell of a lot more concerned about it than they want to reveal.

SHANGHAI

I make special reference to Shanghai not because of its failure but because of its success and, paradoxically, because its success illustrates the underlying Chinese planning and managerial ineptness.

Shanghai is the largest city in China. And in a country of 1 billion people, this city with a population of about 11½ million people accounts for 1/8th of China's total industrial output, 1/6th of China's gross revenue, and 1/4 of China's total exports!!!

Although this may reflect favorably on the industriousness of this very busy city, this colossal imbalance is but another example of inexpert planning. When the tail wags such an enormous dog, obviously something is fundamentally wrong.

It is almost a catch-22 situation, graphically illustrated by the Baoshan Steel Mill disaster. The project, initiated in 1977, was designed to build one of the most modern mills in the world. It was located on the Yangtze, on the outskirts of Shanghai despite the fact that the land is marshy and won't hold steel pilings, despite the fact that a sandbar at the mouth of the Yangtze prevents passage by loaded bulk carriers, and despite a variety of other major problems too numerous and complicated to go into here.

Why did they pick this location? Because there is an abnormal concentration of skilled labor in the area, and because there is an abnormal concentration of markets for its products in the area. So the imbalance of Shanghai vis-a-vis the rest of the country compounds itself.

The basic technology and equipment for this project was to be provided by Japan, with major sub-contracting by West Germany and the U.S. It was to initiate production, 6 million tons a year, in 1981, aimed at 60 million tons a year by 1985. The initial stage is less than half completed and almost at a halt. The most optimistic projections place initial production at least four years away, if ever. The second stage has been indefinitely postponed. They would like to just walk away from the whole thing, but there are too many billions of dollars already invested that they are trying to salvage.

Aside from the initial Japanese technology and equipment, I understand that most of the other foreign contracts have been cancelled.

There is a lot more to this whole situation, but the above should at least give you an idea.

THE PEOPLE

Approximately 850 million peasants, and 150 million urban and non-agricultural.

By and large, they may be the best-conditioned people I've ever seen. Both male and female. Lean and strong. A minimum of flab, and not a pot-belly to be seen. Reasons:

Constant physical exercise, aside from work. Bicycles are the principal means of transportation, and long distances. In mountain cities, like Chongqing, no bicycles. Too hilly. They walk, long distances. Up and down hills, often carrying very heavy loads. It is common to see a 100 pound lady, long pole across

her shoulders, carrying at least her own weight, quick-stepping up or down a long hill. In the cities, they are big on informal calisthenics. You can see them on rooftops, at dawn, doing their exercises. Even on the boat, each day at dawn, even old ladies were out on the deck, twisting and bending.

The diet. Very few fats. Much vegetables and fruits. Lean meats, fowl and fish. Greaseless cooking. And, as I will touch on later, there is a surprising abundance of food. This is a well-nourished people.

Except in remote areas, it is, as you might expect, teeming with people. But as much as you expect it, you don't really grasp it until you see it. And even then it is almost unreal. Streets crammed with tens of thousands of bicycle riders, pedestrians and buses stuffed with bodies. This congestion of people is compounded by a fact that few foreigners fully understand. The Soviet Union, with its much smaller population, is approximately twice as large as China, which is approximately the same size as the U.S. But about 95% of the population is crammed into the eastern half of the country. It is almost as if we had 900 million people east of the Mississippi.

Once you have adjusted to these hordes, you are forcefully impressed by their demeanor, attitude, mien. Their expressions do not reflect stress or tension. Brows unfurrowed. Even carrying heavy loads or other difficult physical circumstances, they seem benign and serene. You wonder if it might be simply weary and resigned acceptance of their lot in life. Or, perhaps, Oriental inscrutability.

But it is neither. As hard and sparse as their standard of living is, it is dramatically (to them) better than it was pre-1949, and especially since the end of the Cultural Revolution in the mid-seventies. They seem to feel that they are, at long last, on the road to joining the rest of the developed world in the 20th century. And, although they are still in a very early stage, this perception of being on the way sustains them, and they patiently put up with whatever they have to put up with. It is all in startling contrast with the tense, stressful, almost neurotic expressions and attitudes which are so common on the main drags of any American city, or most developed western countries. Even Hong Kong. Amazing thing. Many Hong Kong Chinese visit the PRC. Even aside from their attire, you can pick them out of a crowd of Chinese immediately. Their expressions are about as benign and their demeanor as unstressful as a used car dealer or a Hollywood agent. There is an almost indigenous tension.

But not the Chinese. Example: buses built to accommodate about 50 passengers are commonly stuffed with over a hundred people. I mean stuffed. Like sardines. Saw a fellow squeeze his way through this solid mass to get off at a stop. Asked him how often he did that. Several times a day. Pretty rough, I sympathized. He smiled, "But better than walking, or not getting there."

Example: Visited the Summer Palace on October 1st, which is their major national holiday. In addition to the palace, it is an enormous park and recreation area. They estimated that close to 1 million people would visit it on a family outing. Simply teemed with a cross-section of the populace. Many came on bicycles. Some walked. And those from far distances, very many, came in buses. Late in the day, at one of the bus stops, there was a line that must have been a quarter of a mile long. Keep in mind that this was at the end of a tiring day, and with many children. In this country there would have been pandemonium. I could only think of our "privileged" people, at Sun Valley, waiting for the ski buses back to the lodge at the end of the day and, in complete disorder, practically engaging in hand-to-hand combat to get on a bus. But this long line of Chinese waited in orderly fashion, talking and laughing about the good time they had had, the kids eating ice cream sticks, and when their time came

calmly getting on the bus with no hassle. Instead of being upset and all stressed up, they accepted this as a small price to pay for a day's recreation. Better than not getting there.

Another odd thing, which I simply can't explain. All over China we encountered thousands and thousands of babies. Little ones. In arms of parents or grandparents. (One of the major preoccupations of grandparents is to take care of grandbabies while the parents work). Margot first called this strange thing to my attention. We saw these babies on the streets, in the parks, on the boat, everywhere. And never, - I don't mean hardly ever, I mean never did we hear or see a baby cry! Even at the end of a long, tiring day they were either alertly awake or asleep in someone's arms, but never crying. I cannot even speculate on the explanation for this. Asked one of the officials why. He just shrugged and smiled, "I guess they're happy". Pretty simplistic and I'm sure there's more to it than that. But all I can say is that there is nothing wrong with these kids. They are very alert and curious about what is going on around them. And, this is the topper, they are entranced with white foreigners. You smile and wave to one of these babies and nine times out of ten he'll smile and wave back! I'm talking about babies less than a year old. Unbelievable.

One of our most meaningful experiences with the Chinese people took place on the boat. We spent several days going down the Yangtze from Chongqing to Wuhan. We were not on a boat that accommodates tourists (at my request). We were on a "native" boat, and Margot and I were the only foreigners among about 700 Chinese, who represented a cross-section of the various Chinese social and economic strata. We had two very small cabins. I won't attempt to describe them. Strictly African Queen. But that was the high-rent district.

A few Chinese who could afford the few yuan, bunked four together in a cabin that would be cramped for one. Most were in long cabins, about 6 feet wide that contained 12 double bunks, all crammed together. 24 people, men, women, and children, and some live chickens! Incredible. Made the Mayflower look like the Queen Mary. And a large percentage of the passengers, who couldn't afford these elegant accommodations, simply came aboard, staked out a small space in the passageways, and slept there. You stepped over and around them on your way to meals. Sounds awful, right?

Wrong. Wouldn't have missed it for anything. Because of the people. Not a hint of a hassle of any kind. Quiet, well-behaved and serene. You'd think there'd have been a hell of a ruckus at the few wash basins and WCs. Nope. Everybody got along just fine.

And particularly with us. As in the rest of China, you think at first that they might be hostile or at least neutral, because their expressions are impassive and their manner reserved. Not at all. It is, I imagine, simply shyness. Particularly with Americans, who represent fantasy to them. All you have to do is nod or smile, and they light up. And they are delighted if you talk to them and show an interest in them. We did, and were rewarded with extraordinary politeness and solicitude, and abundant manifestations of what I can only describe as affection. On the last day, out of the blue and spontaneously, we were given some personal trinkets as remembrances of our trip together.

I can only put it this way: If a total stranger was dropped in the middle of these people, knowing nothing of their background, history or system, his immediate impression would be - "A contented people".

On the Yangtse, two paradoxes worth noting. Between Chongqing and Wuhan, you go through some very wild and primitive mountains, particularly through the Three Gorges. Scattered throughout this desolate area are "houses" that can only be described as hovels, lower-scale 18th century. They are perched on the side of these steep mountains. Somehow, they manage to cultivate these precipitous slopes. Some of these "farms" are damn near vertical. Interestingly, these most primitive and isolated houses, hardly more than roofed sheds, have electricity. You can follow the power poles for miles along the river or through the mountains, leading to a single, small house, with a bulb hanging inside from the ceiling. They are pretty proud of this "progress".

After the river comes out of the mountains, and you are still digesting the primitiveness of what you've observed, the river widens dramatically, perhaps a mile or mile and a half across, and you come upon the damndest dam (how do you like that choice of words?) you ever saw. Not a high dam, (Coulee, Boulder, etc.) but a long, medium high, heavily massed, sturdy structure stretching across this wide expanse of river to control lower river flooding and generate electricity. There is a quite large lock, which we went through with three other boats, and dropped about 75 feet to the lower river. In the context of everything else in the country it is a quite stunning achievement. And it was conceived, designed and constructed entirely by the Chinese without, they assured me, any foreign assistance.

At Nanjing, another paradox. The river is about 1600 meters wide. But the eye-popping bridge, recently constructed, is about 4600 meters long. You wonder why the broad on-ramps at each end are so long and straight. Until it is explained that the approaches were constructed long and gradual to accommodate, in addition to trucks and buses, the tens (perhaps hundreds) of thousands of bicycles, many heavily loaded, which are pedaled across each day. Interesting. Modern technology and construction expensively modified to conform to primitive transportation.

THE PEASANTS

About 85% of the population, they have benefited most in recent years.

A 3-tier system, which is a bit complicated. But, in brief, this is roughly how it works:

The state sets production quotas for the state-controlled communal acreage. Quota is deliberately set at modest level to encourage over-quota production. About 45% of over-quota production retained by the commune for benefit of the communal members, - supplies, machinery, health care, child care, etc., including cash bonuses.

In addition, each family is allowed private acreage and any other "sideline" enterprise they are able to perform, - carpentry, seamstress, fishing, repair work, whatever. They can farm the private plots, or manufacture things, as they see fit.

Whatever they raise or manufacture is brought by the peasants into the nearest town or city where areas have been allocated for them to "free market" their produce or goods without any state control or involvement.

This system was inaugurated in 1978 and there are presently about 40,000 "free markets" throughout China. And the number is constantly growing. As a result, the incomes of peasant families have risen, by Chinese standards, astronomically.

The wage scale generally in China runs from about \$18 to \$50 a month. But with these "free enterprise" incentives, many industrious peasant families are now generating incomes in the range of \$1500 to as high as \$4000 annually. Such figures would have been sheer lunatic fantasy even five years ago.

This is not yet true all over China. But it is quite common and spreading rapidly.

What has been happening in recent years is simply this: The Chinese have consciously, though primitively, borrowed from "capitalism" to stimulate incentive and entrepreneurial ingenuity.

When I good-humoredly teased them about dipping into the "capitalist" bag of tricks, they reacted in similar good humor and said, "We have much to learn from you," and then they added, "Much of what we copied from the Soviets did not work." Astonishing admission.

They now encourage peasants to save from their greatly increased incomes and buy their own houses. Many are doing so. The homes, when bought, are owned free and clear, and are inheritable.

In one commune we visited, a man and wife with two married sons had just completed the purchase of the third of three adjoining small houses. They all pitched in the past few years, pooled their bonuses and sideline income and were able to make these purchases. Total cost of the three homes, about \$4500.

THE NON-PEASANTS & INDUSTRIAL REFORM

Although only about 15% of the population, this still means about 150 million people. Their income and standard of living is not as good as the peasants. Particularly those in "service" work. "Sideline" enterprises are not as accessible to them as to the peasants.

But those working in light, medium and heavy industry are beginning to do a little better by reason of a still-fuzzy capitalist "tilt" that is, almost sub-consciously, influencing the Chinese industrial system.

Under this still-early-stage reformation and reorganization, the companies no longer merely transmit the company's profits to the state. Instead, the state levies a tax on profits and the company retains the balance. So there is, in this communist country, a growing preoccupation with "profit".

Previous to this reform, when all "profits" went to the state, there was no incentive to produce anything beyond the state quota.

Under the reformed system, the workers are motivated to produce more, the sales forces are motivated to sell more, and management is motivated to try to control costs and upgrade efficiency. Reason: they keep about 1/3 of increased gross profits (after taxes), perhaps 1/2 of the savings from increased efficient production, and practically all of what is saved from unneeded working capital.

All of these new retained funds go toward expanding production, workers' benefits (child and health care, new housing, recreation facilities, reduced cost in company stores, etc.), plus monthly bonuses to the workers.

Under this new system, as the company retains more profits and the workers receive more benefits and higher bonuses, the state is also receiving

more in taxes than it received previously when it got everything off the top. Beginning to sound familiar?

The initial success of this reformation has motivated the state to apply these reforms to some 400,000 enterprises throughout China.

In essence, the plan is to decentralize industry and grant increasing control and autonomy to local companies. And, in an effort to get more efficiency and get industry out from under state bureaucracy, they are actually combining small companies into large corporations, - like some of our conglomerates!

This is an on-going experiment. But two things are keeping it from moving at a faster pace.

First is the scarcity of modern management personnel. They are keenly aware of this and are working on it, training younger executives.

Second is, understandably, the resistance of certain entrenched government bureaus that see their "turf" being whittled away. (And doesn't that sound familiar?) This seems to be particularly true of the petroleum bureaus.

In the approximately 10,000 major businesses that have come under these reforms so far, they give the company almost total control in basing production on demand, profits on production, and pay on profits. Previously, this simply did not exist. Production was based on a centrally (state) devised plan, regardless of demand. All profits went to the state. So nobody in the local enterprise, especially the workers, gave a damn whether a profit was made or not.

They tell you candidly that they borrowed the previous system from the Soviets, not realizing that it really wasn't working there. And that, unlike the Soviets, when they saw it wasn't working in China, particularly after the Cultural Revolution, they didn't hesitate to try to reform it.

All this is not to suggest that, in the short term, China will become a vast Hong Kong, Taipei or Singapore. It is going to be a long tedious process, if it continues. Nor is it suggested that China, in the long term, will become a "capitalist" country, commercially and economically. Not likely.

But I have a hunch we may be seeing the beginning of a strange trend for a communist country. It is, perhaps, possible that somewhere down the road, as younger, educated and modernly trained generations move up, we may see a country that retains its communist dogma, politically and sociologically, but gradually moves into a quasi-capitalist mode in its economy and world trade.

There are still many bugs to be cured, such as a centrally-fixed pricing system, but they are conscious of the bugs and seem determined to iron them out. Constantly, in discussions, you hear "profits", "decentralization", "incentives", etc. Even the government-encouraged "free market" is a euphemism for a rudimentary "free enterprise". Where there is so much rhetorical smoke.....

YOUNG PEOPLE

During the anarchic nihilism of the Cultural Revolution, education at all levels was practically abandoned. Schools and universities were, to a great extent, shut down. Education, rules, discipline, even what we'd call law and order, were deemed bourgeois ploys to control the proletariat. Since the Cultural Revolution, they have embarked on a very impressive educational resurgence.

English, by the way, is widely taught as a routine matter.

Visited kindergartens, lower, middle and higher grades. One of the most significant experiences we had. Particularly at the lower levels.

These kids are not to be believed. Neatly, even colorfully, dressed. Utterly well-behaved in their classroom decorum. Alertly attentive and interested. Hands clasped. Then raised in response to questions. Stand erect to answer. No idle chatter or squirming. The bell rings. They stand in their aisles and file out in silent, orderly fashion. You begin to suspect they are robots. And then they hit the corridor or playground and you never heard such laughing, chatter and high spirits. And they love school.

It was really something to see, in a science class, 8 year olds making rudimentary radios from scratch. 10 year olds in a music class gave a smashing performance. Some little kids, not over 8, put on a play for us in perfect, unaccented English. And in math class they lost me. Some 8 year olds in an art class, spontaneously in our presence and in about 15 minutes, did some paintings that are so remarkable we are having them framed.

In some places we visited foreigners, particularly Americans, were completely strange to them. They clustered around, eager to try their English. But so polite and well-mannered. I am ashamed to think that I would have trouble showing a visiting Chinese anything quite comparable.

These kids were extraordinary. And in 10 years or so, China will have a great natural resource and national asset in them. At present, there is still something of a gap caused by the klutzy non-entities who emerged from the Cultural Revolution.

STORES AND SHOPS

Throughout the country,- large and small cities, villages, etc.,- you are astonished by the volume and even variety of the available goods and food-stuffs. Again, not necessarily by our standards. But when you know of the empty shelves in the shops of Moscow, Warsaw, etc., and the long lines for the few things that are available, the stores and shops of China are astounding.

Between the free-markets and state-shops, food is abundant and varied. Funny incident. Were in a downtown area with some government officials at midday, intending to return to the hotel for lunch. I suggested that we save time and eat around there. I pointed to a small native eating shop.

They said, "All right. But not there. That's a state store." They pointed to another place, "That's a free-market place. Better to eat there."

"Why?"

"Better products. Cooked more carefully. And they'll be more anxious to please the customer because they own the business. State-shop workers on fixed wages don't care as much." Interesting?

The department stores are open day and night. An abundant supply of necessities and wide-ranging incidentals. Clothing, textiles, watches, sewing machines, radios, thermos jugs, bicycles, etc., and a surprising display of what are to them luxuries,- TVs, stereos, etc. Much traffic in the stores. Not just gawking. Much buying. The prices for necessities are very low. As

is witnessed by the fact that a large percentage of the populace has achieved what was unattainable just a few years ago,- a watch, bicycle, sewing machine, radio. And now, out of free-market income and bonuses, they are able to save for luxuries like TV, stereo, calculators, desk lamps, fans, etc. In some cities, one in 2, 3, or 4 families now have TV. Incidentally, in every city there are two channels,- one centrally transmitted from Beijing, and one locally from the city.

Refrigerators still almost unknown. Except in "better" hotels and restaurants. So the people can't store perishables. They buy and consume them daily. Washing and drying machines practically non-existent. So you see laundry hanging everywhere. Literally, in every window, all the time.

Incidentally, many necessary utensils,- china, pottery, etc.,- are sold at or below actual cost. Two-tier pricing. At or below cost for domestic purchase. Profitably priced for export, at a level to compensate for non-profitable domestic purchase. This isn't true of everything, but fairly common.

CONSTRUCTION

At no place, at any time, even in Europe after World War II, have I ever seen so much ongoing construction. Within cities, on the outskirts, in the countryside. Everywhere. Mind-boggling.

It is predominantly residential. And most of it is high-rise apartments. Seldom under 6 stories, often 8-10 stories, occasionally higher. Very small units, 200-300 sq. feet common. Except for the highest structures, many have no elevators. Some have elevator wells, but no elevators installed. "That will come later, when we have made more progress. Now, we must concentrate on living space, on essentials."

Each small apartment usually has a small balcony. But not for plants or sunning. It is a necessity...for hanging laundry. A block-long 10 story apartment building with laundry hanging from every balcony is a sight to behold. And you see it everywhere, as the buildings rise up like mushrooms.

You've seen "projects" in this country. They pale beside some of these. There was a stupefying development on an area larger than Century City on the outskirts of Wuxi. One enormous high-rise immediately adjacent to another, one after another. No squares or esplanades separating them. Nobody knew the exact occupancy. I'd guess close to 100,000!

Although the apartments everywhere are small, no unessential amenities, spare and stark, and usually walk-ups, the people love them. Because they are so vastly better than what they had (or didn't have) pre-New China. And the rents are ridiculous. 7 or 8% of earnings. No set figure. Merely this small % of earnings. At the average wage, about \$40 a month, the rent would be a little over \$3 a month.

HEALTH

Great strides. In 1949, average life expectancy in China was about 35. Infant mortality over 20%. Today, life expectancy is 68. Infant mortality barely 2%. Incredible achievement in 32 years.

Hospitals and clinics have proliferated everywhere. Very backward by our standards. But so much better than what was available pre-1949 that they proudly exhibit facilities that we'd condemn on sight. They are almost

child-like about it. In a hospital at one commune they insisted on showing us evrything,- patient rooms (cells right out of Snake Pit), operating room, dental facility, laboratory, etc. Each quite awful. But they show it to you proudly and then say, with a little smile, "Of course, this is all backward compared to yours, but it is a big advancement for us." Maybe. But pretty bad.

I think the people probably exercise, eat sensibly and take care of themselves to stay out of these clinics. Just to look at them is a form of preventive medicine! But they are proud and grateful.

POPULATION CONTROL

Best estimate is that the current population is about 1 billion. They want to stabilize it at around 1,200,000,000. And the ingenious method they're using seems to be working. Birth control devices are available to all at either no cost or, literally, for pennies.

A system is in effect that provides bonuses for those with no children. Smaller bonuses for those with one child. And smaller still for 2 children. Then it goes into reverse and there is an ascending scale of penalties for those with 3 or more children.

The bonuses take the form of discounts on food, clothes, etc., at the communal stores, rent discounts, medical care, etc.

A paradox. A couple with no children might get a larger, more desirable apartment than a couple with children.

Men can retire at 55, women at 50. At 75% of their last earnings. If they had no children they get practically free, or at enormous discount, food, clothing, medical care, etc., for the rest of their lives.

Those with more than 2 children have a hard way to go compared with less or none.

Although only instituted in recent years, there are indications that this system will significantly control population growth.

They will institute their first real national census within the next year.

CRIME

Crime, as we know it, is just about non-existent. And you don't have to rely on their assurances or statistics. You can see that this is true.

Example: Bicycles are a cherished, necessary and valuable possession. All over China,- in the inner cities, outskirts, countryside,- people park their bicycles right out on the street while they shop, go to work or whatever. You'll see hundreds of bicycles parked everywhere. Unlocked and unguarded. And they simply are not stolen. When you tell them that we have to lock our cars, put security devices and burglar alarms on them, etc., they just stare at you.

Example: Much of the free-market produce is exhibited and sold out on the streets or other open areas. Coming home late at night, we often saw the produce on the streets, untended, the owner having gone home to sleep. Won't it be stolen? They look at you in dismay. Of course not. Then they point

to a basket or box beside the produce. Explanation: Because of the enormous population in the cities, all people do not work a normal day shift. If they did, the streets would be impassable at morning and afternoon rush hour. So there are three work shifts,- 8AM-4PM, 4PM-12M, 12M-8AM. The people moving by at midnight might purchase some produce and leave money in the box.

Most of the time, your hotel rooms are unlocked. You can leave anything lying around,- money, cigarettes, lighters, pens, radios,- things that would be very tempting to the young hotel workers who make about \$20 a month. Safe as in a vault.

Accustomed as I am to our jungle, I have no explanation for this. Other than that it is a traditional ethic.

We wanted to take a walk rather late one night. I asked if it would be safe. Answer: Of course. The rainy season is over and this is not earthquake country. The thought of a mugging would be absurd.

Whatever is behind it, it is delightful.

TOURISM

They are very anxious to develop this industry. Both for the hard currency to be gained and because they seem honestly to want the exchanges and communication that tourism engenders. They especially want Americans. But they just don't have a clue how to go about it.

In the last few years they have built quite a few high-rise hotels in many of the major cities. When you first see them from the outside you wonder why people decry the accommodations in China. They look great. But inside is another matter. As you might expect, we had the very best accommodations wherever we went. And nothing ever rose above 3rd rate. I'm not referring to lack of expensive facilities or amenities. That you would expect and understand. It is that their concept of a hotel and ours are miles apart.

Despite the fact that they have plentiful workers all of whom are eager to please, the service is terrible. Because they don't know what to do, and nobody knows what to tell them to do. A few expert American hotel people could help them invaluablely in structuring their operation. I'll touch on this at the end of this report.

THE ARMY

We did not, of course, visit any military installations. And I have nothing beyond a couple of cursory observations.

There are soldiers everywhere. Not armed or on duty. Just wandering around in twos and threes, sightseeing or goofing off. Some of the uniforms are patched like quilts, and threadbare. Some are extremely young. I'm told that these are some of the flotsam and jetsam that emerged from the Cultural Revolution, unable to function productively anywhere else, so they stuck them in the army. Others are very old. The explanations for this are vague and evasive. I don't know what the hell they do in the army, but they sure don't fight.

The army trucks they ride around in are vintage vehicles. They'd be more of a threat to the Soviets on bicycles.

CHAIRMAN MAO

His pictures are still on display. And when they discuss him, there is a strange ambivalence. They are very complimentary when they discuss his efforts and accomplishments (their term) pre-Cultural Revolution. They acknowledge that he might have made a few mistakes but are, on the whole, quite approving of him during this period. And they are very reverential about the fact that he initiated the New China.

But when they discuss the Cultural Revolution, their tone changes drastically. They abhor that whole episode, and speak very bitterly about it. When you ask them about Mao's part in it, they admit that he was still the leader. But they suggest that perhaps he might not have realized what was taking place. They suggest that it really was instigated by his wife and the other three of the Gang of Four. That she realized that he was getting senile and that it was a good opportunity to seize power. And that although much of the changes in the early stages of the Cultural Revolution were issued in his name, she was really taking advantage of his condition and having things ordered in his name without his really understanding what was happening.

I asked a very loaded question...many changes have occurred and much progress for the people has taken place since the Cultural Revolution, I said, but would these things have occurred if the Cultural Revolution had not happened and Chairman Mao were still around and in charge?

A little sadly, they reply, "Perhaps not." And change the subject.

They acknowledge his contributions in the creation of and in the first stages of the New China, and then, almost overtly, and regretfully, admit that China had reached a stage which was beyond his ability to cope or, perhaps, understand.

THE MOTION PICTURE INDUSTRY

Production is archaic. For the most part, they shoot silent footage and dub in the dialogue and rudimentary sound effects later.

Distribution, state-controlled, very inept. The box-office gross potential of pictures is severely dissipated by their dogmatic practice of moving a limited number of prints from one theatre to another on a pre-determined schedule, regardless of the business generated by the picture. It can be playing to full houses, but out it goes at the end of a week. They make about 85 films a year. With smarter distribution policy, they could make 50 films, saving considerable production expense, and gross more with 50 pictures than they now do with 85.

Exhibition: About 2000 theatres in China. Supplemented by portable 35mm and 16mm projection for outlying villages and communes. In the cities, the films run from early morning to late at night. To full houses. About 10 cents a ticket. Visited one theatre at 7:45AM. Packed. They are ahead of us in one respect. There is a 20 minute gap between screenings, and they sweep out and clean the place!

Now, an important point to consider:

They love and are desperately hungry for American films. Just recently, a festival of 5 American films played in 5 cities for a week,- SHANE, BLACK STALLION. SNOW WHITE. SINGING IN THE RAIN and (can you believe?) GUESS WHO'S

COMING TO DINNER. Terrific reaction from full houses at every showing.

They have been trying to get more American pictures for regular exhibition. They feel, and I agree, that it would help expand mutual understanding and friendship. They have very little hard money and have been unable to get Jack Valenti to give them terms more favorable than what is normal in foreign markets.

I feel that making some films available to them would be a worthwhile diplomatic move. We have substantive differences with them on various matters, (Taiwan, tax treaties, etc.). And we'll probably hang tough on these. Wouldn't it, therefore, be helpful to us if we could at least make some cosmetic gestures, while we are at odds on more weighty issues?

I discussed this with Jack. His position is that if he makes concessions to the Chinese he'd be opening the door for the same treatment with other under-developed countries in the world.

I suggested that, in the interest of far-sighted American statesmanship, this might not be a bad idea. But Jack is reluctant to go to bat on this with the foreign-department managers of the MPAA.

So, I suggested to Jack that we forget about current or recent films. The Chinese are anxious to get any American films, even from the 30s, 40, and 50s, which would still be new to their audiences. These are films which, except for a few classics, are completely played out and just sitting in vaults. I proposed a formula which would set a date, perhaps 1960, and make some of these pre-1960 films, appropriately themed, available to the Chinese on a basis where they pay for the prints, shipping and handling, dubbing or sub-titling, etc., and we get a modest (to be negotiated) percentage of the gross. Anything we get back would be more than these films are generating on the shelf now, and we would at least make a gesture toward the Chinese. And if other under-developed countries ask for the same deal, what have we got to lose? We could generate diplomatic mileage and some revenue.

I persuaded Jack to present this formula to a meeting he is having with all the foreign department heads in January or February. He said he'd report back to me.

If you agree with me on this, a little nudge from you with Jack might help.

CHINA/U.S. - CHINA/JAPAN

One thought increasingly kept gnawing at me throughout China.

The Chinese are hungry for technological and managerial assistance. And it occurred to me that, somewhere down the road, we might find ourselves facing a sticky situation.

There is a strange, almost love-hate, ambivalence in many Chinese re: Japan. They remember the Sino-Japanese conflict and, particularly, a very unhappy Japanese occupation. But they are also fascinated by the enormous technological and managerial progress the Japanese have made. They make much of the fact that they have more Japanese visitors than any others. And they hasten to call your attention to the many Japanese products, machinery, etc., in China.

And despite past frictions, and ideological differences, there is an Oriental affinity between them.

But, more significantly, they were made for each other. Japan has the technology, the managerial expertise, the highly-developed international marketing experience, etc. But they don't have what China has. Vast, inexpensive man-power, plentiful resources and raw materials, much land for industrial expansion, etc. And they are in close proximity.

If the Chinese and Japanese ever really dedicated themselves to drawing together in a close working relationship, they could become the dominant economic power in the world. Having in mind the needs of China and the pragmatic commercial acuity of the Japanese, I think this is a real possibility, despite their political and sociological disparity.

And, heaven forbid, if after establishing such a relationship they ever got ambitious and expansive, they could also become the dominant military alliance.

I'm not talking about the immediately foreseeable future. I'm looking way down the road. Twenty or more years, perhaps. It might never develop that way. But it sure as hell is a possibility.

This is but another reason why, prudently and cautiously, we should explore wherever possible "mutual cooperation" with the Chinese. China is an enormous potential market and this could be advantageous to us in the normal course of things. And it might also finesse a Sino-Japanese relationship that could give us migraines in the future.

This should be carefully thought out and factored into our planning vis-a-vis China. In these early stages, until it is clearer in which direction China is headed, we should concentrate on non-strategic areas and deftly avoid giving them technology, hardware or other assistance that might come back to haunt us. In lieu of that, we should be very generous in the many non-strategic areas where they desperately need help. I referred previously to tourism and motion pictures. These are but two of very many areas where we could, by proffering generous cooperation, generate mutual commercial benefit without risking a boomerang if they go in the wrong direction down the line.

I sure as hell don't know where they are going. I don't think they know. But they are going. It may be a constructive progress and development. And it might develop into a gigantic can of worms. But we should, aggressively and imaginatively, position ourselves so as to benefit or be protected whichever way they go.

And it would be advisable not to be too paranoid, at this stage, about their being a communist state. There are hints that they might develop into some kind of unprecedented hybrid. And unless and until they give signs of intrusion, expansion, subversion, etc., we should position ourselves favorably in the event that, by some historic miracle, they evolve constructively.

It is a dilemma. They have diverted from and disavowed much of the Soviet version of communism. But I can't foresee them embracing democracy, as we know it, or even come close. I think they'll bend, twist and adjust to whatever seems to abet their progress. And perhaps come up, eventually, with a mutant system which neither they or the world has yet experienced.

I see the potential for some very beneficial prospects for us. But I also see some very scary possibilities.

But, however they go, they are a potential to be reckoned with. And whether it is for good or bad might depend, to a great extent, on how we conduct our end of this renewed relationship.

D. O. J.

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MEMORANDUM

~~SENSITIVE~~

THE WHITE HOUSE
WASHINGTON

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to be discussed
w. RR
this aft..
Dick D.
3/26/82

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March 26, 1982

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: WILLIAM P. CLARK
SUBJECT: United States Relations with the People's Republic of China

Issue

How should we manage the current impasse with China, where we have not been able to reach agreement on the issue of continued United States arms sales to Taiwan?

Facts

After several delays, we have told the Taiwan officials that we will proceed with notification to Congress of our spare parts sales on or about the first of April. State's package, at Tab A, suggests that we make a major effort in the next few days to seek a more favorable response from Peking on the Taiwan arms sales issue. This effort would include two letters from you and one from Haig to the Chinese leadership, offering to send an emissary to continue negotiating, and two more changes in the proposed Joint Communiqué.

Discussion

State is under great pressure to solve a problem which, in effect, cannot be solved in a short timeframe. Their draft letters contain rather pessimistic descriptions of the current situation which may or may not fit the actual case. I also believe that State's approach would inevitably lead to further delays in our notification process, and I am dubious that this highly charged effort would win a great deal from the Chinese.

In your discussion with Secretary Haig this afternoon, I would suggest that a second option deserves consideration. The features of this approach would be:

- One letter from you to Deng which would stress your interest in continuing to improve US-PRC relations. It would also recognize the complex and fundamental nature of Deng's own efforts to establish his leadership within China. The letter would urge continuation of the negotiating process, would make no reference to a crisis in US-China relations and would also indicate that, just as we recognize China's historical problems, they should recognize ours.

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Review on March 26, 2002

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BY RW NARA DATE 12/2/11

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The letter from the Secretary should also be less lugubrious in tone, could offer the sending of a negotiating emissary, and could indicate that the United States remains flexible and interested in resolving our differences.

It might be better not to have either letter specifically mention our intention to proceed with Congressional notification. The Chinese tend to react more harshly to words in writing than to the same message orally conveyed.

If you are interested in this alternative approach, at Tab B you will find an outline of its essential ingredients.

Recommendation

OK No

_____ _____ That you have as full a discussion as possible of the China problem with Secretary Haig, and based upon that, make your choice of tactics. My own recommendation would be that the lower key response be fully considered and that we move ahead with the notifications to Congress as scheduled.

Attachments

Tab A State Memo
Tab B Outline of Alternative Approach

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THE SECRETARY OF STATE

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BY CU NARA DATE 12/18/07

WASHINGTON

March 25, 1982

MEMORANDUM FOR THE PRESIDENT

FROM: Alexander M. Haig, Jr. 

SUBJECT: Managing Our China Problem

We are at another critical juncture in our discussions with Beijing on Taiwan arms sales. China's response to our February 15 presentation, received last week, was tough, uncompromising, and generally reflective of the great sensitivity of this issue for the Chinese. We believe it does not reflect Beijing's bottom line but rather disagreement in the leadership which is blocking a compromise approach. In these circumstances, I believe we should attempt to break the stalemate in Beijing while showing the Chinese there are limits to our patience and that we will do what we have to do. I therefore propose:

--to undertake a final, high level diplomatic initiative to seek a favorable outcome, bearing in mind that the prospects for success are even at best;

--by doing so, to maximize our ability to justify our actions, to our own public and internationally, in the event of a retrogression in US-China relations; and

--to show firmness to the Chinese by sending our spare parts notification forward, within two weeks.

Our diplomatic initiative would include confidential letters from you to Deng Xiaoping and Premier Zhao, supported by a letter from me to Foreign Minister Huang Hua. Our objective would be to convince China's leaders, at the highest level, that our proposals are serious and that they offer the most reasonable way out of a difficult dispute. Without threatening the Chinese, the letters (drafts attached) would convey a sense that we are at our bottom line and that progress is urgently needed if we are to avoid further damage to the relationship. My letter would indicate that, in the event of a favorable response, I would be willing to send a high level emissary to Beijing.

In addition, we would send Ambassador Hummel back to the Chinese with two modifications of the positions we have taken in our exchanges of drafts since January. While these changes would modify two elements of the principles approved by you and passed to the Chinese in January, I do not believe they would alter the substance of our bottom line. Copies of our new draft and the principles you approved earlier, marked to indicate the areas of change, are attached.

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The first change substitutes a statement that "the US does not seek to pursue a long-term policy of arms sales to Taiwan" for one stating that "the US does not claim an inherent right to supply arms to Taiwan indefinitely." The Chinese consider the latter wording vague. The substitute responds to Chinese comments suggesting it as a compromise. Since it would be premised on a preceding statement that a peaceful approach to the Taiwan issue has become China's "steadfast policy," we believe we can accept it; it would not, in any case, commit us to specific actions.

Our second change would be to drop some phraseology explicitly linking future declines in arms sales to further progress toward a peaceful resolution and to the continued abatement of military tension in the Taiwan Strait. The Chinese see this as imposing conditions they cannot fulfill, since further progress toward a peaceful resolution or relaxation of tension does not depend on them alone and they are already pursuing a peaceful policy.

We do not need this particular phraseology to reconcile our policy with the Taiwan Relations Act. Important portions of our draft, to which the Chinese have raised no objection, make a similar linkage to Chinese pursuit of a peaceful policy, in both explicit and implicit terms. We would, as I have noted above, premise all statements of US expectations with regard to future arms sales policy on a continued peaceful Chinese approach. It would be self-evident that if the Chinese changed their approach we could revise our policy accordingly.

As indicated, your personal intervention would be an essential component of this strategy. The Chinese greatly respect the United States and its President. They now have their "face" on the line, and an unequivocal gesture from you, addressing the Taiwan arms issue squarely and further allaying their suspicions of US intentions, could make a critical difference. By stating your intent to put a ceiling on future sales and to implement policies consistent with our draft communique, you would put your personal stamp on our approach. If you approve, we would launch this initiative immediately. Once the letters were dispatched, we would give Beijing ten days to respond before sending our spare parts notification.

RECOMMENDATION

That you approve this approach.

Approve _____ Disapprove _____

Attachments:

- Draft Presidential Letter to Vice Chairman Deng
- Draft Presidential Letter to Premier Zhao
- Draft Letter from Secretary Haig to Foreign Minister Huang
- Draft US-China Joint Communique
- Principles for Statement on Arms Sales to Taiwan

Dear Mr. Vice Chairman:

I am writing to you because of your important role in negotiations with my predecessor leading to the establishment of diplomatic relations on January 1, 1979. As Premier Zhao and I acknowledged in our exchange of letters celebrating the tenth anniversary of the Shanghai Communique, the normalization of US-China relations and the broad advances our two countries made over the following three years have been in the interests of both our peoples; and they enhanced the prospects for regional and global peace and security.

Today, our relations are facing a major crisis. There is a need for the leadership of both sides to exercise vision and act decisively to preserve our past accomplishments. This need stems not only from the immediate, strategic benefits which we, as leaders of two great nations, can perceive, but because of the vital importance of building, in the decades ahead, a relationship of lasting friendship and cooperation between our two peoples and nations.

I wish to assure you unequivocally that no responsible member of my government seeks to encourage the separation of Taiwan from the rest of China or desires to turn back the clock to the days when the United States government recognized the authorities on Taiwan as the sole legal government of China. This government continues to stand firmly by the principles

His Excellency
Deng Xiaoping,
Vice Chairman of the Central Committee
of the Communist Party of the
People's Republic of China,
Beijing.

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BY: CU NARA DATE 12/18/07

agreed upon in the Joint Communiqué on the Establishment of Diplomatic Relations between the United States and China of January 1, 1979. We recognize the government of the People's Republic of China as the sole legal government of China, and we acknowledge your position that Taiwan is a part of China. We will not permit the unofficial relations between the American people and the people of Taiwan to interfere with our adherence to these principles.

With regard to the question of arms sales to Taiwan, we understand and respect the principled position of your government. It must also be recognized, however, that the position of the United States was stated clearly and unambiguously at the time of US-China normalization. The United States, as a party deeply involved by history, has an abiding interest in the peaceful resolution of the Taiwan question by the Chinese people themselves.

In this regard, we recognize and are prepared to take full account of the new situation which was created, not only by your historic nine-point proposal of September 30, 1981, but by the policies articulated by your government on January 1, 1979. With this in mind, I fully approved the positions conveyed to your government on January 11, 1982 and am prepared to declare a policy which will place a quantitative and qualitative ceiling on future sales to Taiwan while giving full implementation to the statement in our proposed joint communiqué envisioning future reductions in the levels of sales.

Over the past four months, both sides have made important efforts to resolve our dispute. We believe the proposals embodied in our most recent draft reflect a reasonable synthesis of those efforts and offer the best solution to an impasse which, if left unresolved, could do irreparable harm both to our mutual strategic positions and to our prospects for a cooperative, long-term bilateral relationship.

A foundation of cooperation has been established between our two countries. It is our task to preserve and build upon it. I urge you to join me in an immediate effort to lead our governments and peoples out of our current impasse and forward to a renewed advance and deepening of US-China relations. It is vital that we begin this new direction soon, before further damage can occur. With the hope that we will achieve such a result, I look forward to meeting you personally, at an appropriate time. In the meantime, please accept my sincere respects and warmest personal regards.

Sincerely

Ronald Reagan

31619

Dear Mr. Premier:

I am writing to express my deep concern for the present state of relations between our two countries. Our relations are now going through a crisis, marked by a deterioration in communication and deepening disagreement between our two governments. This serves the interests of neither the United States of America nor the People's Republic of China.

In my letter to you on the occasion of the tenth anniversary of the Shanghai Communique, I expressed the deep desire of my government and people to build a strong bilateral and strategic framework on which to base long-term friendship between our two countries. We welcomed your response that you too wished to work to overcome obstacles and achieve this end.

Our current differences are a matter rooted in history. They are a consequence of the relationship between the people of the United States and Chinese people living on Taiwan. In this regard, my government fully recognizes the new situation created by the nine-point proposal for peaceful reunification with Taiwan which you personally reviewed for me at our meeting last October in Cancun. As I told Vice Premier Huang Hua in October, we welcome this initiative. We will not seek to impede or interfere in the process of peaceful resolution and

His Excellency
ZHAO Ziyang,
Premier of the State Council of the
People's Republic of China,
Beijing.

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will support any outcome which may be arrived at peacefully, by the Chinese people themselves.

As I also told Vice Premier Huang, we expect that, as a result of your offers, there will naturally be a decrease in the need for arms by Taiwan. This view of my government is clearly embodied in the draft proposals which our State Department has presented in exchanges with your Foreign Ministry in recent months. These proposals convey an unambiguous signal of our intended future direction, reflecting fully the peaceful course which your government has chosen to pursue. We believe the joint statement we have proposed would have a dramatic impact when issued in a public document.

I hope that you will review closely the content of our most recent draft and will share my conviction that it represents the most reasonable means of resolving a difficult dispute. We must move rapidly if we are to break our present impasse before further damage is done.

In the hope that we will be successful in this effort, I would like to reiterate my invitation to you to visit our country, and to express my own hope to be able to reciprocate with a visit to yours.

In the meantime, please accept my warmest personal regards.

Sincerely,

Dear Mr. Minister:

I write at a time of crisis in US-China relations, in the hope that we can find a way to bring our current period of deep disagreement to an end and resume the advance of a bilateral and strategic relationship which is of vital importance to both our nations. With your great experience in international and political affairs, and your long involvement in relations between the Chinese and American peoples, I am confident that you share with me the desire to put our present difficulties behind us and return to a constructive course.

The threat our countries face from aggressive Soviet expansionism is clear. At a time of great opportunity for Moscow--in Iran, in Central America and the Caribbean, in Southeast Asia, and in the field of strategic and intermediate range weaponry--our two governments can ill afford a prolonged period of divisive and unpredictable bilateral strain.

The Taiwan issue has, of course, been the most difficult problem for our governments to address since we turned away from past antagonism and began our rapprochement over a decade ago. We have never discounted the importance of this issue to your government or the intensity of feeling which it evokes throughout your nation. We also recognize and appreciate the persistent effort your government has made in recent years to effect a peaceful resolution of the issue.

President Reagan's decision not to sell advanced aircraft to Taiwan was one of the most significant decisions of his Presidency. Over the past two months, we have also made a major effort to respond to the proposal you conveyed to me in Cancun. We have outlined a clear future direction, to be signalled in a public document. President Reagan has personally approved our efforts and is committed to carrying out the policy which our drafts have conveyed. We have not been seeking to paper over differences with artful use of words; rather we have sought to develop a document that would leave room for genuine progress through concrete future

His Excellency
HUANG Hua,

Vice Premier of the State Council and
Minister of Foreign Affairs of the
People's Republic of China,
Beijing.

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actions. To move in such a way requires that we adopt the one approach which has consistently enabled our relationship to move forward since our rapprochement began, that is, to rely on mutual trust and permit each side the leeway it needs to move ahead.

We are providing some further suggestions to you, through Ambassador Hummel. In addition, I would appreciate your conveying the attached letters from President Reagan to Vice Chairman Deng Xiaoping and Premier Zhao Ziyang. The President hopes that you, a statesman, and the statesmen in your highest echelons of leadership, will share our sense of urgency that we must resolve our differences quickly, before further grave damage is done.

What is most needed now is a positive response from your side. In that event, if you believe it would contribute to swift achievement of a resolution, I would be prepared to dispatch a personal emissary to Beijing to conduct discussions with you on my behalf. In the meantime, please accept my warm regards and please also convey my sincere respects and cordial greeting to Vice Chairman Deng Xiaoping, Premier Zhao Ziyang, and Vice Premiers Bo and Geng, with whom I had such good discussions last June.

Sincerely,

Alexander M. Haig, Jr.

Enclosures:

Letter from President Reagan to Vice Chairman Deng Xiaoping
Letter from President Reagan to Premier Zhao Ziyang

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BY GL NARA DATE 12/18/07

DRAFT COMMUNIQUE

(portions which vary somewhat from the principles approved by the President and passed to the Chinese on January 11, 1982 are underlined)

In the Joint Communique on the Establishment of Diplomatic Relations between the United States of America and the People's Republic of China of January 1, 1979, the United States of America recognized that the Government of the People's Republic of China is the sole legal Government of China and acknowledged the Chinese position that Taiwan is a part of China. The two sides agreed, within that context, that the people of the United States would continue to maintain cultural, commercial and other unofficial relations with the people of Taiwan. On this basis, relations between the United States and China were normalized, and a rapid expansion of mutually beneficial, strategic and bilateral relations occurred.

The question of United States' arms sales to Taiwan was not settled in the course of talks between the two countries on establishing diplomatic relations. The two sides held differing positions, and the Chinese side reserved the right to raise the issue again, at a later time, following normalization. Recognizing that this issue could seriously hamper the development of U.S.-China relations, the two sides have held further discussions, during and since the meetings in October 1981 between President Ronald Reagan and Premier Zhao Ziyang and between Secretary of State Alexander M. Haig, Jr. and Vice Premier and Foreign Minister Huang Hua.

Respect for each other's sovereignty and territorial integrity and non-interference in each other's internal affairs constitute the fundamental principles guiding U.S.-China relations. These principles were confirmed in the Shanghai Communique of February 28, 1972 and reaffirmed in the Joint Communique on the Establishment of Diplomatic Relations, which came into effect on January 1, 1979. Both sides emphatically state that these principles continue to govern their relations and agree that they bear directly on the question of how to seek a mutually satisfactory resolution of U.S.-China differences over the question of the United States' supply of arms to Taiwan.

The United States Government, in reiterating all the foregoing positions, wishes to make clear that it has no desire or intention to infringe on Chinese sovereignty or territorial integrity or to pursue a policy of "two Chinas"

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or "one China, one Taiwan." The United States has long acknowledged that all Chinese on either side of the Taiwan Strait maintain that there is but one China and that Taiwan is part of China. The question of Taiwan is wholly an internal affair of the Chinese people. The United States' abiding concern is that the question of Taiwan be settled peacefully, by the Chinese people themselves. On September 30, 1981, China put forward a Nine-Point proposal which is a major effort to seek a peaceful solution to the Taiwan question. In discussing this peaceful proposal with the United States Government, the Chinese Government has declared that this peaceful approach has become its steadfast policy.

Under the foregoing circumstances, the United States Government states that, with regard to its arms sales to Taiwan, there should be no need to exceed, either in qualitative or quantitative terms, the levels supplied in recent years, since the establishment of diplomatic relations between the United States and China.

On the contrary, also under the foregoing circumstances, the United States Government states that it does not seek to pursue a policy of long-term arms sales to Taiwan, and, that it anticipates that its sales of arms to Taiwan will gradually diminish in future years.

Both sides recognize that the question of United States' arms sales to Taiwan is an issue rooted in history; and both sides recognize that, in view of the importance of U.S.-China relations, it is an issue which should be resolved amicably. In this context, the Chinese Government states that more time should be allowed for the achievement of a thorough settlement of this issue. The Chinese Government expects the United States Government to make every effort to adopt measures to implement the above stated expectations, and pledges a strong corresponding effort to preserve the conditions under which this historical issue can be peacefully resolved.

The development of US.-China relations is not only in the interests of the two peoples, but also conducive to peace and stability in the world. The two sides are ready to make joint efforts for the continued development of relations between the two countries.

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PRINCIPLES TO BE EMBODIED IN A JOINT
STATEMENT ON US ARMS SALES TO TAIWAN

(approved by the President and passed to the Chinese on January 11, 1982--portions underlined would be modified somewhat in the draft communique now proposed)

--The US has long acknowledged the Chinese position, held on both sides of the Taiwan Strait, that there is but one China and that Taiwan is a part of China. As early as the Cairo Conference of 1943, the US adopted a position which was consistent with and gave implementation to this view, and since the Shanghai Communique of 1972 the US has repeatedly reiterated this position.

--US policy is based today on the 1979 US-China Joint Communique on the Establishment of Diplomatic Relations, in which the US acknowledged the Chinese position that Taiwan is a part of China. US unofficial relations with Taiwan (including US sales of defensive military equipment to Taiwan) occur only within this context.

--The United States does not pursue, and has no intention of pursuing, a "two Chinas," or a "one China, one Taiwan" policy. Neither does the US seek to infringe or challenge Chinese sovereignty through its actions. In the 1972 Shanghai Communique and the 1979 Joint Communique which normalized relations, the US expressed its agreement that relations between nations should be conducted on the basis of respect for the sovereignty of all states.

--Between 1971 and 1979, as US-China rapprochement and the normalization process moved ahead, the US specified that its military presence in Taiwan would be gradually reduced, "as tension in the area" diminished. This was progressively accomplished, enabling the US government to join with the Chinese government in establishing full diplomatic relations under the terms on the Joint Communique of January 1, 1979.

--At the time of normalization, the US President, and later the US Congress, made clear that the US would continue to provide to Taiwan such items of a military nature which, in the US judgment, were necessary for its defense. The US has sought to implement this policy, which was the sine qua non for normalization, in a restrained and prudent manner, taking into account Chinese sensitivities.

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--In continuing to adhere to this policy, the US is not asserting an inherent right to supply arms to Taiwan indefinitely.

--On the contrary, the US believes that the necessity for continued US arms sales should diminish, as further reductions in tension in the area of the Taiwan strait occur, and as progress is registered in the peaceful resolution of the Taiwan question by the Chinese people themselves.

--In this context, the US notes the Chinese government's position that a new situation has been created by the enunciation of Chairman Ye Jianying's nine-point proposal for the peaceful reunification of Taiwan with the Chinese mainland.

--The US considers this proposal to be a important manifestation of Chinese intent to pursue a policy of peaceful resolution of the Taiwan issue and notes that it was put forward by the government of China as a "strategic policy that will not be reversed."

--This major proclamation of intent by the Chinese government is fully consistent with the long-standing US position that the resolution of the Taiwan question should be peaceful and that there should be no effort to determine the future of Taiwan by other than peaceful means.

--The US thus anticipates that there will be a continuing and progressive reduction in tensions over the Taiwan issue and foresees no requirement to augment its supply of arms to Taiwan over existing levels, either in qualitative or quantitative terms. Moreover, as noted above, the US would expect the level of such supply to diminish as progress toward peaceful resolution of the Taiwan issue is achieved.

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OUTLINE OF ALTERNATIVE APPROACH TO THE CHINESE

1. A letter from the President to Deng
 - Asserting strong interest in improving US-PRC ties.
 - Reaffirming the Shanghai Communique and the 1979 Normalization Agreement.
 - Stressing his recognition of China's historic problems, and the common problem we share in terms of Soviet expansionism.
 - Requesting China to be understanding of our historical problems, as we are of theirs.
 - Containing no specific mention of our intention to proceed with Congressional notification re spare parts for Taiwan.
2. A letter from Secretary Haig to the PRC Foreign Minister
 - Making same points as President's letter.
 - Offering to send an emissary to continue negotiating.
3. Instructions to Ambassador Hummel to inform the PRC that we will proceed with spare parts notification to Congress.
4. Continuing efforts on the US side to improve language of the joint communique, particularly on the sovereignty issue.
5. Tabling a new version of the proposed joint communique only when we have more significant changes to offer, particularly on the sovereignty issue. (The two proposed textual changes in State's paper are not significant enough to evoke a positive PRC response.)
6. A cool and calm reaction to whatever steps the PRC feels it must take in response to our moves.