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# WITHDRAWAL SHEET

## Ronald Reagan Library

Collection: LAUX, DAVID N.: Files

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File Folder: [China and Taiwan - NSSD 12-82 - U.S. Relations with China and Taiwan] RAC Box 22

Date: 7/6/00  
Barr - F98-080/1

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
<i>Hems 3, 4, 6</i>			
<del>1. Memo</del>	<del>Richard Allen to VP, Secretary of State, et al., re: NSDD 11, 1 p.</del>	<del>10/2/81</del>	<del>P1/F1</del>
<del>2. NSDD</del>	<del>#11, 1 p.</del>	<del>9/22/81</del>	<del>P1/F1</del>
<del>3. Memo</del>	<del>William Clark to Reagan, re: NSSD on US Relations with China and Taiwan, 2 p.</del>	<del>12/6/82</del>	<del>P1/F1</del>
<del>4. Memo</del>	<del>David Laux to Clark, re: NSSD on U.S. Relations with China and Taiwan, 3 p.</del>	<del>11/30/82</del>	<del>P1/F1</del>
<del>5. Form</del>	<del>NSC Distribution Record, (Partial), 1 p.</del>	<del>4/3/84</del>	<del>P1/F1/P3/F3</del>
<del>6. Draft NSSD</del>	<del>re: US-China Relations, (with annotations), 31 p.</del>	<del>n.d.</del>	<del>P1/F1</del>
<del>7. Memo</del>	<del>Laux to Robert McFarlane, re: Special Briefing and NSC Meeting, Thursday, January 5, 1983, 1 p.</del>	<del>1/4/84</del>	<del>P1/F1</del>
<del>8. Memo</del>	<del>From McFarlane, re: Special Briefing and NSC Meeting with National Security Council..., 2 p.</del>	<del>n.d.</del>	<del>P1/F1</del>
<del>9. List</del>	<del>Participants, (partial), 1 p.</del>	<del>1/5/84</del>	<del>P1/F1/P3/F3</del>

### RESTRICTION CODES

**Presidential Records Act - [44 U.S.C. 2204(a)]**

- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

C. Closed in accordance with restrictions contained in donor's deed of gift.

**Freedom of Information Act - [5 U.S.C. 552(b)]**

- F-1 National security classified information [(b)(1) of the FOIA].
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
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- F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
- F-6 Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA].
- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

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LAUX

No. NSSD 12-82

COPY #1 G(ORIGINAL)

# NATIONAL SECURITY COUNCIL INFORMATION

Scouten L. W.  
632-7691

## Notice

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UNCLASSIFIED UPON REMOVAL OF  
CLASSIFIED ENCLOSURE(S)

dlb 7/7/00

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LAOX

THE WHITE HOUSE

WASHINGTON

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SENSITIVE

December 7, 1982

MEMORANDUM FOR THE VICE PRESIDENT

- ✓ THE SECRETARY OF STATE - Gregg
- ✓ THE SECRETARY OF THE TREASURY - Bob Cornell?
- ✓ THE SECRETARY OF DEFENSE - Armitage
- ✓ THE SECRETARY OF COMMERCE - Lawson
- ✓ THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET - Ash K...
- ✓ THE DIRECTOR OF CENTRAL INTELLIGENCE - Gries
- ✓ THE UNITED STATES TRADE REPRESENTATIVE - John Ray
- ✓ THE CHAIRMAN, JOINT CHIEFS OF STAFF - Ash Armitage
- ✓ THE DIRECTOR, ARMS CONTROL AND DISARMAMENT AGENCY - ?
- ✓ THE DIRECTOR, OFFICE OF SCIENCE AND TECHNOLOGY POLICY - ?
- ✓ THE DIRECTOR, UNITED STATES INFORMATION AGENCY - Ash Sh...

Alton G. Keel  
Assoc. Dir. for Nat Security  
+ Intell Affairs X6190

James L. George  
632-0972  
Dir. Multilateral  
Bureau

SUBJECT: National Security Study Directive on U.S. Relations with China and Taiwan (S)

The President has directed that a review of U.S. relations with the People's Republic of China (PRC) and Taiwan be undertaken. (S)

The purpose of this Study is to make a fundamental reexamination of our objectives with respect to the PRC and Taiwan and their objectives toward the U.S., to review the developments in our relations (including our economic relations with Hong Kong), particularly the changes in the last year, and establish the policy guidelines that will govern our relations with these entities for the next few years. (S)

The State Department, in close coordination with the National Security Council Staff, will handle the scheduling and management of the Study. Working Groups, chaired by the appropriate agencies, will be created to deal with specific topics addressed by the Study. (S)

This review should result in a draft National Security Decision Directive for review by the National Security Council no later than March 15, 1983, and an interim report by January 15, 1983 (prior to the Secretary of State's trip to the PRC). (S)

DECLASSIFIED

White House Guidelines, August 28, 1997

By dlb NARA, Date 7/7/00

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NSC

One final caveat: The fact that this Study is being done is sensitive and it is important that it does not leak. Public knowledge of the Study could complicate our relations with the PRC and Taiwan. I am counting on the heads of the departments and agencies involved to ensure strict control over the documents disseminated and to limit knowledge of access to them to the few personnel who have a justifiable need-to-know. (S)

FOR THE PRESIDENT:

  
William P. Clark

Attachment

NSSD 12-82

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WASHINGTON

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SENSITIVE

NATIONAL SECURITY STUDY  
DIRECTIVE 12-82

December 7, 1982

U.S. RELATIONS WITH CHINA AND TAIWAN (S)

Introduction

This National Security Study Directive establishes the Terms of Reference for completing a comprehensive review of U.S. relations with China and Taiwan. (S)

Objective of Review

To define U.S. objectives with respect to the People's Republic of China and Taiwan, to analyze their objectives towards the United States, and to produce a National Security Decision Directive (NSDD) on the subject, "U.S. Relations with China and Taiwan." (S)

Scope

The Study will be comprehensive and address the multiple aspects of our relations to include, at a minimum, the following topics:

Global and Regional Setting (Action: NSC)

U.S. global objectives and policy objectives in Asia which create the setting in which our policies toward China and Taiwan must be determined. Priority attention must go to our policies towards the USSR and Japan, although our objectives in the Third World, Korea and Southeast Asia are also important. (S)

Objectives and Expectations (Action: State)

What are our long-term objectives with respect to both China and Taiwan? What should we expect from our relationships? What do the PRC and Taiwan want from us? What are the prospects for China's modernization program? Is it really in our interest to help modernize China? To what extent can we? Should we have a technical assistance program for China? To what degree can we realistically expect to influence the PRC towards a more liberal form of government over the next 20 years? What is the likelihood of a serious improvement in Sino-Soviet relations and what would be the implications for the U.S.? What are Soviet objectives in China and what contingencies are they planning for? What are the likely implications for the U.S. of succession problems in both the PRC and Taiwan? What

*Wolfeowitz/Holdridge  
Shoesmith/Rope*

*not addressed.*

*What are Chi objectives w/ Soviets?  
What kind of Sino-Soviet relationships do we want?*

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Authority: EOB-201, EO 12958 3-11-96  
BY: *db*, NARA, Date: 4/1/02

is the likelihood that the Taiwanese will take over the Nationalist government on Taiwan, and what would be the effect on U.S. policy? What are the implications of PRC policies toward Hong Kong and Macao for Taiwan and for U.S. policies in the region? What are our near-term objectives and what should be the timetable for the management of our relations with China and Taiwan over the next two years? (S)

Political/Diplomatic Relations (Action: State) *Rope/Ferguson*

-- Review the domestic political considerations in the PRC and Taiwan impacting on their policy towards the U.S.

-- Inventory PRC foreign policy objectives, and ours, to determine areas of common interest, and differences. What new initiatives might the U.S. take? What effect would better (or worse) US-PRC relations have on our relations with Korea, Vietnam and ASEAN?

-- US-Taiwan relations as a constraint on US-PRC relations; and the US-PRC relationship as a constraint on US-Taiwan relations. (S)

Financial, Tax and Investment Issues (Action: Treasury) *Cornell?*

What is the most important financial assistance required by the PRC from foreign sources? What is the likely evolution of PRC policy towards the use of credit? What should Ex-Im Bank and OPIC policy towards the PRC be? What do we want to achieve with the PRC in negotiations on tax and investment issues? What is China's role in the IMF and IBRD? How can we use China's membership in those organizations to encourage China to play a responsible role in the international economic system? What is the appropriate role for the US-PRC Joint Economic Committee? (S)

Trade, Export and Import Issues (Action: *Lawson* Commerce and *Ray* USTR)

-- What are the prospects for future U.S. trade with the PRC, Taiwan and Hong Kong? How can we increase U.S. agricultural and non-agricultural exports to all three areas? What constraints on U.S. trade with the PRC are imposed by hard currency and credit considerations? What are the prospects for U.S. participation in major development projects? For a greater U.S. role in industrial cooperation?

-- What are the patent and copyright problems with the PRC and how can we resolve them? What should be the role of the US-China Joint Commission on Commerce and Trade? To what extent is China likely to become a competitor in the international marketplace and what are the implications for Taiwan, Hong Kong and the U.S.? What are the implications of a Free Trade Zone in Taiwan?

-- What position should we take with respect to possible Chinese accession to the General Agreement on Tariffs and Trade (GATT)? With respect to the Multifiber Arrangement (MFA)? With GSP? How well is our bilateral trade agreement with the PRC working?

-- What are the present and likely future major import problems in our trade with China, Taiwan and Hong Kong and what can be done about them? The PRC has a substantial deficit in its trade with the U.S. Yet, from the Chinese perspective, they are faced with increasing restrictions on expanding exports to the U.S. What impact does this perception have on our overall bilateral relationship? What is the likely future impact of our restrictions, import relief provisions, antidumping and countervailing duty laws? What are the prospects in the textiles and apparel sector? What can be done to lessen the unfavorable impact of these restrictions? (S)

Nuclear Issues (Action: State) -?

What are the problems in reaching a satisfactory agreement with the Chinese which will advance U.S. non-proliferation goals and at the same time permit the U.S. to sell the PRC nuclear power equipment? How can these problems be solved? How can we encourage China to join the IAEA? (S)

Technology Transfer (Action: OSTP) - Keyworth/Frankum

What are China's technology needs from foreign sources? What is its ability to absorb foreign technology? Does our existing policy of control over the export of dual use technology to China support our overall objectives with regard to China? Are these controls about right, or should they be liberalized or tightened up? (S)

Science and Technology Relations (Action: OSTP) D. #16

The Science and Technology Agreement with the PRC and the 17 protocols under it appear to be one of the most successful areas of exchange and cooperation. Should it be expanded? What are the lessons from this experience which might help us improve our exchange in other areas such as economic, commercial, and industrial cooperation? What is the appropriate role of the US-PRC Science and Technology Commission? (e)

Cultural Relations (Action: USIA) ?

What are the real benefits and problems in our student exchange programs? What are the future prospects? In other cultural areas? (S)

Military Relations (Action: Defense) *Armitage*

-- Review the progress so far of our effort to establish military contacts with China. Discuss areas of possible cooperation (ship visits, observer exchanges, educational exchange, etc.). What should our objectives be in this important area, and what can we realistically expect? (S)

*Excerpt of  
the  
account  
program*



Arms Transfers (Action: State and Defense) ?

What should our policy be towards arms sales to the PRC? Security assistance? Related matters? How can we manage arms sales to Taiwan in a manner consistent with the Taiwan Relations Act and in accordance with the provisions of the August 17 US-China Joint Communique? (S)

Intelligence (Separate Annex) (Action: CIA) *Gries*Taiwan (Action: State) *Ferguson*

How can we enhance the quality and improve the substance of our unofficial, people-to-people relations with Taiwan while minimizing the risk that Taiwan will again become a major divisive factor in US-China relations? What are the prospects for Taiwan and the PRC working out their problems and achieving a "peaceful resolution"? (S)

Hong Kong (Action: State) *Rupe*

What are the prospects for an agreement between China and the U.K. over the future of Hong Kong and what will its most important features probably be? How is this development likely to affect stability and investment in Hong Kong? Will there be a flight of capital and if so to what areas? How will these developments affect U.S. economic relations and trade with Hong Kong? (e)

Administration

This Study will be conducted by an Interagency Group, chaired by the Assistant Secretary of State for East Asian and Pacific Affairs. It should include representatives from the Departments of Defense, Treasury and Commerce, the Central Intelligence Agency, the Office of Management and Budget, the U.S. Trade Representative, the Joint Chiefs of Staff, the U.S. Information Agency, the Office of Science and Technology Policy and the National Security Council Staff. (S)

The scheduling and managing of the Study is the responsibility of the Department of State, in coordination with the National Security Council. Working Groups chaired by the appropriate agencies will be created to deal with specific topics addressed by the Study. (S)

The organization of the Study, including whether to integrate the questions on Taiwan and Hong Kong with those on China, or treat them as separate sections, is left to discussion and decision in the IG. (S)

A report for consideration by the National Security Council should be prepared no later than March 15, 1983. An interim report summarizing the Study's preliminary conclusions and recommendations

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should be prepared for consideration by the National Security Council in mid-January 1983, prior to the Secretary of State's trip to China, Japan and Korea in late January. (S)

Dissemination of this NSSD, subsequent study material, and the resulting NSDD should be strictly controlled and handled on a need-to-know basis. (S)

Ronald Reagan

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National Security Council  
The White House

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82 NOV 30 P 6: 53

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	<u>2</u>	<u>[Signature]</u>	
Bud McFarlane	<u>1</u>	<u>M</u>	<u>[Signature]</u>
Jacque Hill	<u>3</u>	<u>[Signature]</u>	
Judge Clark	<u>4</u>	<u>[Signature]</u>	
John Poindexter	<u>[Signature]</u>		<u>A</u>
Staff Secretary	<u>5</u>		<u>D</u>
Sit Room			

I-Information A-Action R-Retain D-Dispatch N-No further Action

DISTRIBUTION

cc: VP Meese Baker Deaver Other \_\_\_\_\_

COMMENTS

12/6 JP/F10:  
we took to Pres. in PDB this morning.

wait for signed NSDD. [Signature]

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90883BY CAS, MEMORANDUM NARA, DATE 12/7/85

THE WHITE HOUSE

WASHINGTON

~~SECRET~~SENSITIVEACTION

December 6, 1982

MEMORANDUM FOR THE PRESIDENT

FROM:

WILLIAM P. CLARK *WPC*

SIGNED

SUBJECT:

National Security Study Directive on U.S.  
Relations with China and Taiwan (S)Issue

There have been substantial changes in the factors affecting the U.S. relationship with the People's Republic of China (PRC) over the past year. No comprehensive study of U.S. objectives with respect to the PRC has been done since the spring of 1977. The forthcoming exchange of high-level visitors (Secretary of State and Chinese Premier) makes a fundamental review of U.S. policy towards the PRC, and the related areas of Taiwan and Hong Kong, desirable. (S)

Facts

The US-PRC Joint Communiqué of August 17, 1982 on Arms Sales to Taiwan capped almost a year of difficult and sometimes bitter negotiations. During the same period the Chinese initiated a major reorganization of their government, launched a reform of the Communist Party, and embarked on a more independent foreign policy which includes moves to reduce tensions with the USSR, distance themselves more from the U.S., and identify more with the Third World. (S)

On the U.S. side, we have a new Secretary of State and a new Assistant Secretary for East Asia and Pacific Affairs. Secretary Shultz will probably visit China (along with Japan and South Korea) in late January, Secretary Weinberger would like to visit China in 1983, and PRC Premier Zhao Ziyang will probably visit the U.S. in the summer of 1983. Moreover, it appears the PRC will be assigning a new Ambassador to Washington, and Taiwan a new Director of the Coordination Council for North American Affairs, both probably in January 1983. Both will be more dynamic than their predecessors and will probably bring new and possibly more aggressive agendas for their relations with the U.S. (S)

Discussion

These developments, together with the potential seriousness of any real improvement in Sino-Soviet relations, the potential succession problems in both the PRC and Taiwan, and a host of burgeoning economic

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problems and opportunities in our relations with the PRC, make it desirable to undertake a review of our relations. We need to examine the question of the direction the relationship should take and at what rate. We also need to reexamine how we can reassure Taiwan of our commitment to them, and improve US-Taiwan relations, without overly endangering our relationship with the PRC. (S)

We believe the study should be comprehensive and address all aspects of our relations including political and foreign policy, economic and trade, scientific and technological, cultural and military. The study should make a fundamental examination of our objectives toward the PRC and Taiwan, and also our economic relations with Hong Kong, and establish clear guidelines for U.S. policies towards these entities which bear the imprint of this Administration and govern our relations over the next few years. (S)

RECOMMENDATION:

OK

NO

182

\_\_\_\_\_ That you sign the attached NSSD.

Attachment:

Tab A      NSSD 12-82

cc: The Vice President  
Ed Meese  
Jim Baker  
Mike Deaver

Prepared by:  
David Laux

90883

NATIONAL SECURITY COUNCIL

To: John Poindexter  
Bud McFarlane

Nov. 30, 1982

From: David Laux *DL*

Subject: NSSD on China

1. I've made the changes you suggested in the proposed NSSD on US Relations with China and Taiwan and the new version is attached, now ready to go to the Judge and forward to the President.
2. Gaston and Paul Wolfowitz will convene and co-chair the first meeting as Bud suggests, but won't set a date for it until we get the President's signature on the NSSD. The NSSD will then be handed out at that first meeting, the need for tight security will be emphasized, and the organization of the IG and its working groups settled. We want to have this far enough along so that an interim report can be provided for Secretary Shultz's use on his trip; he leaves late January.

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NLS M03-1459 #4

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BY CS, NARA, DATE 12/7/05

MEMORANDUM

NATIONAL SECURITY COUNCIL

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SENSITIVE

November 30, 1982

ACTION

MEMORANDUM FOR WILLIAM P. CLARK

SIGNED

FROM: DAVID LAUX *DL*

SUBJECT: National Security Study Directive (NSSD)  
on U.S. Relations with China and Taiwan ~~(S)~~

Gaston Sigur and I have been discussing for some time the need for a National Security Study Directive (NSSD) on United States Relations with China and Taiwan. We have also discussed the idea informally with people at State, CIA, Defense and other agencies, as well as with other members of the NSC staff. The uniform consensus is that such a study is badly needed. No such comprehensive study has been done since April 1977. ~~(S)~~

In the wake of the August 17, 1982 Joint Communique, and with the appointment of a new Secretary of State and now a new Assistant Secretary for East Asia, we think a fundamental look at U.S. policy towards both the PRC and Taiwan is needed to establish clear guidelines which bear the imprint of this Administration. ~~(S)~~

The likely schedule of events in US-PRC relations over the next year or so makes it important that we define our basic objectives in that relationship relatively quickly. There is a major exchange of high-level visitors between the US and PRC scheduled for 1983, beginning with Secretary Shultz's trip to China, and both the PRC and Taiwan will be assigning new and more dynamic representatives to Washington in January. ~~(S)~~

In addition to the political issues, there are a host of burgeoning economic problems, as well as opportunities, in our relations with the PRC and Taiwan. Moreover, we now have three bilateral commissions with the PRC, all scheduled to hold meetings in the next nine months or so. The Joint Economic Committee, chaired on the U.S. side by Treasury Secretary Regan, will meet in Washington December 13-15, 1982. The new Joint Commission on Commerce and Trade, chaired on the U.S. side by Commerce Secretary Baldrige, will probably meet in Beijing in May 1983. The Science and Technology Commission, chaired on the U.S. side by the President's Science Adviser and OSTP Director, Dr. George Keyworth, will probably meet in China in the summer of 1983. A comprehensive review of our relations and objectives should help us plan for all of these specific developments within an overall perspective. ~~(S)~~

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Declassify: OADR

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We think it is important that the study examine our relations with Taiwan and not just the PRC, since our policies toward both are inextricably related. We believe the study should be comprehensive and address the multiple aspects of our relations such as political and foreign policy, economic and trade, scientific and technological, cultural, and military. We also think serious consideration should be given to having a separate, highly classified intelligence annex. Moreover, the study should also look at our relations with Hong Kong and Macao. We have never made a rigorous examination of our policies, which are essentially economic, toward those entities. The PRC considers them both a part of China; and the arrangements the PRC makes with respect to Hong Kong and Macao have important implications for Taiwan as well as for U.S. policies in the region. (S)

We think the study should begin as soon as possible, with an eye to having it far enough along by the time of Secretary Shultz's trip to China in late January, that the principal conclusions will be emerging and will be useful to him in planning the specific objectives of his own trip. We do not think it is reasonable to expect to complete the study at that time, but we do think our objective should be to complete it by the end of March 1983, so that the conclusions can be used to govern our objectives and treatment of PRC Premier Zhao Ziyang during his probable visit here in the late spring or summer of 1983. The findings should also have a major bearing on whether we recommend that the President make a trip to the PRC in late 1983 or 1984. (S)

We think it is important that the State Department have the primary responsibility for the organization and management of the study and chairing the Interagency Group that will do the work, but that close coordination with the NSC will be required. State will obviously have the major role in the drafting of the political and foreign policy portions, but the judgments to be made will involve some highly political considerations which we think make it advisable that it be closely coordinated with us. The first meeting will be held in the White House Situation Room, jointly chaired by Gaston Sigur and Paul Wolfowitz. The NSSD will be handed out there. Interagency Group meetings thereafter will be chaired by the new Assistant Secretary for East Asian and Pacific Affairs. Dr. George Keyworth has agreed to have OSTP chair a key section of the study on technology transfer. We think this is an ideal way to handle a difficult problem, given the importance of the issue and the differences of view between the departments involved. (S)

This whole package is concurred in by Gaston Sigur, Norman Bailey, Henry Nau, Dick Boverie and Walt Raymond, and the Terms of Reference have been concurred in by State's East Asia Bureau. (U)

#### RECOMMENDATIONS

That you approve the idea of the NSSD, that you sign the attached memorandum which forwards the NSSD to the President, and that after



the President signs the NSSD, that you sign the attached transmittal memorandum to the various agencies concerned.

The idea of the NSSD:      Approve       ✓            Disapprove       

That you sign the memo to the President:      Approve       ✓            Disapprove       

That you sign the transmittal memorandum to the agencies concerned:      Approve       ✓            Disapprove       

Attachments

- Tab I      Memorandum to the President  
          A      NSSD
- Tab II     Transmittal Memorandum to the Agencies



DEPARTMENT OF STATE

Washington, D.C. 20520

Gaston Sigur  
Room 302  
Old Exec. Office  
Bldg.  
395-6173

~~SECRET~~

April 13, 1983

FROM: EA - Thomas P. Shoesmith, Acting

TO: NSC - Dr. Gaston Sigur  
CIA - Mr. David Gries  
DOD - Mr. Richard Armitage  
JCS - Como. Jack Darby  
S/P - Mr. Philip Kaplan  
P - Mr. Darryl Johnson

SUBJECT: Next NSSD Meeting on China

This is to confirm our oral notification of April 12 that the next discussion of the NSSD on China will be held on April 15 at 2:30 in the EA Conference Room (6210). Attached, for discussion at the meeting, is the first draft of the final document. A separate annex on Taiwan will be distributed at the meeting.

cc. EA/C - Mr. William F. Rope  
EA/RA/TC - Mr. Donald Ferguson

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DECL:OADR

DECLASSIFIED  
Department of State Guidelines, July 21, 1997  
By dlm NARA, Date 7/7/00

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DECLASSIFIED

NLRR M010-056 #6

BY KWL NARA DATE 10/7/10

US-China Relations: Policy and Prospects

OVERVIEW: OBJECTIVES AND EXPECTATIONS

The US has derived substantial benefits, both strategic and bilateral, from rapprochement with the People's Republic of China (PRC). It is essential to preserve and enhance these gains by striving to build a stable, enduring relationship with China, while continuing unofficial, people-to-people relations with Taiwan.

We have several broad, long-term objectives:

A. We want an essentially Western-<sup>leaning</sup>~~oriented~~ China which remains a favorable factor in the US geostrategic equation.

B. Globally, we want to avoid reversion to past hostility, ensure that we continue to have no need to expend resources confronting China, and retain the force posture flexibility that enables us to meet new commitments in the Indian Ocean/Persian Gulf or elsewhere.

C. Regionally, we want China to act as a constructive, stabilizing factor in Asia. We also want to ensure that Beijing retains strong incentive to pursue a peaceful approach

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to Taiwan.

D. Bilaterally, we want to take advantage of substantial human and economic opportunities in a manner that will serve both US business and financial interests and give us greater influence over the direction of China's future development.

*re-write*

Building the type of enduring, broad-based relationship we want with China will require steady efforts on both sides. It would be unrealistic to expect to attain all of our objectives in the short term. Our governmental, social, and economic systems are very different. It will take patience, persistence, and ingenuity on both sides to promote smooth interaction. There are also a number of difficult bilateral issues between us--foremost of which is Taiwan. If viewed separately, many of these issues (e.g., Hu Na asylum case, textiles, outstanding US claims on old bonds issued by the Chinese) would probably be seen as minor irritants; however, taken as a whole, they have had a much more damaging cumulative effect that has reinforced doubts within the Chinese leadership regarding the value we place on good US-China relations.

What is essential now is that we lay the framework for steady progress. We should concentrate on those areas where progress can be made now (e.g., trade, exchanges) or where bilateral irritants can be reduced (e.g. technology transfer), while keeping an open posture toward those areas--strategic and military--where progress is likely to be less rapid.

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In order to achieve our broad objectives, we should:

A. Build on the progress made during Secretary Shultz's trip to China to revive<sup>a</sup> "strategic dialogue" through which we have in the past been able to coordinate policy and contingency planning in sensitive areas.

B. Seek, gradually, to revive defense contacts and build a constituency in the People's Liberation Army (PLA).

C. Encourage China's continued integration into multilateral political and economic institutions fostered by the West over the past forty years.

D. Support continued growth of Sino-Japanese ties and further constructive interaction between the PRC and ASEAN, particularly in search of a favorable Kampuchean settlement and development of peaceful regional cooperation thereafter.

E. Seek to use our China relationship to promote an eventual settlement in Korea.

F. Promote resolution of our bilateral differences in ways that preserve the principles and fundamental interests of both sides.

G. Further expand bilateral ties that have been of great economic and social benefit to both our peoples.

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H. Work to increase understanding of our federal system and raise consciousness of the sensitivities and constraints of both sides.

I. Use our opportunity to educate thousands of Chinese elites to build in China a body of US-trained technocrats and teachers.

*Recognizing the limitations of our influence*

J. Attempt, over time, to nudge China toward acceptance of Western values.

We should recognize that there are limits to our ability to influence China. Our shared concern over Soviet expansionism and aggression and the value China derives from its opening to the West offer a wide scope for increasing cooperation. However, China is a highly nationalistic country with a long tradition of self-reliance, and it will want to maintain a substantial degree of foreign policy independence. Moreover, despite the rapid expansion of academic, cultural, scientific, and other exchanges and tourism between our two countries, we have very little direct access to, or influence on, the bulk of China's one billion people.

WHAT DOES CHINA WANT FROM US?

Our ability to build an enduring relationship with China will depend, in large part, upon the benefits the Chinese perceive they derive from that relationship. Four main

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considerations underlie China's desire for good relations with the US: the need to protect PRC security; a strong, highly emotional desire for recognition, legitimacy, and equal status with the world's major nations; acceptance of the principle of PRC sovereignty over Taiwan and assurance that we will not promote Taiwan's permanent separation from China; and Beijing's desire for US support for its efforts to modernize in industry, agriculture, S&T, and the military.

Since <sup>the US</sup> ~~Dr. Kissinger~~ first said <sup>that it</sup> ~~the US~~ would view with grave concern any Soviet military move against China, PRC leaders have taken this element--and the strategic relationship that developed--as the foundation of US-China relations, using it to justify compromises over Taiwan. This remains true, but some in Beijing now question our attitude toward China and value as a strategic associate. China has not changed its long-term view of the Soviet threat; but it sees Moscow as badly bogged down and unlikely to start hostilities soon. Thus Beijing feels that--perhaps with appropriate modifications in its posture vis-a-vis Moscow--it can downplay relations with the US if dissatisfied in sensitive bilateral areas.

Foremost among the latter are the questions of how we treat China and handle relations with Taiwan. China wants us to accept its full legitimacy and recognize, or at least not contest, its claim to sovereignty over Taiwan. It will work hard to hold US-Taiwan contacts to the limits of past US-China agreements and insist on strict implementation of the two most

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recent communiques guiding our relations with China and Taiwan (Normalization and August 17, 1982).

Since the legitimacy issue is deeper than just Taiwan, Beijing will continue to seek reassurance of US respect. It will demand that we accord China the same "friendly country" treatment we grant all non-adversary nations.

Finally, China wants our scientific, engineering, business, and financial expertise as well as direct capital investment, development loans, and unimpeded market access to earn foreign exchange.

#### OTHER KEY FACTORS AFFECTING THE OUTLOOK FOR US-CHINA RELATIONS

Certain factors over which the US has a less direct influence could also affect the prospects for US-China relations.

Sino-Soviet Relations. The Soviets seek--through renewed talks with Beijing--to block further US-Chinese strategic alignment and roll back our gains of the 1970s. Long-term Chinese fear of Moscow and Soviet preference for tokenism over substance rule out swift progress or a return to the 1950s. Each side has new interests--in Europe, Asia, and elsewhere--which that would jeopardize; but the further the process goes, the greater the potential harm. Moscow contingency planners could gain less reason to fear

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Western-Chinese cooperation; mutual troop reductions could enable Moscow to redeploy west or southwest, and China could redeploy toward Korea or Taiwan. Those Chinese leaders who advocate a harder line on Taiwan and Hong Kong could be strengthened. If US policies were perceived to have stimulated the foregoing, our standing in Japan and elsewhere in Asia and with European allies could be adversely affected.

The PRC Succession Process. A transition to a new Chinese leadership less associated with US-China rapprochement is under way. Deng Xiaoping's coalition is making sweeping internal reforms requiring complex compromises and limiting policy flexibility on controversial issues. { Deng, himself, appears to be having serious doubts about the direction of US China policy and may no longer be willing to make command decisions on the tough US-China issues. } - A somewhat speculative comment -

It is essential that we seek to establish rapport with the emerging Chinese leadership and to demonstrate the value of the relationship. Secretary Shultz's visit to China was the first step in this process. Other high-level exchanges will follow shortly, including visits to China by Secretary Baldrige and Presidential Science Advisor Keyworth. In addition, the President has invited Premier Zhao to visit the US this year, and he has accepted in principle. Reluctance by the Chinese to set a specific date for Zhao's visit probably stems from their concerns about the value we place on the relationship and our intentions on Taiwan issues, as well as from their

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What about their use of  
the Zhao visit as a "stick"?

change  
also

(dissatisfaction with certain US actions (e.g. the Hu Na asylum case) which they interpret as unresponsive to Chinese interests and sensitivities. Once Premier Zhao has visited the US, and depending upon the state of US-China relations, the President may wish to consider a visit to China.

]-?

China's Modernization Program. Regardless of how much assistance and support China receives, and despite ambitious reforms in process to move China away from the Stalinist/Maoist approach to a more flexible, market-oriented mixed economy, it probably cannot achieve its modernization target of quadrupling GNP by the end of the century. While there may be notable successes, e.g. in petroleum, growth will be retarded by severe bottlenecks and system-wide inertia. In 2000, China will remain a very poor country, much like it is today. Whether China's leaders are able to generate and sustain economic growth in the range of 6-8% annually with modest but steady improvement in living standards will be an important key to political stability.

change

Success of China's modernization program is in our interest; and continued improvement in agriculture, market orientation, and other aspects of the economy are all desirable. A friendly, modernizing China will be more likely to be one with which we can obtain our objectives. Long-term US security needs are more likely to be served if we are perceived by China as helping its modernization efforts than if we are seen as an obstacle to that development. We do not have

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the resources for a major foreign aid effort. However, our technology transfer decisions will be of great symbolic importance; and modest foreign and technical assistance programs--within parameters broached with the Congress--could have a favorable impact on specific Chinese programs and Chinese perceptions of the US.

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TAIWAN: OBJECTIVES AND EXPECTATIONS

In addition to its interest in good relations with the People's Republic of China, the US continues to have a deep concern for the security and prosperity of the people of Taiwan. Our objectives with respect to Taiwan are twofold:

A. To enhance prospects for continued peace in the Taiwan Strait; and

B. To preserve unoffical commercial, cultural, and other contacts between the American people and the people on Taiwan.

US-China rapprochement, by increasing Chinese incentives to pursue a peaceful policy toward Taiwan, has gone far toward promoting peace in the Taiwan Strait and the security of the people of Taiwan. We can preserve this gain only by scrupulously abiding by our undertakings in the Shanghai Communique, the Joint Communique on the Establishment of Diplomatic Relations, and the US-China Joint Communique of August 17, 1982, which codify a long-term US-China accommodation based on declining US official and military involvement with Taiwan in exchange for a peaceful approach by Beijing toward Taiwan.

In this process, there has been a degree of intentional ambiguity in our position on Taiwan. This ambiguity has enabled us to develop a relationship with China while continuing a

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broad range of activities with Taiwan--something which no other country except Japan has been able to do. The ambiguity buys time in which Taiwan and Beijing may arrive at some form of reconciliation in which the PRC's peaceful approach will, in effect, be confirmed, while Taiwan's claim to be the government of all of China will be further muted, and both sides will continue to adhere to the concept of "one China."

Because of this ambiguity, however, it was probably inevitable that Taiwan would continue to be an irritant in US-China relations. While Beijing and Taipei both understand why we must preserve our carefully crafted approach, they continue to pressure us to take their sides or accept their positions. Beijing will continue to object to any US acts that appear to convey officiality on our relations with Taiwan (indeed, to Beijing, the very stress we put, publicly, on our feelings for the people of Taiwan, carries with it a sense of officiality). For its part, Taipei's unwillingness genuinely to accept the unofficial nature of the US-Taiwan relationship will continue to cause the Taiwan authorities to do all they can to portray it in ways that suggest officiality. This tension will represent a continuing irritant in US-China relations.

To achieve our objectives, we should:

A. Continue to promote a broad range of economic, cultural and other unofficial relations between the U.S. and Taiwan.

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Taiwan already has broad access to the US market and financial community, and it has ten unofficial offices in the US through which it conducts a wide range of business with the American people. In addition, Taiwan representatives have ready access to all but the most senior US officials outside the State Department, and US officials below the rank of Deputy Assistant Secretary travel frequently to Taiwan, in an "unofficial" capacity, to provide technical advice and manage a broad range of bilateral programs. These activities should be continued.

*Adhere to*  
B. ~~Scrupulously~~ *Adhere to* abide by our communiqués with China regarding the unofficial nature of our relations with Taiwan. These documents are critical not only to maintaining harmony in the US-China relationship but also to the long-term security of the people of Taiwan. The PRC is unlikely to object to the broad range of activities we conduct with Taiwan so long as they do not appear official.

C. Be firm with Taipei in insisting on the unofficial framework of the relationship and avoidance of publicity, while seeking to convince the Taiwan authorities that their interests are best served by concentrating on the substance of the relationship and that efforts to inject appearances of officiality, or to publicize sensitive aspects, will be counterproductive.

D. Maintain our long-standing position that differences between Taiwan and the PRC are matters for the Chinese people,

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on both sides of the Taiwan Strait, to resolve, and that the only U.S. interest is that any resolution be peaceful. A PRC attempt to impose a solution on Taiwan, or a move by Taiwan toward formal independence from the mainland, would be seriously destabilizing to the Asian region, damaging to American interests in Asia, and could raise the question of U.S. involvement under provisions of the Taiwan Relations Act.

Looking toward Taiwan's future, Chiang Ching-kuo's health is failing, and most estimates are that he will not last more than five years, and perhaps less. No individual is clearly in line to succeed to Chiang's power, but the successor government will continue to be mainlander/KMT-dominated.

Although it is conceivable that native Taiwanese might be in a position to take over the government in ten or, more likely, twenty years, that is extremely unlikely within the foreseeable future. What is more likely, in the mid-term, is a growth in the number of Taiwanese in positions of power as the older mainlanders disappear from the scene, resulting in a gradual change in the power balance. We would not expect any government in the foreseeable future to create for us problems of major dimensions, such as a formal declaration of independence from mainland China.

It is also unlikely, in the near term, that Taiwan would agree to even a loose political association with the PRC. Even if some in the aging KMT leadership were to find such an option

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attractive, it would be strongly opposed by most of the people (perhaps violently by some), who want to maintain the status quo with respect to the PRC.

Thus, the issue of Taiwan's ultimate future is not likely to be resolved in the near term, and we must be prepared to deal with Taiwan in a manner that will preserve our long-term objectives toward both China and Taiwan. Whatever the course of Taiwan's future political development, stability will require a clear perception of continued US friendship and support. A fear that Taiwan is being abandoned, or pushed into an accommodation with Beijing, would rapidly affect Taiwan's economy and severely undermine its political stability.

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POLITICAL/DIPLOMATIC RELATIONS

China's domestic and foreign policies are aimed at strengthening its national security and improving its economic well-being. The Deng reformers who lead this effort, however, must overcome resistance from conservatives opposed to the concept of material incentives or to Western influence and assistance in China's modernization program.

There is general agreement <sup>among those who currently hold sway in Beijing</sup> in ~~China~~ that Soviet and Soviet-proxy expansionism represents the greatest potential threat to China's immediate security <sup>China's</sup> and Beijing's strategy, in Asia and elsewhere, aims at countering Soviet aggression and encouraging the development of friendly, non-threatening states. This approach has <sup>conforms to</sup> assisted US and allied efforts to contain the Soviets on the Eurasian land mass and in Africa; <sup>to reduce</sup> reduced the danger of war in Korea; <sup>to buttress</sup> buttressed Thai and Pakistani security; and <sup>to provide</sup> provided a comparatively more moderate option to Third World states.

US-China foreign policy differences are more tactical than substantive. Our common opposition to Soviet expansionism produces congruent positions with regard to Kampuchea and Afghanistan. Both countries also share a common interest in preserving peace on the Korean peninsula--an area where our support for opposing governments could otherwise lead to a conflict of interest. China's differences with the US on other

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issues, such as the Middle East, Africa, and Latin America spring from China's concern that the US effort may be ineffective and thus provide the Soviets with opportunities, as well as from a desire to enhance China's image with the Third World.

KEY AREAS FOR MANAGEMENT AND/OR OPPORTUNITY IN US-CHINA RELATIONS

A. Technology Transfer (to be modified after the interagency working group completes its work). For the Chinese leadership, technology transfer is second to Taiwan as an issue of US good faith in the relationship. Since normalization, we have gradually liberalized our export control policy toward China, most recently in your June 1981 decision to make available to China technology approximately twice the level of that we make available to the Soviet Union. While this has enabled China to have access to more advanced technology than it had in the past, the Chinese <sup>still</sup> perceive our policy as discriminatory and question whether we see them as an enemy rather than a friend since we accord them very different treatment than we accord virtually all other non-Soviet bloc nations, including Yugoslavia and India. *the importance of the U.S. attitude to* *the intention ?*

*important* The Chinese regard access to dual use technology as critical to their industrial and military modernization, and they had expected normalization to produce greater liberalization in our policy. They have been greatly

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disappointed with the slow progress in the availability of high technology products and processes. Some Chinese have indicated that, in the aftermath of the August 17 communique and the very high level of arms sales <sup>to Taiwan</sup> envisaged for FY83 and FY84, China's pro-US elements need decisive US movement to liberalize export control policy with China in order to justify to hardliners future moves on China's part to improve relations with us, including a visit by Premier Zhao.

*has not worked well.*

*the current guidelines*

There is widespread agreement within the Administration that the present system *has not worked as well as it should* does not work, both because of differences in interpretation of the current guidelines and because of bureaucratic inertia. An interagency group has been established to draw up options, ranging from maintaining current policy but seeking better implementation, to establishing special foreign policy controls that would enable China to be placed in the same category as most other nations without losing control of key technology of concern, to removing virtually all restrictions. (Recommendation pending outcome of interagency review of this issue.)

B. Trade Issues. Trade between the US and China has rapidly increased since normalization. This has resulted in substantial opportunities for US business as well as problems, particularly in the area of textiles. In the near term, bilateral trade is expected to grow by at least the rate of China's overall trade development, which we anticipate will be around five percent per year. The longer-term future of

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US-China commercial relations will be heavily dependent upon how we pursue these opportunities and resolve our differences, as well as on the success of China's plans for rapid economic development.

*availability of competitive financing, foreign exchange earnings, etc.*

China is the sixth largest market for US agricultural products and <sup>has been</sup> the number one destination for US wheat. We expect further albeit limited growth in US agricultural exports for the immediate future, provided that trade disputes in other areas (such as textiles) do not spill over into this area.

The success of US efforts to expand industrial exports will be highly dependent upon the willingness of US firms to join in China's new program for promoting foreign involvement in various forms of cooperative enterprise and the competitiveness of US financing. It will also be influenced by our willingness to continue to liberalize our export control policy so that US firms can compete effectively with other international suppliers.

Efforts will be required on both sides to resolve the inevitable problems resulting from the expanding trade relationship. Issues such as textiles, which bear directly upon the domestic economic well-being of both countries, will not be resolved rapidly. Although the prospects are fairly good that we will be able to resolve our current differences with China on levels of textile imports, this problem will recur--as it does with other textile producing nations--as

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*no. On China's changing attitude towards use of credit*

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China seeks to expand its share of the US market.

Other problems result from China's internal practices. China suffers from a nonconvertible currency, cumbersome bureaucratic procedures, lack of office and living space for foreign business representatives, an absence of basic commercial legislation and a refusal to disclose laws and regulations that affect foreign business operations.

In order to derive maximum benefit in our trade relations with China, we should: *undertake the following specific objectives:*

1. Find ways to play a constructive role, beneficial to US trade interests, in China's modernization program:
  - a. Join with the Chinese in identifying several of the construction projects that China has identified in its new Five Year Economic Plan that would be undertaken as "American projects" through the combined efforts of US government, industry, and financial institutions acting under an industrial cooperation agreement with China.
  - b. Negotiate a bilateral industrial cooperation agreement and take advantage of China's interest in refurbishing its industrial facilities by offering coordinated, industry-wide improvement programs.

2. Remove China from emigration requirements of Section 402

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of the Trade Act because of its performance in this area, seeking multiyear or permanent MFN for China.

3. Utilize the US-China Joint Economic Committee and the newly created Joint Commission on Commerce and Trade to promote the resolution of trade problems and to increase Chinese understanding of the benefits of adopting interantional trade practices.

4. Work closely with China to convince it that US import controls are fair and that it is in China's interest to exercise prudence in developing new markets.

5. Support, but not encourage, China's membership in the GATT. Integration of China, with its large, nonmarket developing economy, would be difficult, and seeking to make it eligible for GSP could encounter serious difficulties in the Congress, drawing the future of this program into further doubt.

6. Support any decision by the PRC to join the Multi-Fiber Agreement, which could, through its multilateral character, assist us in seeking solutions to our differences over textiles.

C. Finance, Investment, and Tax. To meet long-term financial needs, China can draw on three foreign sources: bilateral export credit and concessional assistance programs; international lending institutions; and private capital markets. While the first two sources can offer constructive

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financial programs with China, their resources will not suffice to meet China's long-term financial needs, and China will have to utilize private financial resources more in the future.

? S The US has already taken a number of steps to build a solid framework for financial ties. The US Eximbank has loaned China \$125.6 million. China has been made eligible for Commodity Credit Corporation credits, and under the Trade and Development Program (TDP), technical exchanges and pre-feasibility studies have been funded. China has also borrowed from US private banks.

China has expressed interest in joining the Asian Development Bank, the last major world economic institution to which it does not belong. As a member of the United Nations, China is qualified to join. However, China has asked that Taiwan first be expelled from the organization since only the PRC can be the legitimate representative of China. Our position is that China's membership would be a constructive step and that, in line with our recognition of the PRC as the sole legal government of China, we would support its application, <sup>but, at the same</sup> ~~At the~~ same time, <sup>we oppose the expelling Taiwan</sup> a 1980 sense of the Congress resolution requires that we seriously review our support for the ADB if Taiwan is expelled. [Other Bank members are likely to support China's position when the issue comes to a head. ~~Therefore, it is not~~ in the US interest to press for an immediate solution.] We are consulting with other Bank members to see whether it might be possible to preserve a role in the Bank for ~~the people of~~

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China to accept it.

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Taiwan.

The Administration has also proposed the amendment of outdated legislation, which could lead to China's eligibility for foreign aid. While we are not contemplating any bilateral assistance program for China, its participation in small-scale, already existing multilateral technical assistance programs could reap substantial benefits in the relationship at virtually no cost.

In the area of tax, both governments are seeking to clarify differences in the two tax systems. In the area of investment, there are good opportunities for US firms, particularly in energy, transportation, and mining. The Overseas Private Investment Corporation (OPIC) has active programs in China. Negotiations on a bilateral investment treaty will begin in June.

While government-to-government dialogue is required to complete the framework for expanding relations in these areas, the major bilateral resource flows in the future will come, on the US side, from the private sector rather than through government channels.

We should:

A. Seek to <sup>Further</sup> deepen China's integration into the Western financial system.

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B. Continue to make available to China loans from US government institutions and encourage lending from private capital markets; attempt to find ways of providing more competitive financing for US exports and to increase funds for feasibility studies (perhaps through increased Trade and Development Program funding).

C. Continue to seek amendment of the Foreign Assistance Act to make China eligible for foreign assistance, and consider Chinese participation in small, already existing, multilateral technical assistance programs.

D. Seek to complete a comprehensive bilateral income tax treaty and a bilateral tax treaty.

D. S&T Relations. S&T cooperation is one of the most rapidly expanding areas of US-China cooperation. The two sides have already concluded technical cooperation in 17 fields, Six more, including telecommunications and cartography, are under consideration. Work is well along in such fields as agriculture, marine science, medicine, and seismology.

*the umbrella S&T agreement*

*protocols for*

Both sides derive substantial benefits from this element of the relationship. Aside from the scientific benefits, the US gains commercial benefits from individual exchanges and projects (e.g. hydropower). We also gain longer-range political benefits from exposure of Chinese academic elite to US influence during their studies here. The Chinese gain

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exposure to Western science and technology and training for modernization.

As with other elements of the relationship, the S&T program is not without problems, which we must work to resolve. The Chinese have pushed for more activity and greater commitment of resources than US agencies can offer. This problem may be alleviated if we are successful in removing current Foreign Assistance Act restrictions, thereby making China eligible for a variety of low-cost, centrally-funded programs in the S&T area.

Other problems, such as divergences in interests and the difficulty in gaining access to Chinese academic institutions and resources, are being addressed through the Joint Commission on S&T cooperation.

We should:

1. Seek to continue the present pace of measured growth.

One particular opportunity for a symbolically important new

initiative is in the space area, where, at an appropriate time,

*such as a visit by the Chinese premier,*

*we* could invite the Chinese to nominate a payload specialist

for training for a future Space Shuttle flight.

2. Continue to press for resolution of difficulties in the program through appropriate S&T channels.

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E. Nuclear Cooperation. Earlier this year you decided that the US should pursue peaceful nuclear cooperation with China on the basis of adequate non-proliferation assurances and other conditions related to Chinese nuclear export practices and cooperation with Pakistan. Formal discussions with the Chinese on this subject will resume in the early summer.

We should:

1. Encourage the Chinese to adopt the principles of non-proliferation and control over exports which other nuclear powers, including the Soviet Union, support. With agreement on this point, conclusion of a nuclear cooperation agreement, and visitation of Chinese nuclear facilities--whether for "maintenance" or "inspection"--should be possible.

2. Over the long term, also encourage Chinese membership in the IAEA and explore the possibility of its joining the Convention on the Physical Protection of Nuclear Materials.

F. Cultural Relations. Educational and cultural exchanges provide a unique opportunity for long-term US influence on China. They expose a significant element of the young Chinese elite to American society, values, and know-how, and offer the most effective means of replenishing the steadily dwindling reservoir of Chinese possessing direct personal links with the US developed before 1949. Within China, they are an integral part of the modernization program.

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we are  
trying to  
the French.*

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Close to 2000 Americans have studied or done research in China since normalization, and several hundred American professors have visited China to give short courses and lectures. There are over 9000 Chinese scholars in the US at this time, about equally divided among officially and privately sponsored students. Official and privately-sponsored cultural exchanges have also expanded rapidly.

Educational and, until recently, cultural exchanges have been relatively free of friction. The only significant area of US grievance is in access by US scholars to research resources in China. <sup>From the Chi point of view</sup> Although there have been only a handful of <sup>requests for</sup> political asylum <sup>in the US.</sup> requests <sup>by Chinese students,</sup> this issue has become a significant irritant in cultural and sports exchanges between the US and China because of the widely publicized case of Chinese tennis player Hu Na, <sup>Cultural exchanges under the govt-to govt. agreement have been cancelled</sup> and could spread into the educational area in the near future, as the time approaches for many Chinese students to return to the more constricted atmosphere in China.

Considerations of "face" and national image make approval of political asylum, with its public US assertion of political persecution in China, a sensitive issue in Beijing. The Hu Na case has highlighted the disruptive potential of this issue.

We should:

1. Encourage growth in academic exchanges and resumption of cultural and sports exchanges.

*Mention fear of defections by some of high level officials*

*re-write*

*for the remainder of 1983 and it is possible*

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2. Deal with requests for political asylum with as little publicity as possible, making clear to the Chinese that the US has a strong commitment to maintaining our tradition as a place of refuge for the persecuted and oppressed. We should also stress the overall benefits of the bilateral exchange program.

G. Military Relationship. The long-term US objective for the military aspect of the relationship should be to set in place institutional mechanisms that would permit rapid expansion of US-China security cooperation should our mutual interests be threatened by Soviet or Soviet-proxy actions. For the near term, however, we should expect no dramatic progress in this aspect of the relationship. The Chinese are taking a cautious approach to military cooperation, and prospects for progress in this area will be determined by progress in the overall relationship. We have made clear to the Chinese that the ball is in their court, and we should not push ahead with major new initiatives in the absence of an indication of Chinese interest.

Current US policy on arms sales permit the full range of technology transfer to China, including coproduction, for enhancement of conventional defensive capabilities but prohibits transfers that would significantly improve Chinese offensive and power projection capabilities. We would also not sell the Chinese weapons that would unduly alarm our allies and friends, threaten Taiwan, or gratuitously provoke the Soviets.

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For now, the current policy guidelines for arms transfers are adequate, particularly given the low level of Chinese interest in military cooperation or sales. We have recently approved several applications for technical presentation on defensive systems, such as antitank missiles and armored personnel carriers, including some involving the possibility of eventual co-production; but it is uncertain whether these presentations will lead to actual sales.

Although Chinese military modernization efforts cannot hope to overcome the Soviet Union's growing qualitative advantage in arms, our interest lies in helping China improve the quality of its defensive weaponry so that, at least, it remains a credible counterweight. It is also in our interest for China to look to the West for the technology it needs to improve its defenses. The Chinese have little to spend on military modernization and they are shopping for the best they can buy. They will not be impressed with our responsiveness if we offer them only second-rate technology for the types of arms we say we are willing to sell.

We should:

1. Seek, as relations improve, a gradual, step-by-step approach to expanding strategic dialogue and military exchanges, including a visit by Secretary Weinberger to China and a visit by the PLA Vice Chief of Staff to the US.

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2. Be as responsive as possible on arms sales to China, bearing in mind our own security needs and the concerns of our friends and allies in the region.

H. Arms Control. A recent Chinese public statement that we have common approaches on arms control issues suggests that there may be opportunities to bring the Chinese more fully into the arms control theater. We should:

1. Continue to brief the Chinese on INF and other arms control issues, with the objective of increasing Chinese understanding of, and support for, our approaches.

2. Seek to encourage the Chinese to join existing arms control treaties, particularly those of highest priority to us (e.g., the Biological Weapons Convention) or where the Chinese have expressed interest (e.g., the Antarctic Treaty).

HONG KONG

Since Prime Minister Thatcher's visit to China in September, the UK and China have engaged in talks in Beijing on Hong Kong's future. Both sides wish to reach an agreement that will not be disruptive. China benefits greatly from Hong Kong, earning as much as a third of its foreign exchange there, enjoying a large trade surplus, and gaining considerable management expertise. <sup>and technology,</sup> The UK also benefits from Hong Kong both economically and as a secure base for British firms doing

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business with China and East Asia.

There has been no early movement in the talks as both sides have multiple interests at stake. The British seem to be resigned to returning sovereignty of the colony to China ultimately, but they feel some obligation to protect the interests of the Hong Kong people. Moreover, they see analogies with the legal status of the Falklands and Gibraltar. The Chinese, determined to uphold the goal of national reunification and conscious of the implications for Taiwan, dismiss the treaties and have emphasized their intention to regain sovereignty over all of Hong Kong.

*re-write*

Worries about the future have contributed significantly to sharp declines in the Hong Kong stock market, the value of the Hong Kong dollar, and property values. Uncertainty over the future is likely to remain a disruptive factor in Hong Kong's economy, although the worst of the post-Thatcher visit jitters have subsided. .

Apart from substantial commercial and business ties, the US has certain defense and intelligence interests in Hong Kong, as a listening post and as a strategic port of call for the Navy. These could be terminated by a change in the colony's status. However, many of these operations are regional in nature and could be transferred elsewhere in the area, although at a high cost and with considerable disruption. In addition, a sizeable number of Hong Kong residents can claim ties to the US, and a

*Expand on U.S. interests 11,000 citizens living there 600 US firms regional business ties*

*Tourists*



~~SECRET~~

panic in Hong Kong could cause a surge of people seeking eventual admission into the US.

The principal US interest of the US in Hong Kong's future is in maintaining <sup>its</sup> the stability and economic viability of the island. ] The British have shown interest in engaging the US in the effort to promote a favorable outcome. An approach from the Chinese for the same reason is possible. There is little to be gained, however, from injecting ourselves into an issue that is viewed by the Chinese largely as an internal matter, by the Third World as a vestige of colonialism, and in which no vital US strategic interests or principles are at risk. Moreover, US involvement could result in a hardening of the Chinese approach to both the Hong Kong and Taiwan issues.

We should:

A. Be careful to avoid any direct involvement in the talks on Hong Kong's future.

B. Continue to hold to the present line of optimistic and public support for a mutually agreeable settlement of Hong Kong's status.

~~SECRET~~

*The British interests.*