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10

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
60231	CABLE	BEIJING 12640 R 10/18/2013 M386/1	3	11/13/1981	B1
60234	CABLE	BEIJING 13015 R 10/18/2013 M386/1	6	11/23/1981	B1
60237	CABLE	BEIJING 13016 R 10/18/2013 M386/1	4	11/23/1981	B1
60238	MEMO	BAILEY TO ALLEN RE. CHINA R 10/18/2013 M386/1	4	11/23/1981	B1
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60240	MEMO	NANCE TO RR RE. US-CHINA	1	12/3/1981	B1
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60231

WHITE HOUSE SITUATION ROOM

PAGE 01 BEIJING 2640
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~~SECRET~~ SECTION 01 OF 03 BEIJING 12640

NODIS

E.O. 12065: RDS-3 11/12/01 (HUMMEL, ARTHUR W.) OR-M

TAGS: PINT, PDEV, PER, CH

SUBJECT: A SCENARIO FOR DEALING WITH THE CHINA/TAIWAN PROBLEM

1. SINCE RETURNING TO BEIJING I HAVE TRIED TO PULL TOGETHER MY THOUGHTS ABOUT THE MOTIVES AND OBJECTIVES OF THE HARD LINE LAID DOWN BY HUANG HUA AND WHAT WE SHOULD DO ABOUT IT.

2. EITHER SOMETHING HAPPENED TO PROVOKE THE CHINESE INTO A SHARP ESCALATION OF THEIR LINE OR ELSE IT IS A FURTHER DEVELOPMENT IN A WELL THOUGHT OUT STRATEGY THAT HAS BEEN HATCHING FOR SOME TIME. ONE CAN ONLY SPECULATE ABOUT THE FIRST THEORY. PERHAPS CNITHE PROCESS OF WORKING OUT LEADERSHIP AGREEMENT ON THE NINE POINTS OF RECONCILIATION WITH TAIWAN, SOME ELEMENTS IN BEIJING DEMANDED AS A QUID PRO QUO CHINESE INSISTENCE ON A CUT-OFF DATE FOR US ARMS SALES TO TAIPEI.

3. DENG AND OTHER CHINESE LEADERS HAD SUGGESTED TO VISITORS OVER THE PAST YEAR THAT THERE WAS SOME SORT OF UNDERSTANDING AT THE TIME OF NORMALIZATION THAT US ARMS SALES TO TAIWAN WOULD DIMINISH OVER TIME AND EVENTUALLY END. THIS WAS RAISED WITH FORMER PRESIDENT CARTER WHEN

MESSAGE (CONTINUED):

HE WAS HERE IN AUGUST AND HE DID A GOOD JOB OF SHOXUTING IT DOWN. NEVERTHELESS, IT IS POSSIBLE THAT DENG IN DEFENDING THE NORMALIZATION AGREEMENT IN BEIJING'S INNER SANCTUM, ALLUDED TO THIS ALLEGED UNDERSTANDING, AND THAT HE IS VULNERABLE ON THE ISSUE.

4. ANOTHER OBVIOUS POSSIBILITY IS THAT THE CHINESE HAVE PENETRATED THE KMT BOTH IN WASHINGTON AND TAIPEI AND HAVE ACCESS TO INFORMATION, POSSIBLY DISTORTED, ABOUT WHAT HAS BEEN SAID ON AN AUTHORIZED OR OTHER BASIS TO THE TAIPEI AUTHORITIES ABOUT OUR INTENTIONS. SUCH REPORTS MAY HAVE INCREASED CHINESE SUSPICIONS THAT ELEMENTS IN THE US ARE HOPING TO FRUSTRATE REUNIFICATION AND TO FOSTER AN EVENTUAL TWO CHINAS SITUATION. IN ADDITION, BEIJING MAY HAVE BECOME AWARE OF HEIGHTENED CONCERN RECENTLY IN TAIPEI OVER CHIANG CHING-KUO'S

HEALTH, AND THIS COULD HAVE PROVOKED A SENSE OF URGENCY.

5. DEVELOPMENTS OF THIS SORT TOGETHER WITH CHINESE DISAPPOINTMENT AT OUR NONCOMMITAL PUBLIC REACTION TO THEIR NINE POINTS COULD HAVE BROUGHT ABOUT THE SHARP ESCALATION IN THE CHINESE POSITION FROM THAT WHICH WE HEARD DURING YOUR JUNE VISIT TO BEIJING AND THAT IMPLIED BY ZHANG WENJIN'S TALKS IN WASHINGTON IN LATE SEPTEMBER. I WAS STRUCK BY HUANG HUA'S REPEATED CHARGES THAT WE HAD FAILED TO GRASP THE SIGNIFICANCE OF THE NINE POINTS AND HIS EXHORTATION TO US TO CONVINCHE CHIANG-CHING-KUO OF THE NEED TO ENTER INTO NEGOTIATIONS.

6. ONE IMMEDIATE CHINESE OBJECTIVE IS, OF COURSE, TO ENGAGE US IN NEGOTIATIONS ON THE ARMS SALES ISSUE AND TO DELAY THE NEXT ARMS PACKAGE FOR TAIWAN. SUCH A DELAY WOULD PRESUMABLY INFLICT SOME PSYCHOLOGICAL DAMAGE ON THE KMT, BUT PERHAPS MORE IMPORTANTLY, A SUFFICIENT DELAY WOULD PUT OFF THE US DECISION UNTIL AFTER THE 12TH PARTY CONGRESS EARLY NEXT YEAR. IT WOULD ALSO PROVIDE THE "COOLING OFF" PERIOD THE CHINESE NOW SAY THEY NEED (A PHRASE USED BY MFA VICE MINISTER ZHANG WENJIN IN CONVERSATION WITH UNDER SECRETARY STOESSEL NOVEMBER 11). I DOUBT THAT THE NPC SESSION COMING UP AT THE END OF THIS MONTH PLAYED ANY ROLE IN THE CHINESE DECISION TO HANG TOUGH. NOR DO WE SEE ANY OTHER SIGNS THAT PURELY DOMESTIC EVENTS MAY HAVE PRECIPITATED THE ACTION.

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MESSAGE (CONTINUED):

7. LIKEWISE, WE SEE NO SPECIFIC INTERNATIONAL DEVELOPMENT OR SHIFT IN CHINESE FOREIGN POLICY THAT MIGHT HAVE INFLUENCED THEIR POSITION ON TAIWAN ARMS SALES. THE CHINESE, HOWEVER, PROBABLY DO FEEL SOMEWHAT LESS DIRECTLY THREATENED BY THE SOVIETS THAN THEY DID A YEAR OR TWO AGO. POSSIBLY THIS HAS HAD SOME MARGINAL IMPACT ON BEIJING'S APPARENTLY GREATER READINESS TO SEE AN IMPORTANT IF LIMITED SET BACK IN CHINA-US RELATIONS. CONCEIVABLY, CHINESE OBJECTIVES COULD BE LIMITED TO: TYING DOWN A FIRM US COMMITMENT NOT TO SELL AN FX OR, AS RUMORED IN THE PRESS, ITS EQUIVALENT THROUGH SOME SORT OF GIMMICKRY; OBTAINING A MORE FORTHCOMING US PUBLIC POSTURE ON THE NEED FOR RECONCILIATION AND ON THE NINE POINTS IN PARTICULAR; AND OBTAINING AT LEAST A VAGUE US COMMITMENT "THOROUGHLY TO REMOVE THE OBSTACLE" OF ARMS SALES TO TAIWAN AT SOME UNSPECIFIED POINT IN THE FUTURE.

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WHITE HOUSE SITUATION ROOM

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8. WHEN THE CHINESE ASSERT "PRINCIPLED" DEMANDS IN THE MANNER THEY DID IN WASHINGTON, HOWEVER, THEY HAVE NOT IN THE PAST BACKED DOWN UNTIL SATISFIED IN PRINCIPLE. NEVERTHELESS, WE HAVE TO ASSUME THAT THERE MAY BE SOME GIVE IN THE CHINESE POSITION, AND WITHIN THE LIMITS OF OUR NATIONAL POLICY EXPLORE THE POSSIBILITIES. OUR BROAD STRATEGY SHOULD BE TO:
--PREVENT THE DISPUTE FROM SPILLING INTO THE PUBLIC ARENA,
--AVOID "NEGOTIATIONS" AS OPPOSED TO "DISCUSSIONS" OR ACCEPTANCE OF A HOLD ON ROUTINE RESUPPLY OF TAIWAN,
--ELABORATE OUR OWN SET OF PRINCIPLES THAT WOULD GO AS FAR AS POSSIBLE IN ADDRESSING THE CHINESE CONCERNS AND PROVIDING DENG A RATIONALE FOR ASSURING HIS COLLEAGUES THAT BEIJING'S BASIC INTEREST HAVE BEEN MET.

9. THE CHINESE HAVE ASSERTED FOUR MAIN PRINCIPLES:
A) US ARMS SALES TO TAIWAN ARE A FUNDAMENTAL OBSTRUCTION TO THE PEACEFUL REUNIFICATION OF TAIWAN WITH THE REST OF CHINA;
B) THE US MUST SET A SPECIFIED PERIOD OF TIME AFTER WHICH SUCH SALES WILL CONCLUDE:
C) IN THE INTERIM, CHINA CAN TOLERATE SALES AS LONG AS THEY ARE CLEARLY PHASING DOWN AND OUT; AND

MESSAGE (CONTINUED):

D) THERE SHOULD BE NO SALES PRIOR TO THE CONCLUSION OF NEGOTIATIONS ON THE SUBJECT.

10. WE CANNOT ACCEPT EITHER THE DEMAND FOR A DATE CERTAIN FOR ARMS SALES TO END OR A TEMPORARY CESSATION OF SALES PRIOR TO THE SUCCESSFUL CONCLUSION OF NEGOTIATIONS ON THE ISSUE. BUT WE CAN ATTEMPT TO VARYING DEGREES TO ADDRESS THE OTHER POINTS WHILE REMAINING TRUE TO OUR INTERESTS, LAWS AND POLICIES.

11. THE FIRST PRINCIPLE PROVIDES THE BASIC RATIONALE OF THE CHINESE POSITION. WE CAN COUNTER IT ONLY BE DEMONSTRATING THAT IT IS NOT TRUE AND DEALING WITH CHINESE SUSPICIONS HEAD ON. THE MOST EFFECTIVE VEHICLE FOR ACCOMPLISHING THIS PURPOSE WOULD BE A STATEMENT OR SPEECH BY THE PRESIDENT REITERATING OUR HISTORIC COMMITMENT TO THE TERRITORIAL INTEGRITY OF CHINA, ASSERTING OUR BELIEF THAT PEACEFUL REUNIFICATION

CAN AND WILL BE ACCOMPLISHED, ALTHOUGH IT WILL BE A LONG AND HARD PROCESS, AND WELCOMING BEIJING'S POLICY OF CONCILIATION. WHILE REAFFIRMING THAT WE DO NOT SEE OURSELVES PLAYING A MEDIATOR ROLE, THE STATEMENT SHOULD DECLARE FORTHRIGHTLY THAT WE FAVOR CONTACTS BETWEEN THE TWO SIDES AND OTHER STEPS TOWARD CONCILIATION AND REDUCTION OF TENSIONS.

IN ADDITION, THE STATEMENT SHOULD REAFFIRM OUR COMMITMENT TO PROVIDE APPROPRIATE DEFENSIVE EQUIPMENT TO TAIWAN, BUT STRESS THAT THIS IS NOT AIMED AT FOSTERING THE PERMANENT SEPARATION OF TAIWAN, BUT RATHER AT ASSURING STABILITY IN TAIWAN AND MEETING TAIWAN'S MINIMUM DEFENSE NEEDS WHILE THE PROCESS OF RECONCILIATION ACROSS THE STRAIT UNFOLDS.

12. AT THE SAME TIME, WE COULDS APPROACH CHIANG CHIN-KUO TO INFORM HIM OF OUR BASIC POLICY:

--WE REMAIN COMMITTED TO THE SECURITY AND WELL-BEING OF THE PEOPLE OF TAIWAN;
--WE WILL CONTINUE ALL NECESSARY DEFENSE SALES, INCLUDING AN EARLY PACKAGE OF ROUTING ITEMS;
--WE CONTINUE TO FAVOR PEACEFUL RECONCILIATION OF THE TAIWAN ISSUE BETWEEN BEIJING AND TAIPEI AND THUS WE WELCOME THE MAINLAND'S OFFER OF UNCONDITIONAL TALKS ON THE BASIS OF EQUALITY AND HOPE THAT TAIPEI WILL GIVE IT THE SERIOUS CONSIDERATION IT MERITS.
--WE DO NOT SEE OURSELVES PLAYING A MEDIATOR ROLE IN THIS PROCESS, HOWEVER, NOR DO WE INTEND TO APPLY PRESSURE

MESSAGE (CONTINUED):

ON TAIPEI TO CEGOTIATE;
--OUR ARMS SALES TO TAIWAN ARE BASED UPON AN ASSESSMENT OF THE ISLAND'S SECURITY NEEDS AND THE EXISTING AND FUTURE THREAT. OUR CURRENT ASSESSMENT IS THAT THE THREAT FROM THE MAINLAND IS LOW, AND EVEN TENTATIVE STEPS TOWARD RECONCILIATION WOULD FURTHER REDUCE THE THREAT FROM THIS AREA.
--WE HOPE, THEREFORE, THAT TAIPEI WILL OVER TIME SHIFT THE RATIONALIZATION OF ITS DEFENSE FORCES AWAY FROM THE MAINLAND "THREAT" TO THAT OF REGIONAL SECURITY. SUCH A SHIFT IN DEFENSE RATIONALIZATION TOGETHER WITH A CONTINUED DECREASE IN TENSIONS BETWEEN TAIWAN AND THE MAINLAND WOULD FACILITATE OUR FUTURE ARMS SALES DECISIONS.

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NODIS
CONTACTS WITH THE CHINESE

13. I FORSEE A SCENARIO ALONG THE FOLLOWING LINES:
--THE DEPARTMENT AUTHORIZES ME TO TELL HUANG HUA OR ZHANG WENJIN THAT WE ARE STUDYING THE CHINESE POSITION AND WILL BE BACK TO THEM SOON; WE PREFER DISCUSSIONS TO BE CONDUCTED ON THE AMBASSADORIAL LEVEL; AND THAT ANY LEAK OF THE CHINESE POSITION WOULD SERIOUSLY COMPLICATE THE PROBLEM;
--AN AUTHORITATIVE MESSAGE IS DELIVERED TO CHIANG CHING-KUO;
--I SIMULTANEOUSLY DELIVER A PRESIDENTIAL MESSAGE TO DENT, REAFFIRMING THE BASIC POINTS MADE IN THE PUBLIC STATEMENT WITH THE ADDITIONAL POINT THAT WE ARE IN FACT DOING WHAT WE CAN TO ENCOURAGE RECONCILIATION, ALTHOUGH THIS IS A DELICATE AND COMPLICATED MATTER. THE PRESIDENT WOULD ASSURE DENG THAT THE US POSITION AS RECENTLY STATED MAKES CLEAR THAT OUR ARMS SALES TO TAIWAN ARE NOT AIMED AT CREATING A TWO CHINA SITUATION, ARE NOT AN OBSTACLE TO RECONCILIATION, AND IN FACT CONTRIBUTE TO STABILITY ON TAIWAN AND AN ENVIRONMENT IN WHICH BEIJING'S OFFERS TO TAIPEI CAN BEGINS TO ELICIT A POSITIVE RESPONSE.
--AT THE SAME TIME, I COULD INFORM DENG ORALLY THAT

MESSAGE (CONTINUED):

ROUTINE SALES TO TAIWAN WILL CONTINUE ON THE BASIS EXPLAINED BY YOU TO HUANG HUA IN WASHINGTON, I.E., SUCH SALES WILL NOT EXCEED THE LEVELS AUTHORIZED UNDER THIS CARTER ADMINISTRATION, EITHER QUALITATIVELY OR QUANTITATIVELY. I WOULD ALSO REPEAT TO DENG YOUR STATEMENT THAT THE US DOES NOT ASSUME THE RIGHT TO SUPPLY ARMS INDEFINITELY TO TAIWAN, ADDING THAT AS RECONCILIATION PROGRESSES WE WOULD ASSUME THAT THIS PROBLEM WOULD BE TAKEN CARE OF, I.E., BEIJING WOULD SEE IT AS POSING NO OBSTACLE TO AGREEMENT ON REUNIFICATION.

14. I RECOGNIZE THAT THE PROPOSED SCENARIO IS A DIFFICULT ONE ON WHICH TO ACHIEVE AGREEMENT IN WASHINGTON, BUT IT IS BASED ON THE ASSUMPTION THAT US ARMS SALES TO TAIWAN WILL ONLY DIMINISH AS A BONE

IN THE THROAT OF US CHINA RELATIONS AS SOME PROGRESS IS MADE TOWARD RECONCILIATION. IT ALSO ASSUMES WHAT HAS BEEN FUNDAMENTALLY INHERENT IN OUR POLICIES FOR THE LAST TEN YEARS, THAT RECONCILIATION BETWEEN TAIPEI AND BEIJING IN A MANNER THAT DOES NOT THREATEN THE SECURITY OF WELL-BEING OF THE PEOPLE OF TAIWAN IS VERY MUCH IN OUR INTERESTS.

15. DENG XIAOPING SEEMS TO BE OFFERING TO TALK WITH WAIWAN WITHOUT ANY STRINGS ATTACHED AND PROPOSING TAIWAN'S CONTINUED SEPARATION IN VIRTUALLY EVERY SPHERE IN RETURN FOR TAIPEI'S ACCEPTANCE OF SOME OF THE SYMBOLS OF UNITY. PERHAPS DENG DOES NOT MEAN IT, BUT LOGIC AS WELL AS OUR STRATEGIC INTERESTS IN DEVELOPING FURTHER OUR RELATIONS WITH CHINA REQUIRE THAT WE BE PERCEIVED TO WELCOME A FULL EXPLORATION BY TAIPEI OF HIS OFFER, PARTICULARLY AS THIS SEEMS TO BE THE KEY FOR RESOLVING THE ARMS SALES ISSUE.

16. IF WE DO NOT SUCCEED IN DEFLECTING OR AMENDING THE PRC DEMAND, THE COSTS TO OUR GLOBAL STRATEGIC INTERESTS WILL BE CONSIDERABLE. BEFORE I LEFT WASHINGTON I SUGGESTED, AND THOUGHT IT WAS AGREED, THAT A VERY QUIET STUDY BE DONE OF A "BAD CASE" SCENARIO, DESCRIBING WHAT STEPS THE PRC MIGHT TAKE TO DOWN-GRADE RELATIONS, PROBABLY PROGRESSIVELY OVER A PERIOD OF TIME AND PROBABLY INVOLVING ALL ASPECTS INCLUDING TRADE, EXCHANGES, MILITARY CONTACTS, AS WELL AS DIPLOMATIC REPRESENTATION. THIS STUDY, OR ANOTHER, SHOULD ALSO CONSIDER

MESSAGE (CONTINUED):

THE LIKELY REPERCUSSIONS, WHICH I THINK WOULD BE QUITE SEVERE, IN OTHER COUNTRIES WHOSE GOOD REGARD WE VALUE: JAPAN, ANZUS, THE ASEA, NATO, PAKISTAN, THE SAUDIS, ETC. WE WOULD EXPLAIN OUR VIEWS AND ATTEMPT TO PLACE THE ONUS ON THE PRC WHERE IT BELONGS.
HOWEVER, I SUSPECT THAT THE PRC'S PUBLIC EFFORTS AT JUSTIFICATION OF ITS ACTION, COMBINED WITH SPOILING ACTIONS BY OTHERS AROUND THE WORLD (INCLUDING SOME IN THE US) WILL LIMIT THE EFFECTIVENESS OF OUR EXPLANATIONS. SOME WILL APPLAUD OUR STANDING BY OLD FRIEND, BUT OTHERS WILL BE SHAKEN BY THE MAIMING OF ONE OF OUR MAJOR PARTNERSHIPS IN CONFRONTING SOVIET EXPANSIONISM.
HUMMEL

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WHITE HOUSE SITUATION ROOM

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E. O. 12065: RDS-1, 3, 4 11/23/01 (HUMMEL, ARTHUR W. JR.) OR-M

TAGS: PEPR, PINT, EAGR, EEWT, PDEV, CH, TW

SUBJECT: MEETING BETWEEN FORMER VICE PRESIDENT MONDALE
AND VICE CHAIRMAN DENG XIAOPING

1.: ~~8~~ - ENTIRE TEXT.

2. SUMMARY: IN HIS NOVEMBER 22 MEETING WITH THE FORMER VICE PRESIDENT, VICE CHAIRMAN DENG STRESSED THE STABILITY OF HIS GOVERNMENT AND THE SUCCESS OF ITS NEW INCENTIVE-BASED AGRICULTURAL POLICIES. HE NOTED THE CONTINUING PROGRESS IN US-CHINA RELATIONS BUT REFERRED TO "WORRISOME CONCERNS." HE EXPRESSED THE HOPE THAT THE "ACTIONS OF THE REAGAN GOVERNMENT WILL NOT UNDERMINE THE EFFORTS IN THE DIFFICULT, ARDUOUS PROCESS IN THE NINE YEARS SINCE 1972," AND SAID THAT "BACKSLIDING" IN US-CHINA RELATIONS WOULD AFFECT THE GLOBAL STRATEGIC PICTURE, NOT JUST BILATERAL RELATIONS. HE NEVERTHELESS STRESSED CHINA'S READINESS TO GO IT ALONE IN INTERNATIONAL AFFAIRS, IF WORSE CAME TO WORST. HE EXPRESSED THE HOPE THAT THE U. S. WOULD ACT IN ACCORD WITH A CLEAR PERCEPTION OF ITS NATIONAL INTEREST, NOTING WITH APPROVAL THE STATEMENT BY PRESIDENT NIXON THAT THAT WAS WHAT HAD MOTIVATED HIS 1972 OPENING TO CHINA.

3. DENG BELITTLED THE BILATERAL BENEFITS TO CHINA OF US-

MESSAGE (CONTINUED):

CHINA RELATIONS, STATING THAT EVEN "AFTER NORMALIZATION, THE U. S. HAS NEVER GIVEN US ANYTHING VERY ADVANCED, AND HAS EVEN REFUSED TO SELL US A COMPUTER TO CONDUCT THE UN CENSUS." HE REMARKED THAT "THESE POLICIES REFLECT HOW THE U. S. LOOKS AT CHINA -- WHETHER AS A PARTNER OR AS A HOSTILE FORCE," AND ASSERTED THAT U. S. ATTITUDES WERE DECISIVE IN COCOM.

4. DENG SAID THAT TAIWAN WAS A POLITICAL, NOT A MILITARY PROBLEM. U. S. ARMS SALES TO TAIWAN POSED NO CREDIBLE MILITARY THREAT TO CHINA, BUT THEY WERE AN AFFRONT TO CHINESE SOVEREIGNTY AND UNDERMINED BEIJING'S EFFORTS TO REUNIFY CHINA. CHINA COULD DO WITHOUT THE BENEFITS OF AMERICAN TECHNOLOGY, HE SAID, BUT HAD NO CHOICE ON THE TAIWAN QUESTION. IF THE CHINESE LEADERSHIP WENT AGAINST THE WILL OF THE CHINESE PEOPLE ON THIS ISSUE, THEY MIGHT BE

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OVERTHROWN, AND IN ANY EVENT, SHOULD RESIGN. THIS LEFT THE CHINESE GOVERNMENT "WITH LITTLE OR NO ROOM FOR MANEUVER" ON THE ISSUE. HE CALLED FOR CONTINUED PRIVATE DISCUSSIONS BETWEEN THE U.S. AND CHINESE GOVERNMENTS TO DEAL WITH THIS PROBLEM. END SUMMARY.

5. TRANSCRIPT OF MEETING NOVEMBER 22 BETWEEN FORMER VICE PRESIDENT MONDALE AND VICE CHAIRMAN DENG XIAOPING. HOLBROOKE, AMB. HUMMEL, AND POLOFF PEARSON ALSO ATTENDED. MFA V/MIN ZHANG WENJIN, HAN XU AND JI CHAOZHU WERE PRESENT.

-- DENG: I HAVE NOT SEEN YOU SINCE 1979. ARE YOU WELL?
MONDALE: NEVER BETTER. I REMEMBER MY 1979 VISIT WITH GREAT AFFECTION. I AM ESPECIALLY PLEASED TO SEE YOU IN SUCH GOOD HEALTH.

-- DENG: AT THIS AGE I HAVE OVERDONE BY SERVICE. DURING THIS VISIT, HAVE YOU NOTICED CHANGES OVER THE PAST TWO YEARS?

-- MONDALE: I HAVE SEEN MANY, ALL FAVORABLE, PARTICULARLY IN AGRICULTURE. THE PEOPLE SEEM TO BE DRESSED BETTER AND THERE IS A SENSE OF CONFIDENCE.

-- DENG: IN THE PAST THREE YEARS, A LOT HAS CHANGED, PARTICULARLY IN THE RURAL AREAS. AROUND THE WORLD, MANY PEOPLE DISCUSS WHETHER CHINA WILL BE STABLE. THE KEY TO WHETHER CHINA IS OR IS NOT STABLE DEPENDS ON THE SITUATION IN THE RURAL AREAS. EIGHTY PERCENT OF CHINA'S POPULATION LIVE IN THE RURAL AREAS.

IF THE RURAL POPULATION IS SATISFIED, THEN BASICALLY THERE IS STABILITY. MY OWN HOME PROVINCE IS SICHUAN

MESSAGE (CONTINUED):

PROVINCE WHICH SUFFERED SERIOUS FLOODS AND QUITE SERIOUS DAMAGE THIS YEAR. TWENTY MILLION OF THE TOTAL PROVINCE POPULATION OF 100 MILLION SUFFERED IN THE FLOODS. WE

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ORIGINALLY THOUGHT THAT GRAIN PRODUCTION THERE WOULD BE A LITTLE LESS BUT ON THE CONTRARY PRODUCTION WENT UP AND GRAIN PRODUCTION WAS BETTER THAN LAST YEAR. CASH CROPS ARE BETTER TOO.

-- MONDALE: CHINA'S AGRICULTURAL SUCCESSSES FORM A DRAMATIC CONTRAST WITH THE SITUATION TO THE NORTH WHERE THERE HAVE BEEN THREE AGRICULTURAL DISASTERS IN A ROW. DENG: OUR WEATHER WAS NOT FAVORABLE, BUT OUR SUCCESS IS DUE MAINLY TO OUR CORRECT POLICY WHICH HAS PROVEN TO BE EFFECTIVE. WE NOW ARE SUMMING UP OUR EXPERIENCE IN AGRICULTURE IN ORDER TO STRAIGHTEN UP INDUSTRY AND INCREASE THE PRODUCTION OF URBAN WORKERS. WE ARE TRYING TO INCREASE THE WORKERS' PRODUCTIVITY BY GRADUALLY EXPANDING THEIR DECISION POWER IN OPERATIONS AND MANAGEMENT. IN ADDITION, WE HAVE TO OVERCOME DEEPROOTED BUREAUCRACY IN THE MANAGEMENT SYSTEM -- WE ARE TRYING HARD. THE QUESTION OF RESTRUCTURING IS COMPLEX BUT IS A MUST. ON THE WHOLE, THE SITUATION IN CHINA IS QUITE GOOD. THE TURNING POINT WAS THE END OF 1978. AT THE END OF 1981, IT WILL HAVE BEEN THREE YEARS SINCE WE ADOPTED CORRECT POLICIES WHICH HAVE BEEN PROVEN TO BE EFFECTIVE. IT LOOKS QUITE PROMISING.

-- MONDALE: AS AN OUTSIDER, YOUR PROGRESS LOOKS GOOD. YOUR APPROACH TO AGRICULTURE SEEMS TO HAVE PARALLELS TO THE INCENTIVES THAT HAVE MADE US AGRICULTURE UNBELIEVABLY

MESSAGE (CONTINUED):

ABUNDANT AND THE SOURCE OF POLITICAL STABILITY.
-- DENG: THE SITUATION OF CHINA AND THE US IN AGRICULTURE IS DIFFERENT -- HERE WE HAVE TOO LITTLE ARABLE LAND. AND ON THAT LITTLE LAND, PEOPLE HAVE THOUGHT WE CARRIED OUT INTENSIVE AGRICULTURE, BUT THE FACT IS, THAT IN THE PAST, WE DID SOME FOOLISH THINGS. FOR EXAMPLE, ONE OF OUR POLICIES WAS "EVERYONE EATS FROM THE SAME POT." FOR INSTANCE, THE LAND ON EACH SIDE OF THE YELLOW RIVER IS LARGELY SAND, SALINE OR ALKALINE, AND NOT SUITABLE FOR PRODUCTION OF FOOD GRAINS. BUT PRODUCTION OF FOOD GRAINS WAS FORCED ON THESE LANDS, AND THEY PRODUCED VERY LITTLE. NOW THE POWER OF DECISION MAKING HAS BEEN DELEGATED TO PRODUCTION TEAMS, THE PEASANTS' ENTHUSIASM HAS BEEN AROUSED, AND WE ARE GROWING PEANUTS INSTEAD OF GRAIN AND COTTON INSTEAD OF GRAIN. THE RESULT IS THAT PRODUCTION HAS MULTIPLIED MORE THAN TENFOLD IN SOME CASES -- IT HAS

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WHITE HOUSE SITUATION ROOM

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DTG: 230530Z NOV 81 PSN: 023889

BEEN QUITE A LARGE INCREASE.

-- MONDALE: SINCE WE MET LAST, WE HAVE BOTH LEFT OFFICE AND BOTH ARE PARTY LEADERS, EXCEPT THAT YOUR OFFICE (REFERRING TO THE MEETING ROOM) IS BETTER THAN MINE.

-- DENG: NOW I AM LETTING THE MORE ENRGETIC PEOPLE DO THE WORK AND AM TRYING TO REDUCE MY WORKLOAD SOMEWHAT. YOU CAN SEE THAT SINO-US RELATIONS HAVE CONTINUED TO DEVELOP, THOUGH THERE ARE STILL SOME PROBLEMS, SOME WORRISOME CONERNS. VICE FOREIGN MINISTER ZHANG WENJIN HAS ALREADY DISCUSSED THESE WITH YOU. AS SOON AS THE AMBASSADOR CAME TO HIS OFFICE HERE HE MET THESE PROBLEMS. I HOPE THE TWO SIDES WILL BE ABLE TO HANDLE THIS PROBLEM PROPERLY. WE HOPE THAT ACTIONS OF THE REAGAN GOVERNMENT WILL NOT UNDERMINE THE EFFORTS IN THE DIFFICULT, ARDUOUS PROCESS IN THE NINE YEARS SINCE 1972. CHINA DOES NOT CONSIDER THE TAIWAN PROBLEM FROM MERELY ITS OWN NATIONAL INTERESTS. IF THE CHINA-US RELATIONSHIP IS ALLOWED TO BACKSLIDE, THIS WILL AFFECT THE GLOBAL STRATEGIC PICTURE, NOT JUST THE RELATIONS BETWEEN OUR TWO COUNTRIES.

NO MATTER WHAT CHANGES TAKE PLACE IN THE WORLD, CHINA WILL SURVIVE. CHINA HAS LIVED IN ISOLATION AND POVERTY IN THE PAST FOR LONG PERIODS. WE HAVE OFTEN TOLD OUR FRIENDS, PARTICULARLY OUR SOUTHEAST ASIAN FRIENDS, THAT CHINA IS CONCERNED WITH PEACE IN THE PACIFIC AND ASIA, BUT IF THE STRAITS OF MALACCA ARE CUT OFF, CHINA CAN STILL SURVIVE. HISTORICALLY, WE WENT THROUGH DIFFICULT TIMES IN YAN' AN, AND WE MANAGED TO SURVIVE AND DID VERY WELL.

MESSAGE (CONTINUED):

CHAIRMAN MAO ZEDONG AND PREMIER ZHOU ENLAI FOR MANY YEARS SOUGHT TO IMPROVE RELATIONS WITH JAPAN, THE US AND EUROPE OUT OF CONSIDERATION FOR THE GLOBAL STRATEGIC SITUATION. SO WE HAVE ALWAYS APPRECIATED PRESIDENT NIXON'S FIRST STATEMENT TO US WHEN HE FIRST VICITED CHINA. HE SAID THE US WANTS TO IMPROVE RELATIONS WITH CHINA OUT OF ITS OWN NATIONAL INTEREST. THIS WAS A GOOD STATEMENT WHICH CAME FROM HIS HEART. AND WE THINK THAT ONLY FROM THIS VIEWPOINT CAN OUR TWO NATIONS HANDLE OUR PROBLEMS, SUCH AS TAIWAN, AND CAN FIND CORRECT WAYS TO HANDLE ISSUES. WE SHOULD PUT SUCH PROBLEMS IN A STRATEGIC AND POLITICAL PERSPECTIVE.

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FM AMEMBASSY BEIJING

TO SECSTATE WASHDC IMMEDIATE 7502

~~SECRET~~ SECTION 03 OF 03 BEIJING 13015
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-- MONDALE: I AGREED ENTIRELY WITH ALL THAT YOU HAVE SAID. IN MY SPEECH IN 1979 AT BEIJING UNIVERSITY, I SAID THAT US-CHINA RELATIONS WERE VERY IMPORTANT IN THE BILATERAL SENSE, BUT MORE IMPORTANTLY, WERE FUNDAMENTAL FOR PEACE IN ASIA AND THE WORLD. OUR RELATIONS ARE OF GREAT VALUE TO THE US AND I HOPE AND BELIEVE THAT THE SAME IS TRUE FOR YOU. BUT WE ARE ALSO DEALING WITH THE FAR MORE IMPORTANT ISSUE OF PEACE IN THE WORLD. IF THE PROGRESS WE HAVE MADE ON THE BASIS OF THE SHANGHAI COMMUNIQUE AND THE JOINT COMMUNIQUE ON NORMALIZATION AS WELL AS THE AGREEMENTS THAT FOLLOVED THESE, WERE TO SUFFER DAMAGE, AND OUR RELATIONS TO SUFFER A RUPTURE, THEN THERE WOULD BE DISMAY AMONG CIVILIZED PEOPLES AND JOY IN MOSCOW, HANOI AND HAVANA. THE CHINESE ROLE IN THE WORLD IS A SOURCE OF GREAT STRENGTH. WE HAVE COME SO FAR, WE CANNOT ALLOW SERIOUS DAMAGE TO OCCUR TO OUR RELATIONSHIP. I RECALL THE TALKS I HAD HERE WITH YOU IN 1979 IN WHICH WE MOVED THE RELATIONSHIP FORWARD AND WHICH I CONSIDER THE HIGH POINT OF MY VICE PRESIDENCY. I WILL DO ALL I CAN TO MOVE THE US-CHINA RELATIONSHIP FORWARD AND HAVE IT HANDLED IN A PROPER WAY.

AND I SENSE AGAIN A DELICATE MOMENT IN US-CHINA RELATIONS AND HOPE WE CAN MANAGE THIS WITH GREAT CARE AND MOVE FORWARD IN THE REALTIONSHIP. SOME OF THESE AREAS ARE ECONOMIC, INVOLVING SALES OF TECHNOLOGY, EXIMBANK SALES

MESSAGE (CONTINUED):

AND CREDITS, ALL OF WHICH ARE IMPORTANT. OTHERS ARE MATTERS OF DELAY AND DIFFICULTIES FOR US BUSINESSES SEEKING TO COOPERATE IN HELPING YOU FULFILL YOUR DEVELOPMENT GOALS. THERE IS ALSO COAL, THE TRANSFER OF TECHNOLOGY AND THE TEXTILE AGREEMENT.

THEN WE HAVE THE HIGHLY DELICATE NATURE OF THE TAIWAN PROBLEM. AT THE TIME OF NORMALIZATION, WE ALL ACCEPTED THE PRINCIPLE OF ONE CHINA GOVERNED FROM BEIJING AND THE TERMINATION OF TREATIES AND DIPLOMATIC RELATIONS WITH TAIWAN. I WOULD LIKE TO RESPOND ON THIS QUESTION IF WE COULD DISCUSS IT IN A PRIVATE TETE-A-TETE AT THE END OF THIS SESSION.

-- DENG: FINE. I THINK YOU KNOW THAT AFTER NORLAIZATION, THE US HAS NEVER GIVEN US ANYTHING VERY ADVANCED, AND HAS EVEN REFUSED TO SELL US A COMPUTER TO CONDUCT THE UN CENSUS. BUT THAT IS ALL RIGHT, WE CAN MANAGE WITHOUT IT.

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WHITE HOUSE SITUATION ROOM

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OF COURSE, WE HOPE WE CAN GET IT, BUT IF WE CANNOT, WHAT CAN ONE DO? WE HOPE OUR AMERICAN FRIENDS WILL STUDY THIS QUESTION.

THE POLICIES REFLECT HOW THE US LOOKS AT CHINA -- WHETHER AS A PARTNER OR AS A HOSTILE FORCE. THE TAIWAN PROBLEM IS A POLITICAL ONE. I ONCE SAID TO SOMEONE THAT CHINA IS NOT WORRIED THAT BY THE SALE OF THE FX TO TAIWAN TAIWAN COULD CRUSH US. WE ARE NOT WORRIED ABOUT THAT, BUT THIS IS INTERFERENCE IN CHINA'S AFFAIRS AND UNDERMINES EFFORTS TO RETURN TAIWAN TO THE MAINLAND. THAT IS THE PROBLEM.

WE HAVE TOLD MEMBERS OF BOUTH HOUSES OF THE AMERICAN CONGRESS THAT IF CHINA SAYS IT WILL NOT USE ARMED FORCE AGAINST TAIWAN IN ORDER TO ACHIEVE REUNIFICATION, THEN CHIANG CHING-KUO WILL BE VERY COCKY AND NOT TALKS WITH US. THE SALE OF WEAPONS IS EVEN MORE SERIOUS. SPEAKING CANDIDLY, IF THE US REFUSES TO GIVE US A COMPUTER, WE CAN DO WITHOUT IT, BUT ON THE QUESTION OF US WEAPONS SALES TO TAIWAN, CHINA HAS NO ALTERNATIVES.

SOME AMERICANS HOLD THE VIEW THAT WE MUST CONSIDER THE PROBLEM OF THE PRO-TAIWAN FORCES AND THEIR FEELINGS. IN CHINA, WE HAVE THE FEELINGS OF ONE BILLION PEOPLE. AND IF ON THIS QUESTION, THE LEADERS GO AGAINST THE WILL OF THE PEOPLE, THEN AT LEAST WE SHOULD STEP DOWN FROM OUR POSTS. SO I WOULD LIKE TO SAY THAT IF SUCH IS THE CASE WE WILL BE LEFT WITH LITTLE OR EVEN NO ROOM FOR MANEUVER. PERMIER ZHAO DISCUSSED THIS QUESTION WITH PRESIDENT REAGAN AND FOREIGN MINISTER HUANG HUA DISCUSSED IT WITH

MESSAGE (CONTINUED):

SECRETARY HAIG AND PRESIDENT REAGAN. WE SINCERELY HOPE THAT THE US WILL UNDERSTAND THE CHINESE POSITION AND HANDLE IT APPROPRIATELY OS AS NOT TO LEAD TO TWISTS IN OUR RELATIONSHIP. OF COURSE, WE ARE GOING TO CONTINUE SUCH DISCUSSIONS PROVATELY AND HOPE THE TWO SIDES WILL ADOPT AN APPROPRIATE FORM TO DEAL WITH THIS PROBLEM. ON THIS CHINA DOES NOT WISH TO SAY MORE AT THIS TIME.

-- MONDALE: I AM EMBARRASSED THAT THE LANDSAT SATELLITE STATION, THE CENSUS COMPUTER AND OTHER COMPUTERS THAT WE SAID WE WOULD SELL TO CHINA HAVE STILL NOT BE DELIVERED. SOME OF THE SALES MUST GO THROUGH THE COCOM PROCESS AND FOR OTHERS THERE ARE OTHER PROBLEMS, BUT I HOPE OUR GOVERNMENT WILL GIVE PRIORITY TO THE CHINESE REQUESTS AND WILL SAY SOMETHING ABOUT THIS WHEN I RETURN. THE TAIWAN QUESTION IS THE KEY POINT IN THE EFFORT TO MOVE FORWARD IN THE RELATIONSHIP, AND ON THIS I WILL MAKE MY POINTS PRIVATELY.

-- DENG: THE US HAS A BIG SAY IN COCOM, AND IF THE US GOVERNMENT MADE UP ITS MIND, IT WOULD NOT BE TOO DIFFICULT. AS FOR THE TAIWAN QUESTION, SUGGEST WE NOW HAVE OUR PRIVATE MEETING.

-- MONDALE: FINE. END TEXT.

6. THE VICE PRESIDENT HAS REQUESTED THAT HE BE PROVIDED WITH A COPY OF THIS TRANSCRIPT.
HUMMEL

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WHITE HOUSE SITUATION ROOM

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FM AMEMBASSY BEIJING

TO SECSTATE WASHDC IMMEDIATE 7503

~~SECRET~~ SECTION 01 OF 02 BEIJING 13016

NODIS

E. O. 12065: RDS 3, 4 11/23/01 (HUMMEL, ARTHUR W., JR) OR-M

TAGS: PEPR, PDEV, MASS, CH, TW

SUBJECT: MONDALE-DENG IN SMALL GROUP

1. ~~SECRET~~ - ENTIRE TEXT.

2. THIS MESSAGE SUPPLEMENTS NODIS SEPTEL WHICH REPORTED ON FIRST PORTION OF MONDALE-DENG CONVERSATION. IN FIRST PORTION AMB HUMMEL AND EMBOFF WERE PRESENT. IN THIS SECOND PORTION ONLY MONDALE AND HOLBROOKE ATTENDED. NOTES ARE HOLBROOKE'S, DISCUSSED BY AMBASSADOR WITH MONDALE AND HOLBROOKE.

3. SUMMARY: IN HIS NOVEMBER 22 "PRIVATE" MEETING WITH VICE CHAIRMAN DENG XIAOPING, FORMER VICE PRESIDENT MONDALE STATED IN STRONG TERMS THAT WHILE HE AND OTHER LEADING DEMOCRATS WOULD OPPOSE THE SALE OF THE FX OR OTHER ADVANCED WEAPONRY TO TAIWAN, AS WELL AS ANY MOVE THAT MIGHT BE INTERPRETED AS IMPLYING SUPPORT FOR A "TWO CHINA" POLICY, AND MIGHT BE ABLE TO DO SO SUCCESSFULLY, "IT WOULD BE IMPOSSIBLE FOR ANY PRESIDENT" OR ANY DEMOCRAT "AT THIS TIME TO ACCEPT A FULL CESSATION OF ALL ARMS SALES TO TAIWAN OR TO SET A DATE CERTAIN FOR THEIR CESSATION." HE ARGUED THAT PRESSURE ON THE U. S. TO CEASE ALL ARMS SALES TO TAIWAN WOULD REINVIGORATE THE "TAIWAN LOBBY" AND

MESSAGE (CONTINUED):

STATED HIS VIEW THAT A "RUPTURE" ON THIS ISSUE WOULD BE A "DISASTER" FOR CHINA AND THE WEST. HE URGED FLEXIBILITY ON BOTH SIDES IN SEEKING A SOLUTION.

4. VICE CHAIRMAN DENG SAID THAT THE MODALITIES COULD BE WORKED OUT IN DISCUSSION WITH THE U. S., BUT STRESSED THAT THE CHINESE GOVERNMENT HAD "PRACTICALLY NO MANEUVERABILITY" IN SEEKING "THE GRADUAL REDUCTION OF WEAPONS SALES TO TAIWAN WITHIN A SPECIFIC TIME FRAME." NEVERTHELESS, HE SOMEWHAT AMBIGUOUSLY CONFIRMED VICE FOREIGN MINISTER ZHANG WENJIN'S SUGGESTION THAT THE CHINESE POSITION ENCOMPASSED EXPLICIT AGREEMENT BY BEIJING TO "SMALL AMOUNTS OF WEAPONS TO BE SOLD TO TAIWAN" IN PLACE OF PAST OBJECTIONS TO ALL SUCH SALES. (COMMENT: THIS TIES IN WITH PREVIOUS CHINESE SUGGESTIONS THAT THE QUESTION OF TAIPEI'S ACCESS TO FOREIGN ARMS, SUBJECT TO BEIJING'S APPROVAL, IS A SUBJECT

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BY KML NARA DATE 10/18/13

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THAT COULD BE DECIDED IN NEGOTIATIONS BETWEEN THE KUOMINTANG AND THE CHINESE COMMUNIST PARTY. END COMMENT.)

5. DENG DESCRIBED THE U. S. AS HAVING NEEDLESSLY COMPLICATED THE ISSUE OF ARMS SALES TO TAIWAN. THE EXACT IMPORT OF THIS STATEMENT IS UNCLEAR, BUT IT SEEMED TO MONDALE TO REFER TO SUGGESTIONS THAT THE U. S. SELL TAIWAN THE "FX" WITHOUT CALLING IT THAT. END SUMMARY.

BEGIN TEXT:

-- MONDALE: I ASKED FOR THIS TETE-A-TETE TO SPEAK FRANKLY, THOUGH ONLY FOR MYSELF, AS I CANNOT SPEAK FOR THE US GOVERNMENT.

AS ONE COMMITTED TO THE NORMALIZATION OF OUR RELATIONS, I BELIEVE THAT A RUPTURE WOULD BE A DISASTER FOR CIVILIZATION. NONE OF THE CONSEQUENCES WOULD BE GOOD. I WANT TO DESCRIBE FOR YOU THE CONSEQUENCES AS I SEE THEM FROM MY SIDE OF THE PACIFIC.

THERE IS GROWING SUPPORT FOR NORMALIZATION IN MY COUNTRY AS WELL AS GROWING REALIZATION OF ITS BENEFITS. THE DIFFICULTY OF THE PRESENT SITUATION IS THIS: AT THE TIME OF NORMALIZATION, WE STATED THAT WE WOULD MAKE SALES OF "CAREFULLY SELECTED DEFENSIVE WEAPONS" (ON A RESTRAINED BASIS). THESE ARE THE WORDS OF PRESIDENT CARTER HIMSELF. WE SAID THAT WE WOULD MAKE PRUDENT, CAREFUL, NON-OFFENSIVE SALES, AND THAT SUCH SALES WOULD BE FURTHER INFLUENCED BY THE SITUATION IN THE TAIWAN STRAIT. I REALIZE THAT YOUR GOVERNMENT OBJECTED TO THIS.

THE EASIEST PART OF THE PROBLEM IS THE "FX"; OR ANY

MESSAGE (CONTINUED):

OTHER WEAPONRY THAT ADVANCES TAIWAN'S OFFENSIVE CAPABILITIES; OR ANYTHING ELSE THAT ENHANCED TAIWAN'S MILITARY CAPABILITIES; OR ANYTHING THAT CARRIED WITH IT THE IMPLICATION OF A MOVE AWAY FROM A ONE-CHINA POLICY OR A CHANGE IN OUR RELATIONSHIP WITH TAIPEI. MY FRIENDS (IN THE US) --- ARE OPPOSED TO THE SALE OF THE "F-16," AND

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FM AMEMBASSY BEIJING

TO SECSTATE WASHDC IMMEDIATE 7504

~~SECRET~~ SECTION 02 OF 02 BEIJING 13016

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THE "FX" IS OUT AS WELL. IT WOULD CARRY WITH IT THE WRONG CONNOTATIONS. FIRST, THERE IS NO NEED FOR IT. SECOND, IT WOULD SEND THE WRONG SIGNAL. THIRD, THERE IS NO IDENTIFIABLE THREAT TO WHICH IT RESPONDS. FOURTH, YOUR IMAGINATIVE NINE-POINT PROPOSAL ARGUES THAT ANY WEAPONS SALES TO TAIWAN SHOULD BE MODEST.

HAVING SAID THAT, I THINK I MUST SAY IT WOULD BE IMPOSSIBLE FOR ANY PRESIDENT, OR ANY OF US AT THIS TIME TO ACCEPT A FULL CESSATION OF ALL ARMS SALES TO TAIWAN OR TO SET A DATE CERTAIN FOR THEIR CESSATION. WHEN I ORIGINALLY ACCEPTED YOUR GOVERNMENT'S INVITATION TO COME HERE (SOME TIME AGO), I DIDN'T INTEND TO BRING THIS ISSUE UP. BUT ... PRESIDENT CARTER AND OTHER FRIENDS ASKED ME TO TELL YOU THAT THEY AGREE COMPLETELY THAT (PRESSING YOUR DEMANDS) WOULD ONLY REINVIGORATE THE TAIWAN LOBBY IN THE U. S. IT WOULD STRENGTHEN THOSE IN THE U. S. GOVERNMENT WHO WANT A TWO-CHINA POLICY AND WEAKEN THOSE WHO OPPOSE SUCH A POLICY. IT WOULD BRING JOY TO HANOI AND MOSCOW.

IF YOUR POLICIES CAN BE BROUGHT FORWARD DELICATELY AND SKILLFULLY, THEN YOU ARE ON YOUR STRONGEST GROUND. MANY OF US WOULD OPPOSE AN "FX" SALE AND WOULD HAVE SOME CHANCE OF SUCCEEDING IN BLOCKING IT. I WANTED TO SAY THIS TO YOU IN PRIVATE BECAUSE I HAVE THOUGHT A LOT ABOUT IT, AND I'VE TALKED TO MANY OF YOUR FRIENDS IN

MESSAGE (CONTINUED):

THE U. S. ABOUT IT, INCLUDING PRESIDENT CARTER.
-- DENG: AS FOR THE MODALITIES, OUR TWO SIDES CAN WORK THIS OUT TOGETHER. BUT THE PRESENT PROPOSAL IS A DISGUISED SALE OF ADVANCED WEAPONRY TO TAIWAN. FOR EXAMPLE, IF YOU SELL (NEW TYPES OF) ENGINES AND OTHER PARTS, IT ENHANCES TAIWAN'S WEAPONS SYSTEMS. VICE MINISTER ZHANG WENJIN HAS TOLD YOU IT WOULD BE POSSIBLE FOR OUR TWO SIDES TO DISCUSS THE QUESTION OF SMALL AMOUNTS OF WEAPONS TO BE SOLD TO TAIWAN. BUT THE PRESENT SITUATION IS NOT AS YOU HAVE SAID. SOME AMERICAN HAVE SAID THAT AS LONG AS THERE EXISTS A THREAT FROM THE SOVIET UNION, CHINA WILL SWALLOW ANY BITTER PILL THE U. S. GIVERS IT. WE ARE FOR THE GRADUAL REDUCTION OF WEAPONS SALES TO TAIWAN WITHIN A SPECIFIED TIME FRAME.
-- MONDALE: I UNDERSTAND THE IMPORTANCE OF THE TAIWAN ISSUE TO YOUR SIDE.

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WHITE HOUSE SITUATION ROOM

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-- DENG: BUT SOME AMERICANS AND SOME ARTICLES IN YOUR PAPERS RECENTLY HAVE NOT DEMONSTRATED SUCH UNDERSTANDING.
-- MONDALE: I BELIEVE THE FUTURE OF PRO-TAIPEI SENTIMENT IN MY COUNTRY IS LIMITED. IT IS DYING OUT, UNLESS THROUGH OUR RESPECTIVE POLICY FAILURES WE GIVE IT NEW LIFE AND HOPE. EVEN THIS ADMINISTRATION IS COMING AROUND ON THE ISSUE. TAIWAN REMAINS TIED TO THE U. S. BY A (PSYCHOLOGICAL) UMBILICAL CORD. ANYTHING THAT REVIVES AND STRENGTHENS THE TAIWAN LOBBY SIMPLY DELAYS THE DAY WHEN TAIWAN'S LEADERS ACCEPT THE SHANGHAI COMMUNIQUE, THE NORMALIZATION COMMUNIQUE, AND YOUR NINE-POINT PROPOSAL.

THOSE OF US IN THE U. S. WHO WANT TO MOVE AHEAD WITH YOU WILL BE ABLE TO DO SO, IF WE GET A FORMULATION THAT DOES NOT CALL FOR AN ABSOLUTE CUT-OFF OF ARMS SALES TO TAIWAN. OTHERWISE, THIS WILL BE VERY DIFFICULT. I WANT TO PRESS FORWARD ON THIS ISSUE ...

-- DENG: AS A MATTER OF FACT, THE U. S. SIDE HAS RAISED FURTHER COMPLICATIONS ON THIS ISSUE. (COMMENT: APPARENTLY REFERRING TO RECENT PUBLIC STATEMENTS ON THE "FX" ISSUE AND TO RECENT INDICATIONS THE U. S. MIGHT SOON ATTEMPT SALE OF THE EQUIVALENT OF THE "FX" WITHOUT CALLING IT THAT, END COMMENT.) THERE SHOULDN'T HAVE BEEN ANY NEED TO DO ANY SUCH THING, BUT NOW THE ADMINISTRATION HAS RAISED THIS PROBLEM AGAIN.

AS A FRIEND, I FULLY UNDERSTAND YOUR POSITION AND THAT OF YOUR FRIENDS ON THIS MATTER. AS I SAID JUST NOW --- VERY CAREFULLY -- WE HAVE PRACTICALLY NO MANEU-

MESSAGE (CONTINUED):

VERABILITY ON THIS ISSUE. WE CANNOT ABANDON OUR PRINCIPLES. IT IS A MATTER OF INTERFERENCE IN OUR INTERNAL AFFAIRS -- NOT SOMETHING WE JUST FORMULATED RECENTLY. BUT, AS FOR DETAILS WE CAN CONSULT EACH OTHER.

-- MONDALE: I UNDERSTAND. I APPRECIATE YOUR CANDOR AND I HOPE YOU UNDERSTAND MINE ... IT WOULD BE MY HOPE THAT THE ADMINISTRATION WOULD BE SUFFICIENTLY SENSITIVE THAT THEY AND YOU MAY FIND A SOLUTION. I DO NOT SPEAK FOR THEM, OF COURSE, BUT I HOPE THERE WOULD BE ENOUGH FLEXIBILITY ON BOTH SIDES TO FIND A SOLUTION. END TEXT.

6. THE FORMER VICE PRESIDENT HAS ASKED THAT HE BE PROVIDED WITH THE TRANSCRIPT OF THIS DISCUSSION.
HUMMEL

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RECEIVED 24 NOV 81 09

TO ALLEN

FROM BAILEY

DOC DATE 23 NOV 81

KEYWORDS: ECONOMICS

CHINA P R

SUBJECT: SUMMARY OF SECOND ANNUAL MTG OF US - CHINA JOINT ECONOMIC COM NOV 16 -
18

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MEMORANDUM

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NATIONAL SECURITY COUNCIL

November 23, 1981

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INFORMATION

MEMORANDUM FOR RICHARD V. ALLEN

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Second Annual Meeting of the U.S.-China
Joint Economic Committee, Beijing, China,
November 16-18, 1981

1. The first plenary session Monday afternoon, November 16, 1981, began with a statement by the Chinese Co-Chairman, Vice Premier Bo Yibo. He reviewed progress in U.S.-Chinese economic relations since the last meeting in September of 1980, including maritime and air agreements, insurance and private investment agreements, grain agreements, trade exhibits and the first Eximbank loans. Since 1978, U.S.-Chinese trade has grown to \$5.5 billion estimated in 1981. The U.S. is now China's third largest trading partner after Japan and Hong Kong. Certain joint ventures have been established.

A number of problems remain, however.

(1) U.S. legislation continues to discriminate against China export controls, import restrictions and aid. There has been "loud thunder but small raindrops."

(2) China must increase exports to the U.S. in order to finance increased imports. All other countries have given China preferential treatment. The U.S. has 130 such agreements, including countries such as Yugoslavia and Romania.

"We have a common interest in checking Soviet hegemonism and expansionism."

There should be an emphasis on food and agriculture ("China and the U.S. are the two largest food producers in the world"), natural resource and energy development and the application of U.S. technology to the Chinese labor force. Especially important is the modernization of existing enterprises through technological and managerial cooperation.

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Review November 23, 1987

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BY KML NARA DATE 10/18/13

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The Chinese distributed a description of the present state of the Chinese economy (Tab I).

Secretary Regan reviewed the trade record since 1979 as well as advances in cooperation. He stated that the U.S. government was reviewing discriminatory laws and regulations involving China and was "cautiously hopeful" that Congress will approve changes. He emphasized the importance of concluding tax and investment treaties and gave an overview of the U.S. economy and administration policy.

In response to a question, the Chinese side said changes have been made in the system of production. Market forces and individual responsibility are now stressed. There is now an incentive to produce more since a lesser portion of any increase is expropriated. "To each according to his work." All increase in food production goes to the individual peasant. A worker can now get up to three months extra wage per year for greater production.

Secretary Regan mentioned supplementary foreign financing. Eximbank and other government programs can help but the best would be to use our private markets.

Minister of Finance Wang said the capital problem was the most important. They would like to learn more about the capital markets.

2. On the 17th, the Committee broke up into four working groups, on finance and investment, trade, tax policy and information exchange, chaired on the American side by Treasury Assistant Secretary Leland, Commerce Deputy Assistant Secretary Lawson, Treasury Assistant Secretary Chapoton and State Deputy Assistant Secretary Albrecht, respectively. I attended the finance and investment meetings.

Chinese Co-Chairman Pei Chao stated that 40 joint venture projects involving technology and equipment valued at \$317 million have been approved and gave some examples. Another 30 are under consideration.

There are also investment joint ventures involving hotels (\$19 million) and petroleum processing (\$117 million). Also six in the U.S., Hong Kong and Bermuda. Twelve additional projects are under consideration in China and nine in the U.S.

The priorities in utilizing foreign funds are: (1) An "open door" economic/technology/investment policy; (2) Acceptance of foreign lending of all kinds; and (3) Joint ventures, especially in energy, transportation and communications, and medium to small projects leading to increased exports. The

legal framework is still incomplete, but they are working very hard on it. In the meantime, individual agreements are legally binding.

They want to learn more about CCC, TDP, and OPIC.

Under Secretary Sprinkel then gave an overview of the U.S. economic situation and prospects.

In the afternoon session, Eximbank Chairman Draper discussed bank programs, and expositions of CCC, OPIC and TDP programs were made by the appropriate officials.

Leland then asked about the proposed new investment bank subsidiary of the Peoples' Construction Bank and the Special Economic Zones. Zhao Hong of the PDB responded that the Investment Bank, now at the Supreme Council for approval, would have as its main function the attraction and absorption of foreign funds. Leland suggested the possibility of a joint U.S.-Chinese investment banking firm to put U.S. companies and capital sources together with Chinese enterprises. The Chinese reaction was positive, to be taken up when the Investment Bank begins to operate.

The Special Economic Zones have great autonomy and do not need to submit projects to the central authorities unless resources of other provinces are involved. Enterprises in the SEZ's can be wholly foreign-owned. There is also preferential treatment on repatriation of profits.

In response to a question, it was stated that 15% of joint venture oil project revenues can be used for repayment of capital costs. Of the remaining 80%, 40% can be preferentially purchased by the operating companies. A profit margin of 10-12% is provided for.

Local sources of financing are also available for joint ventures, in yuan and in foreign currencies, from the Bank of China, the Peoples' Bank of China (central bank) and municipalities.

Problems brought up by Pei involved China's ineligibility for AID funds, the IBM 4300 census computer held up by DOD (Vice-Chairman Deng also mentioned this prominently during his bilateral with Secretary Regan) and non-response to the aide-memoire sent to the Treasury in March 1979 on Chinese assets seized in the U.S.

3. During the closing Plenary Session the morning of the 18th, the working groups reported. The working group on finance

and investment made three recommendations: (1) Exchange of OPIC/TDP/CCC missions, (2) Consideration of the establishment of a joint investment banking firm, and (3) Continual contact. The information exchange working group report was brief and no new initiatives were announced.

The trade working group report involved discussion of the structure of the new Joint Commission on Commerce and Trade, export controls, import restrictions and blocs to GSP facilities. The U.S. Co-Chairman pointed out that license approvals are up 2 1/2 times over 1980 and that in the first eight months of 1981, out of 1,232 license applications, only 47 were denied. Chinese exports to the U.S. during the first nine months of 1981 are up 90% over 1980. "Orderly" growth is important in import-sensitive sectors and the Chinese have not yet fulfilled the requirements to qualify for GSP.

The tax working group had approved notes on exemption of maritime and air transport firms from taxation and on initiating discussion of a bilateral tax treaty.

Vice-Premier Bo agreed with all working group reports. Secretary Regan mentioned again that various exchanges will take place before the next JEC meeting. He emphasized use of the private capital markets and mentioned simplified visa procedures and facilities for businessmen.

Bo mentioned results from three years of liberalization and new goals. The trade imbalance situation was mentioned again and he emphasized the importance of increased ties to "stabilize the situation in Asia." The maritime and air tax notes were then signed.

Comment: The meetings were as successful as they could have been expected to be. Taiwan was not mentioned at all. There was an anti-American demonstration in front of the American Embassy Monday evening, the 16th, after a Chinese women's volleyball team defeated an American team. Deng apologized the next day to the Secretary.

Summary

The meetings were cordial and businesslike. Useful recommendations were made, an on-going process was initiated and negotiations for a tax treaty begun. Notes on maritime and air transport tax exemption were signed.

Attachment

Tab I Description of Chinese Economy

- cc: D. Gregg
- H. Nau
- G. Weiss
- A. Lenz

THE NATIONAL ECONOMY OF CHINA (1981)

China adopted in 1979 a policy of readjustment, restructuring, consolidation and improvement of the national economy. It was again decided last December to further readjust the economy. This year, people in all parts of the country earnestly implemented these policies and related measures, and as a result, marked successes have been achieved. Agricultural production has been growing in an all-round way; industrial production has been proceeding along with readjustment; the scope of capital construction has been reduced to a certain extent; prices have been basically stable; domestic and foreign trade have been expanding; and revenue and expenditure will be basically balanced this year. In general, the development of the national economy has been sound.

1. Agricultural production. As a result of relaxing a series of policy restrictions, ensuring the rights of rural communes, brigades and teams to decide their production schedules, raising the state's purchasing prices of agricultural and sideline products, establishing different kinds of production responsibility systems, implementing the principle of distribution according to work, developing a diversified economy, and opening country fairs, the production enthusiasm of the peasants has been mobilized, thus bringing about a continued development of agricultural production. The 1979 grain output was the highest in history, reaching 332.12 million tons, an increase of 9 per cent over the previous year. Owing to natural calamities, the 1980 grain output was 318.22 million tons, slightly lesser than the previous year. However, owing to the quick increase of cash crops, total agricultural output value still registered an increase of 2.7 per cent. Climatic conditions in China this year has been most abnormal. Since spring, some 27 million hectares in north China and Shandong, Henan, Hunan and Gueizhou Provinces have been hit by severe

drought. In addition, 8 million hectares in Sichuan, Heilongjiang, Shaanxi, Gansu and Guangdong Provinces have been severely flooded or waterlogged since July. However, as a result of the implementation of correct policies, the production enthusiasm of the peasants has been fully mobilized, thus continuing to bring about an all-round increase in agricultural production. Total grain output this year is expected to be somewhere in the vicinity of the 1979 figure. The output of cotton, oil-bearing crops, sugar crops, tea and other cash crops is expected to reach historical record levels.

2. Industrial production. The light and heavy industrial structure has been readjusted to a certain extent, thereby accelerating the development of light industry. At the same time, the rights of enterprises to make their own decisions have been extended and the democratic running of enterprises has been strengthened. The total industrial output value of 1980 increased by 8.7 per cent over the previous year, among which light industrial output value increased 18.4 per cent, and heavy industrial output value increased 1.4 per cent. Since light industry has been developing at a faster rate than heavy industry, the portion light industrial output value occupied in the total increased from 43.1 per cent in 1979 to 46.9 per cent in 1980. Total industrial output value is expected to reach the planned target of 1981. From January to October, total industrial output value increased by 2.4 per cent over the same period of last year. Out of this total, light industrial output value increased by 12.6 per cent and heavy industrial output value decreased. However, heavy industrial products have increased in variety and improved in quality. Out of the total industrial output value, that of light industry already occupies 50.8 per cent, while that of heavy industry occupies 49.2 per cent.

3. Capital construction. Though certain projects had been halted or postponed in 1980, yet the general scope of capital construction was not reduced. Capital construction investment in 1981 has been reduced to a certain extent. Up to the end of October, investments made in this field in the country as a whole amounted to 28 billion RMB yuan. Such investments are expected to reach 38 billion RMB yuan for the whole year (15.9 billion RMB yuan less than last year). In the total investment already made, there is a decrease in productive construction, and an increase in non-productive construction. Up till the end of October, a floor space of 32.76 million square meters has been completed in urban housing projects, an increase of 430 thousand square meters as compared with the same period of last year.

4. Trade and prices. Both domestic and foreign trade has further developed on the basis of the expansion of production. The value of retail commodities of 1980 increased by 18.9 per cent over the previous year. The aggregate value of retail commodities sold in the months from January to October increased by 8.3 per cent over the same period of last year. There has been a general increase in the sale of different kinds of consumer goods, particularly that of clothes and other daily necessities. The general price index of retail goods (including listed prices, negotiated prices and country fair prices) rose by 1.1 per cent in January through September as compared with the same period of last year, among which state listed prices rose by 0.9 per cent, negotiated prices by 1.6 per cent, and country fair prices by 5.3 per cent. Foreign trade continues to expand. In 1980 total exports was valued at 18.3 billion US dollars, an increase of 31 per cent over the previous year; and total imports was valued at 19.5 billion US dollars, an increase of 20 per cent over the

previous year. From January to September, total exports amounted to 14.77 billion US dollars, an increase of 13.5 per cent over the previous year; and total imports amounted to 14.18 billion US dollars, an increase of 9.9 per cent over the previous year.

5. Finance. In 1980, because the scope of capital construction was not reduced, and on the top of this other kinds of expenditure increased, there was a deficit of 12.7 billion RMB yuan. Owing to intensified efforts to increase revenue and cut down on expenditures, as of the end of October, revenue has exceeded expenditure, leaving a surplus of 3.64 billion RMB yuan (in the same period last year, expenditure exceeded revenue by 5.73 billion RMB yuan). It is expected that revenue and expenditure will be basically balanced this year. Till the end of October, savings deposit of urban and rural residents has reached 49.41 billion RMB yuan, an increase of 12.46 billion RMB yuan over the same period of last year.

6. Salaries and wages, livelihood of the people. As a result of good harvests, plus raising the state's purchasing prices of agricultural and sideline products, the income of the peasants has increased by a relatively large margin. Annual net income of a peasant in 1979 was 160 RMB yuan, and in 1980 was 191 RMB yuan, an increase of 20 per cent. By opening all kinds of opportunities for employment, till the end of September, 5 million people have been newly employed. There is now a total of 106 million workers and staff members. The total sum of salaries and wages has also increased. In 1980, a floor space of 82.3 million square meters was completed in urban housing projects, an increase of 31.6 per cent.

The above results achieved in the national economy over

the past two years or so, fully prove that the policy of further readjusting the national economy is entirely correct. Naturally, certain difficulties still exist in our economy. They are mainly, energy and transportation and communication cannot match the demands of national economic development; agriculture and light industry remain the relatively weak links; consumer goods are relatively insufficient; industrial goods are in short supply in the countryside; the economic result of industrial production is not as good as it should be; management and administration level is not high; and the cost of production of some of the state-owned enterprises has risen, and profits handed over to the state by such enterprises have henceforth decreased. These are problems which we must conscientiously try to solve. We will rely on the wisdom and strength of the people of the whole country, and with confidence, overcome the difficulties as we continue to forge ahead to win better results for our economic construction.

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Comments:

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WHITE HOUSE SITUATION ROOM

PAGE 01 OF 02 BEIJING 11/30 3345
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NODIS
EO. 12065: RDS-2, 11/30/01 (HUMMEL, ARTHUR W.) OR-M
TAGS: MPOL, KS, US, CH
SUBJECT: (S) NEW WEAPONS SYSTEMS IN KOREA
REF: SEOUL 14034

1. (S) - ENTIRE TEXT)

2. I STRONGLY CONCUR WITH AMBASSADOR WALKER'S POINTS ABOUT THE NEGATIVE CONSEQUENCES FOR U. S. INTERESTS IN NORTHEAST ASIA THAT COULD FLOW FROM THE INTRODUCTION OF U. S. STRATEGIC WEAPONS SYSTEMS INTO SOUTH KOREA. FROM THIS VANTAGE POINT, ELEVATION OF THE U. S. MILITARY PRESENCE IN THE ROK FROM THE ROLE OF A GUARANTOR OF PEACE ON THE PENINSULA TO THAT OF A REGIONALLY-BASED STRATEGIC FORCE WOULD UNDERMINE CURRENT POSITIVE TRENDS IN POLITICAL INTER-RELATIONSHIPS IN NORTHEAST ASIA.

3. WHILE MOST OF THE TOP POLITICAL LEADERSHIP HERE MIGHT NOT VIEW DEPLOYMENT OF NEW U. S. STRATEGIC SYSTEMS IN SOUTH KOREA AS POSING A U. S. MILITARY THREAT TO CHINA, SOME CHINESE MILITARY AND POLITICAL LEADERS WOULD CERTAINLY BE CONCERNED, AND THE ISSUE COULD BE EXPLOITED POLITICALLY. IT WOULD ALMOST CERTAINLY DERAIL THE TENTATIVE BEGINNING OF INFORMAL

MESSAGE (CONTINUED):

CHINA-ROK CONTACTS. QUITE ASIDE FROM THIS, IT WOULD GREATLY COMPLICATE THE LONG-TERM SEARCH FOR A KOREAN SOLUTION, AND ERODE THE FORCE OF OUR CONTINUING EFFORTS TO ENCOURAGE P'YONGYANG TO TALK TO SEOUL RATHER THAN INSISTING ON TALKING TO US.

4. I AGREE WITH AMBASSADOR WALKER'S ASSESSMENT OF THE ADVANTAGES THAT WOULD ACCRUE TO THE SOVIETS WERE WE TO TAKE THIS STEP, NOT ONLY IN THE AREA OF A WEAKENED SINO-U. S. RELATIONSHIP BUT ALSO IN THE SINO-SOVIET CONTEST IN P'YONGYANG FOR PREDOMINANT INFLUENCE. THE SOVIET UNION WOULD BE THE MOST LIKELY SOURCE WERE THE NORTH KOREANS TO SEARCH FOR MORE ADVANCED WEAPONS TO COMPENSATE FOR AN UPGRADING OF U. S. WEAPONS IN SOUTH KOREA.
HUMMEL

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BY KML NARA DATE 10/18/13

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WHITE HOUSE SITUATION ROOM

PAGE 02 OF 02 BEIJING 11/30 3345

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DOC DATE 01 DEC 81

KEYWORDS: CHINA P R

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NATO

MIDDLE EAST

AFRICA

AFGHANISTAN

SUBJECT: DOWNGRADING US - CHINA RELATIONS / US INTERESTS

ACTION: PREPARE MEMO FOR NANCE

DUE: 02 DEC 81 STATUS S FILES

FOR ACTION

FOR CONCURRENCE

FOR INFO

CHINA OFFICE

PIPES

STEARMAN *Green*

GREGG

RENTSCHLER *NO COMMENT*

SHOEMAKER *Sent memo*

TANTER

KEMP *OUT OF COUNTRY*
TANTER
NO COMMENT

WETTERING - *concur*

COLSON

Briley

LENZ

URGENT

COMMENTS *** 3 HOURS RESPONSE FOR CABINET LEVEL MEMO ***

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ACTION OFFICER (S)

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<i>These</i>	<i>M 12/3</i>	<i>for to Pres for decision</i>		
<i>Pres</i>	<i>P 12/10</i>	<i>for decision</i>		
	<i>C 12/11</i>	<i>Pres ofnd recom</i>		<i>DG, CS</i>

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THE SECRETARY OF STATE

WASHINGTON

December 1, 1981

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81 DEC 1 P11:00

BY KML NARA DATE 10/18/13

MEMORANDUM FOR: THE PRESIDENT

From: Alexander M. Haig, Jr. *(Signature)*

Subject: Downgrading U.S. - China Relations: U.S. Interests

WHITE HOUSE SITUATION ROOM

Our recent tough exchanges with the PRC over Taiwan raise the prospect of a serious downgrading of our relationship with China. This memorandum outlines our preliminary thoughts on some of the most serious implications. I am asking Bill Casey to do a fuller assessment, and we also will be back to you with further analysis.

In general the Chinese do not have to choose between us and the Soviets. A downturn in relations with us does not mean a Sino-Soviet rapprochement. Moreover, the Chinese would continue to do those things which they now do because they are in China's interest and coincidentally have some benefit or policy similarity to our actions. However, we do see the following serious implications:

Soviet Union. Even a short-term breach would come as a relief to the Soviets, whose planners must now take into account growing U.S.-China cooperation. A return to confrontation could give Moscow more freedom to maneuver because we would need to reconsider our Pacific force deployments and contingency planning.

Allies. A deterioration in relations with China would lead our allies (most of whom have advocated a balanced approach to China) to think we had failed to conduct our foreign policy wisely. It would also present some of our friends and allies, such as Japan and Pakistan, who are close both to the U.S. and China, with serious policy problems.

Afghanistan/Kampuchea. The Soviets and their Vietnamese surrogates would undoubtedly gain encouragement to stay the course in Afghanistan and Kampuchea. We could expect increasing difficulties in maintaining a common front on these questions with Pakistan and ASEAN, respectively. Again, a more serious split could embolden the Soviets and their proxies to go for more.

Third World. There would be negative implications for our position in the Middle East, Africa, and on most other Third World issues, where, Chinese support has strengthened our relations with Third World countries. Despite differences over

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tactics, the Chinese have generally supported us because we are the main counterweight to the Soviets. We could expect to see them strengthen identification with the Third World and equate our status with the Soviet Union as an untrustworthy superpower.

Taiwan. While Taiwan might appear to gain in the short term, Taiwan's long-term security interests could suffer. In the time between a downgrading and any future effort to compose US-China differences, Beijing would likely seek to build pressures on the US government, internally and externally, for a resumption of Ambassadorial relations. Its price for a resumption would be elimination of all US arms sales to Taiwan. If waged effectively, such a campaign might ultimately reduce our ability to support Taiwan at present levels.

Development of U.S.-China Relationship. We should expect that a breach would lead to a cut-back of our very broad political, cultural and economic relations across the board. Perhaps the most serious consequence would be a general weakening of our influence in moving China toward ideals and policies more compatible with our own. These are intangible results, however, and are not subject to precise measure.

Intelligence. Intelligence collection could be affected, and I am suggesting to Bill Casey that he give you an appraisal on that directly.

Trade. Effects on our interests are impossible to measure, but we would likely lose a significant portion, if not all, of our approximate \$2.0 billion trade surplus. China, now our third largest agricultural market worldwide, would to the extent possible shift to alternative suppliers of wheat, corn, and cotton; our sales of manufactured goods, heavy industrial equipment and advanced technology would all be affected to the extent competitors from Europe and Japan are available. Potential cooperation in other fields -- offshore oil and nuclear power -- could be similarly affected.

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60245	MEMO GREGG TO NANCE	1	12/2/1981	B1

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E.O. 12065:RDS 1, 3 12/2/01 (HOLDRIDGE, JOHN H.)

TAGS: CH US TW PFOR
SUBJECT: YOUR CALL ON ZHANG WENJIN
FOR AMB HUMMEL FROM ASST SECY HOLDRIDGE
1. SECRET (ENTIRE TEXT)
2. TALKING POINTS FOR USE IN YOUR CALL ON ZHANG WENJIN
ARE AS FOLLOWS:

--SINCE THE CANCUN SUMMIT AND VICE PREMIER HUANG'S
VISIT, WE HAVE GIVEN CAREFUL CONSIDERATION TO THE
POSITIONS TAKEN BY YOUR SIDE IN THOSE DISCUSSIONS. IN
PARTICULAR, PRESIDENT REAGAN HAS CONFERRED WITH
SECRETARY HAIG AT LENGTH ON THE ISSUES YOU RAISED.

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PAGE 02

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--THE PRESIDENT AND SECRETARY HAVE NOW ASKED ME TO UNDERTAKE FOLLOW UP DISCUSSIONS ON THEIR BEHALF. SECRETARY HAIG HAS ASKED ME TO DELIVER A LETTER FROM HIM TO VICE PREMIER HUANG IN THIS REGARD

--WE BELIEVE IT IS VITAL TO CONDUCT THESE TALKS IN A WAY WHICH MINIMIZES PUBLICITY. AIRING DISAGREEMENTS IN PUBLIC WOULD ONLY EXACERBATE TENSIONS WHICH WE KNOW BOTH SIDES WISH TO RESOLVE.

ANY PRESS ARTICLES YOU MAY HAVE READ REGARDING OUR INTENTIONS ON AIRCRAFT SALES TO TAIWAN ARE UNINFORMED SPECULATION. I CAN ASSURE YOU THAT NO DECISION HAS BEEN MADE.

--WE ENTER THIS FOLLOW-UP DISCUSSION WITH SINCERITY AND GOOD FAITH. AS SECRETARY HAIG NOTED TO YOU IN-JUNE, OUR EXTRAORDINARY SUCCESS OVER THE PAST TEN YEARS HAS BEEN DUE TO EFFORTS BY STATESMEN ON BOTH SIDES WHO, AT CRITICAL JUNCTURES, WERE ABLE TO BRIDGE THE DIFFERENCES BETWEEN US AND MOVE OUR RELATIONS AHEAD.

--THE NEXT THREE MONTHS WILL BE THE LAST OF THE DECADE FOLLOWING THE SHANGHAI COMMUNIQUE. AS WE PROCEED BETWEEN NOW AND FEBRUARY, IT IS ESSENTIAL THAT WE CONTINUE OUR TRADITION OF STATESMANSHIP, AND NOT ALLOW THE DECADE TO END WITH A US-CHINA RETROGRESSION.

--SUCH A RETROGRESSION IN US-CHINA RELATIONS COULD HAVE SEVERE AND UNFORESEEN CONSEQUENCES, HARMING BOTH THE STRATEGIC INTERESTS OF CHINA AND THE UNITED STATES AND THE PROSPECTS FOR RESOLVING SATISFACTORILY THE TAIWAN PROBLEM.

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PAGE 03

STATE 320128

--WE WANT TO DO ALL WE CAN TO AVOID SUCH AN EVENTUALITY, AND IN THESE FOLLOW-UP DISCUSSIONS WE WILL BE PREPARED TO REVIEW ANY ASPECT OF OUR BILATERAL RELATIONS--TRADE, CULTURAL EXCHANGE, POLITICAL INTERCHANGE, INTELLIGENCE, ETC.

--THIS WOULD BE AN APPROPRIATE WAY TO CLOSE OUT AN HISTORIC DECADE. INDEED, I WOULD LIKE TO BEGIN TODAY WITH A REVIEW THE REAGAN ADMINISTRATION'S EFFORTS TO ADVANCE AND DEEPEN THE RELATIONSHIP.

--WE FEEL THIS IS NECESSARY, IN ORDER TO REMOVE ANY DOUBT WHICH MAY EXIST CONCERNING THE SINCERITY-OF OUR DETERMINATION AND COMMITMENT TO CONTRIBUTE TO AN EXPANDING RELATIONSHIP SERVING OUR MUTUAL-INTERESTS.

--DESPITE SOME STATEMENTS WHICH HAVE APPEARED IN OUR PRESSOUR ACTIONS CONSTITUTE A RECORD OF ACCOMPLISHMENT WHICH HAS LAID THE FOUNDATION FOR SOLID ADVANCES WHICH CAN BE MADE IN US-CHINA RELATIONS OVER THE NEXT FEW YEARS.

--FIRST, SECRETARY HAIG INFORMED YOUR GOVERNMENT IN JUNE THAT THE REAGAN ADMINISTRATION WOULD UNDERTAKE A REVIEW--

OF OUTDATED US LAWS AND LEGISLATION THAT CONTINUED TO TREAT YOUR NATION AS AN ADVERSARY LUMPED WITH THE SOVIET BLOC.

--WE HAVE COMPLETED THAT REVIEW AND CONSULTED EXPEDITIOUSLY WITH OUR CONGRESS ON APPROPRIATE REVISIONS. WE WILL INTRODUCE FORMAL LEGISLATIVE MEASURES IN THE NEXT SESSION OF CONGRESS TO EFFECT CHANGES IN LEGISLATION GOVERNING FOREIGN ECONOMIC ASSISTANCE, AGRICULTURAL COMMODITY ASSISTANCE, IMPORT

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PAGE 04

STATE 320128

RESTRICTIONS ON FURS AND SKINS, AND EX-IM BANK PROCEDURES.

--ONCE THE CONGRESS HAS ACTED, MAJOR CHANGES WILL HAVE BEEN MADE; BUT WE INTEND TO KEEP OUR LAWS, REGULATIONS AND PROCEDURES UNDER CONTINUING REVIEW AND TO MAKE STEADY PROGRESS IN IMPLEMENTING THE PRESIDENT'S POLICY OF INSURING THAT OUR LAWS AND REGULATIONS TREAT CHINA AS A FRIENDLY NATION, WITH WHICH WE ARE NOT ALLIED BUT WITH WHICH WE HAVE MANY COMMON INTERESTS.

--SECOND, WITHIN THE SAME CONTEXT, WE HAVE CHANGED OUR ARMS TRANSFER POLICY PLACING CHINA ON THE SAME FOOTING AS APPLIES TO OTHER NATIONS FRIENDLY TO THE UNITED STATES.

--AFTER APPROPRIATE INTERNAL REVIEW AND CONSULTATION WITH OUR CONGRESS, THE FINAL PROCEDURAL ACTION FOR THIS MOVE IS NOW READY. WE WILL TAKE IT WITHIN THE NEXT TEN DAYS, AND WE WILL BE MAKING OUR FIRST LICENSING DECISION, WHICH WILL PERMIT CO-PRODUCTION OF ROCKWELL RADIOS IN THE PRC.

--YOU OF COURSE KNOW WELL THE HARD WORK WE DID THIS SUMMER IN THIS AREA, BUT IT IS WORTH POINTING OUT AGAIN THAT WE WERE DETERMINED TO MAKE SIGNIFICANT PROGRESS IN THE MILITARY AND DUAL USE TECHNOLOGY AREAS HAD GENERAL LIU COME.

--THIRD, WE UNDERTOOK A MAJOR EFFORT TO LIBERALIZE US EXPORT CONTROLS, AND WE IMPLEMENTED IT IMMEDIATELY. SINCE JULY, WE HAVE PROCESSED OVER 1200 LICENSE APPLICATIONS, CLEARING UP A SIZEABLE BACKLOG ON WHICH

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THE PREVIOUS ADMINISTRATION HAD NOT ACTED. THE OVERWHELMING MAJORITY OF THESE INVOLVED APPROVALS--THERE WERE LESS THAN FIFTY DENIALS.

--WE HAVE APPROVED MAJOR COMPUTER TRANSFERS, SUCH AS THE IBM 4341 FOR YOUR CENSUS, AND THE LEASING OF THE IBM 3033, AN EXTREMELY HIGH-POWER COMPUTER TO BE PROVIDED BY THE WESTERN GEOPHYSICAL COMPANY. THIS IS CLEAR EVIDENCE THAT WE ARE DETERMINED TO CONTINUE TO MAKE MAJOR STEPS FORWARD IN THE TECHNOLOGY TRANSFER FIELD.

--FINALLY, LET ME MAKE CLEAR THAT THE REAGAN ADMINISTRATION IS GENUINELY INTERESTED IN CONTRIBUTING TO THE STRENGTHENING OF CHINA'S ECONOMY AND INDUSTRIAL BASE. WE WANT YOUR MODERNIZATION PROGRAM TO SUCCEED, BECAUSE WE KNOW IT IS IN OUR INTEREST TO SEE A STRONG CHINA WHICH IS FULLY ABLE TO MEET THE SOVIET THREAT.

--TO TURN TO THE MOST DIFFICULT AREA FOR US BOTH, I WOULD LIKE NOW TO ADDRESS THE QUESTION OF THE UNITED STATES POLICY OF SUPPLYING SELECTIVE, DEFENSIVE ARMS, ON A RESTRAINED AND PRUDENT BASIS, TO THE PEOPLE OF TAIWAN.

--AS SECRETARY HAIG MADE CLEAR IN WASHINGTON, WE CANNOT SPECIFY A TIME LIMIT WITHIN WHICH OUR SALES TO TAIWAN MIGHT END. NO AMERICAN PRESIDENT COULD TAKE SUCH A STEP, AND HAD YOUR SIDE PROPOSED SUCH TERMS DURING THE 1978 NORMALIZATION NEGOTIATIONS, NORMALIZATION COULD NOT HAVE BEEN ACHIEVED.

--THE RATIONALE FOR OUR POSITION WAS EXPLAINED IN DETAIL DURING SECRETARY HAIG'S FIRST WASHINGTON MEETING WITH VICE PREMIER HUANG. THIS WAS NOT MERE RHETORIC BUT REPRESENTED THE SINCERE AND CONSIDERED ANALYTICAL VIEWS OF THE US GOVERNMENT.

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--IN THE MONTH SINCE, YOU HAVE HAD OPPORTUNITY TO HEAR FROM OTHERS WHO, INDEPENDENTLY AND WITHOUT URGING FROM US, COULD CONFIRM TO YOU THAT OUR POSITION IS WIDELY UPHELD, IN BOTH AMERICAN POLITICAL PARTIES.

--INDEED, WE WILL BE PROCEEDING IN THE NEXT FEW WEEKS AND MONTHS TO IMPLEMENT CERTAIN COMMITMENTS TO TAIPEI MADE BEFORE OUR DISCUSSIONS WITH YOU IN CANCUN AND WASHINGTON, WHICH ARE ESSENTIAL TO ROUTINE CONTINUITY OF SUPPLY. WE WILL DO THIS IN THE DISCREET, PRUDENT MANNER THE PRESIDENT INDICATED TO VICE PREMIER HUANG.
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--AT THE SAME TIME, THE SECRETARY HAS ALSO MADE CLEAR THAT THE UNITED STATES DOES NOT CLAIM AN INDEFINITE RIGHT TO SUPPLY ARMS TO TAIWAN. WE UNDERSTAND YOUR POSITION, AND RESPECT IT.

WE DO NOT SEEK TO CHALLENGE YOUR CLAIMS TO SOVEREIGNTY OR TERRITORIAL INTEGRITY.

--INDEED, IT WAS PRECISELY OUT OF REGARD FOR YOUR VIEWS AND SENSITIVITIES THAT THE SECRETARY PUT FORWARD CERTAIN ELEMENTS OF HIS RESPONSES TO VICE PREMIER HUANG AFTER CONSIDERING THE PREMISES ADVANCED BY THE VICE PREMIER IN CANCUN.

--IT WAS ALSO OUT OF RESPECT FOR YOUR POSITION THAT US ARMS DELIVERIES TO TAIWAN IN THE FIRST YEAR OF THE REAGAN ADMINISTRATION REACHED THEIR LOWEST LEVEL IN THE ENTIRE DECADE OF US-CHINA RAPPROCHEMENT.

--THE SECRETARY NOTED THAT WE TOO CONSIDER THE TAIWAN

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ARMS SALES ISSUE A MATTER LEFT OVER FROM HISTORY, TO BE VIEWED IN AN HISTORICAL, NOT JURIDICAL, CONTEXT. WE BELIEVE ALSO THAT, WHILE WE CANNOT SPECIFY THE EXACT TIME FRAME, HISTORY WILL ULTIMATELY PROVIDE A SOLUTION.

--IN THIS CONTEXT, WE CONSIDER YOUR NINE-POINT PROPOSAL TO BE OF TREMENDOUS SIGNIFICANCE, AND WE ARE KEENLY AWARE OF THE WAY IN WHICH YOU FIRST PRESENTED IT TO US PRIVATELY IN WASHINGTON, IN THE CONTEXT OF PAST US ASSERTIONS THAT ANY RESOLUTION OF THE TAIWAN PROBLEM MUST BE PEACEFUL. AS THE SECRETARY POINTED OUT, WE BELIEVE THAT, SO LONG AS YOU STEADFASTLY PURSUE THIS PEACEFUL AND FORTHCOMING APPROACH TO REUNIFICATION, IT MUST INEVITABLY HAVE POSITIVE RESULTS.

--FOR OUR PART, WE CONTINUE TO REGARD THIS AS A PROCESS AND A MATTER TO BE RESOLVED BY THE CHINESE PEOPLE ALONE. OUR POLICY WILL BE, AS IT SHOULD BE, ENTIRELY NEUTRAL, AND WE WILL NOT SEEK TO INTERVENE. YOU SHOULD UNDERSTAND, HOWEVER, THAT OUR DECISIONS ON ARMS SALES WILL REFLECT OUR STRONG DESIRE NOT TO IMPEDE THE REUNIFICATION PROCESS.

--WE WOULD LIKE TO CORRECT A MISIMPRESSION THAT MAY EXIST AS A RESULT OF OUR WASHINGTON EXCHANGES. WE WANT TO MAKE CLEAR THAT WE ARE NOT ASSERTING THE INTENTION TO SELL ARMS TO TAIWAN UNTIL REUNIFICATION IS ACHIEVED.

--WE VIEW ARMS SALES AS SOMETHING WHICH WILL CONTINUE FOR THE PRESENT, BUT WE DO NOT SAY WHEN OR UNDER WHAT PRECISE CONDITIONS THEY WILL END. OUR DECISIONS IN THIS REGARD WILL BE INFLUENCED BY PROGRESS TOWARD PEACEFUL REUNIFICATION, THOUGH THEY WILL NOT BE SOLELY CONTINGENT UPON IT.

--WE WILL CONTINUE OUR PRESENT POLICY BECAUSE WE BELIEVE

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THAT TO DO OTHERWISE WOULD BE SERIOUSLY DESTABILIZING AND RUN COUNTER TO THE GOAL OF PEACEFUL REUNIFICATION WHICH YOU AND WE BOTH HOPE WILL BE ACHIEVED.

--AS WE HAVE INDICATED WE DO NOT ENVISAGE A SITUATION IN WHICH WE WOULD EXCEED THE LEVELS OF THE CARTER ADMINISTRATION; AND WHILE THERE WILL BE FLUCTUATIONS FROM YEAR TO YEAR, WE EXPECT THERE WILL BE OTHER YEARS, LIKE THIS ONE, WHEN OUR SALES FALL WELL BELOW THOSE LEVELS.

--I CAN ALSO TELL YOU THAT WE EXPECT TO MANAGE THE REPLACEMENT AIRCRAFT ISSUE WITHIN THE PARAMETERS OF THE FOREGOING APPROACH. IN THIS RESPECT I REITERATE THAT ANY REPORTS YOU MAY HAVE SEEN IN THE PRESS ARE SPECULATIVE. WE HAVE REACHED NO DECISION, AND AS WE HAVE INDICATED TO YOU THERE WILL BE NO DECISION THIS YEAR.

--TO LOOK, THEN, TO THE FUTURE, AND THE PROSPECTS FOR A PEACEFUL RESOLUTION OF THE TAIWAN ISSUE, YOU WILL HAVE NOTICED THAT WE HAVE RECOGNIZED PUBLICLY THE SIGNIFICANCE OF YOUR NINE-POINT PROPOSAL, AND WE WILL CONTINUE TO DO SO, FROM TIME TO TIME.

--AT THE SAME TIME, WE BELIEVE ALL CONCERNED MUST RECOGNIZE THAT GREAT TIME AND PATIENCE WILL BE REQUIRED FOR YOUR PROPOSALS TO BEAR FULL FRUIT. PRECIPITOUS ACTION TO PRESS THE US OR TAIWAN INTO SUDDEN OR RADICAL DEPARTURES FROM THE SITUATION ESTABLISHED AT NORMALIZATION COULD SERIOUSLY UNDERMINE THE CREDIBILITY OF THE NINE-POINT PROPOSAL--INTERNATIONALLY, IN TAIWAN, AND IN OUR OWN COUNTRY.

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--THE PASSAGE OF ONE MONTH'S TIME HAS NOT BROUGHT US TO DIFFERENT CONCLUSIONS FROM THOSE EXPRESSED TO YOU ON THIS SUBJECT BY SECRETARY HAIG. WE MIGHT ADD, HOWEVER, THAT THE US HAS MORE THAN A HOPE THAT YOUR PEACEFUL REUNIFICATION EFFORTS WILL SUCCEED. WE CONSIDER A PEACEFUL RESOLUTION OF THE TAIWAN ISSUE TO BE IN OUR OWN

INTEREST, AND IN THE INTEREST OF ALL PEACEFUL COUNTRIES IN ASIA.

--TO SUMMARIZE, AS WE ENTER THE NEXT DECADE OF US-CHINA RELATIONS, OUR SIDE DOES NOT BELIEVE WE CAN OR SHOULD PROCEED ACCORDING TO A FIXED TIME-TABLE OR SET DEADLINES. WE BELIEVE THAT TIME SHOULD BE ALLOWED TO TAKE ITS COURSE. WE ARE ENCOURAGED THAT YOU WILL BE PURSUING PEACEFUL REUNIFICATION, UNDER VERY REASONABLE TERMS, AND WE WILL BE TAKING ACCOUNT OF YOUR POSITION-AS WE MAKE OUR OWN DECISIONS.

--WE BELIEVE IT SHOULD BE SUFFICIENT THAT WE EXPRESS OUR INTENTIONS, AS WE HAVE TODAY, AND THAT YOU WATCH OUR PERFORMANCE. IN THE MEANTIME, WE ARE DESIROUS OF RESUMING THE MOMENTUM IN US-CHINA RELATIONS THAT HAD BEEN ESTABLISHED IN THE FIRST YEARS FOLLOWING NORMALIZATION AND TO WHICH THE REAGAN ADMINISTRATION EARNESTLY SUBSCRIBES.

3. FOLLOWING IS TEXT OF LETTER FROM SECRETARY HAIG WHICH SHOULD BE DELIVERED TO VICE FOREIGN MINISTER ZHANG FOR FOREIGN MINISTER HUANG. NO SIGNED COPY WILL FOLLOW.

BEGIN TEXT:

DEAR MR. VICE PREMIER:

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IN YOUR ABSENCE, I HAVE ASKED AMBASSADOR HUMMEL TO CALL ON VICE FOREIGN MINISTER ZHANG WENJIN AT HIS EARLIEST-- CONVENIENCE, TO CONTINUE THE DISCUSSIONS WE HELD IN CANCUN AND WASHINGTON. IN DOING SO, I HAVE ASKED HIM TO CONVEY TO YOUR GOVERNMENT OUR EARNEST HOPE THAT THESE EXCHANGES WILL ENABLE US TO RESOLVE OUR RECENT DIFFERENCES AND CONTINUE THE REMARKABLE PROGRESS WE HAVE MADE SINCE THE SIGNING OF THE SHANGHAI COMMUNIQUE.

AMBASSADOR HUMMEL IS, OF COURSE, HIGHLY QUALIFIED TO CARRY ON THIS DIALOGUE. HE WAS HANDPICKED FOR HIS POSITION AS ONE OF THOSE MOST FAMILIAR WITH YOUR COUNTRY. BY CONDUCTING OUR EXCHANGES IN THIS WAY, IT IS ALSO OUR INTENTION TO KEEP THEM PRIVATE, AND OUT OF THE LIMELIGHT. I KNOW YOU WILL AGREE THAT AIRING DIFFERENCES IN PUBLIC WOULD ONLY WORK TO THE BENEFIT OF ADVERSARIES AND NOT SERVE TO ADVANCE OUR EFFORTS.

I HOUST YOUR TRIP TO AFRICA HAS BEEN A MAJOR SUCCESS AND I HOPE THIS FINDS YOU IN GOOD HEALTH. WARMEST REGARDS.

SINCERELY,

ALEXANDER M. HAIG, JR. END TEXT:

4. THESE TALKING POINTS HAVE BEEN APPROVED BY THE SECRETARY. WE WOULD, OF COURSE, WELCOME ANY SUGGESTIONS YOU MAY MAKE FOR ADDITIONS OR IMPROVEMENTS.

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