

**April 1984**  
**Central Intelligence Agency, Directorate of  
Intelligence, 'Briefing Material for the President's  
Trip to China'**

**Citation:**

"Central Intelligence Agency, Directorate of Intelligence, 'Briefing Material for the President's Trip to China'", April 1984, Wilson Center Digital Archive, CIA Records Search Tool (CREST), CIA-RDP04T00367R000201410001-5.  
<https://wilson-center-digital-archive.dvincitest.com/document/300344>

**Summary:**

Includes memoranda on "China's Independent Foreign Policy in Perspective," "The Foreign Policy Positions of China's Senior Leaders," "Deng-Zhao with Brzezinski--An Assessment," "Sino-Soviet Relations," "China and a Korean Dialogue," "Sino-Soviet Trade and Economic Relations," "China and Japan: Building for the Long Haul," "China's Taiwan Policy," "China-Southeast Asia," "China: Leadership and Succession," "China: Economic Reforms," "US-China Economic Relations," "China: Expanding Market for US Energy Firms," "China: Nuclear Power Prospects," and "China: Changes in Military Industrial Development Policy-Implications for the United States."

**Credits:**

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**Original Language:**

English

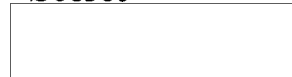
**Contents:**

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**Directorate of  
Intelligence**

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# Briefing Material for the President's Trip to China



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April 1984*

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Briefing Materials for  
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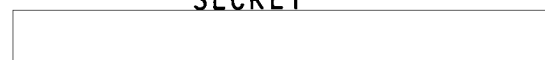


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CONTENTS

- China's Independent Foreign Policy in Perspective
- The Foreign Policy Positions of China's Senior Leaders
- Deng-Zhao with Brzezinski--An Assessment
- Sino-Soviet Relations
- China and a Korean Dialogue
- Sino-Soviet Trade and Economic Relations
- China and Japan: Building for the Long Haul
- China's Taiwan Policy
- China-Southeast Asia
- China: Leadership and Succession
- China: Economic Reforms
- US-China Economic Relations
- China: Expanding Market for US Energy Firms
- China: Nuclear Power Prospects
- China: Changes in Military Industrial Development Policy--  
Implications for the United States

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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

16 March 1984

China's Independent Foreign Policy in Perspective [Redacted]

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Summary

China's formal articulation of an "independent foreign policy" in September 1982 marked a significant tactical shift rather than a basic change in China's strategic posture--which remains anti-Soviet. It was intended to remind Washington that China's anti-Sovietism could not be taken for granted (and hence to increase Chinese leverage with the United States); to improve China's influence in key areas of the Third World; to ease tensions with Moscow; and to enhance Chinese leaders' nationalist credentials at home. We believe the Chinese concluded by last spring they may have miscalculated. Thus, although they continue to stress their independent line, they also have sought better relations with the United States--we believe for basic strategic reasons. Premier Zhao, in fact, openly acknowledged when he was here in January that China does not stand "equidistant" between Washington and Moscow. [Redacted]

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Chinese leaders have not changed their basic perception of Soviet strategy. They continue to assert that the Soviet Union is pursuing a long-term strategy to outflank Europe in the West and encircle China and Japan in the East. As an influential Chinese foreign policy adviser told US [Redacted]

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"When we don't talk about the Soviet threat, it does not mean that our views have changed." [redacted]

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We believe China also still regards at least a tacit strategic relationship with the United States as an essential component of its foreign policy. Premier Zhao Ziyang, for instance, recently told a visiting US delegation that good relations with the United States have an "extremely important" strategic significance. China continues to view the United States as the only viable counterweight to the long-term Soviet threat globally and as a strategic deterrent to Soviet aggression on its borders. In strategic terms, China relies upon the US-NATO alliance in Europe and, up to a point, supports US-Japanese cooperation in Asia. [redacted]

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What accounts, therefore, for the Chinese decision in late 1982 to distance themselves publicly from the United States and to open talks with Moscow? Some strands of their current policy clearly predate the public enunciation of the "independent foreign policy." By the late 1970s, for example, some senior Chinese leaders were arguing that China should strike a more independent posture in order to compete more effectively with the Soviets for influence in the Third World and the socialist movement. Close association with the United States, they argued, only alienated potential opponents of the Soviet Union in key strategic areas such as the Middle East and southern Africa, where they believed the United States relies too heavily on unpopular surrogates ("unsinkable aircraft carriers") such as Israel and South Africa to thwart Soviet advances. China, in fact, began its efforts to expand contacts with the Eurocommunist parties, especially those in France, Italy and Spain, as well as with the Communist parties of Eastern Europe well before it adopted its current independent line. [redacted]

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Similarly, China undoubtedly would have reopened talks with the Soviet Union at some point as part of its policy to reduce tensions. Some Chinese leaders advocated such an approach as early as 1979, [redacted] and Beijing held one round of discussions with Moscow in late 1979 before breaking off the talks as a result of the Soviet invasion of Afghanistan. [redacted]

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The shift in 1982, however, probably was triggered by a combination of factors. By then, Chinese leaders were complaining that the United States increasingly acted unilaterally and that it was insensitive to the concerns of its friends and even close allies. They, of course, were particularly upset with US policy toward Taiwan and may have seen that policy as symptomatic of the lower priority they believed Washington accorded good relations with Beijing. In late 1981, Ji Pengfei--one of the formulators of the independent policy line--declared that it was possible for the United States and China to pursue parallel strategic interests and, at the same time, imperative that China continue its "principled struggle"

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with the United States over Taiwan, [Redacted] Ji and some other Chinese leaders, in fact, implied that adopting a more independent stance--with the implied threat of moving toward Moscow--could give China greater leverage with Washington on a range of issues, including Taiwan. [Redacted]

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We believe the Chinese decision to move in this direction was bolstered by their assessment that the overall global balance of power was shifting back in favor of the West--hence, giving China greater room for diplomatic maneuver. The Soviets, they concluded, had become bogged down in Afghanistan, Poland, and Indochina and posed a less immediate threat to China's security. In our judgment, Beijing saw an opportunity not only to increase its leverage with the United States by opening talks with the Soviets, but also to enhance China's independent image in the Third World. Chinese leaders also sought to reduce tensions with Moscow in part so that they could concentrate on their ambitious modernization program. [Redacted]

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Finally, we believe China's leaders have used this policy to help strengthen their domestic position. Through it, Deng Xiaoping and his allies have continued the process of dismantling the Maoist ideological edifice without sacrificing the regime's strategic goals. They have set aside the Maoist notion of the inevitability of war, for instance, and have reemphasized the nationalist basis of their foreign policy. At the same time, the establishment of the policy has enabled Chinese leaders to continue to proclaim China's "self-reliance" while defending its opening to the West. [Redacted]

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Central Intelligence Agency



Washington, D.C. 20505

## DIRECTORATE OF INTELLIGENCE

28 March 1984

**The Foreign Policy Positions of China's Senior Leaders**

Each of the Chinese leaders with whom the President will hold talks next month--Deng Xiaoping, Hu Yaobang, Zhao Ziyang and Li Xiannian--plays a key role in China's foreign policy. Deng Xiaoping, at 79, is the leading strategic thinker and main architect of China's current foreign policy. Deng is the primary exponent of a strong relationship with the United States on strategic grounds and the leading antagonist of the Soviet Union. Deng's chosen successors--General Secretary Hu Yaobang and Premier Zhao Ziyang--endorse his views but are more closely identified with China's policies toward Eastern Europe, Asia, and the Third World. Li Xiannian, Deng's peer on the Politburo's Standing Committee, takes a more cautious approach to relations with the US.

We believe that the Chinese will try to set a positive tone both in public and private in order to ensure that the visit is a success. A principal Chinese aim is to establish good relations with the President--reflecting a consensus that relations with the United States must be improved for strategic reasons. In keeping with past practice, we expect that the Chinese will manipulate the atmosphere of the visit and that each leader will

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follow a prescribed role in discussions with the President. Deng in particular will concentrate on the strategic dimension of US-China relations and on sensitive bilateral problems, especially Taiwan. [redacted]

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### Li Xiannian

Although Li Xiannian, 79, holds a largely ceremonial position as State President, he is still very influential on foreign policy issues. He is a senior member of the Politburo's Standing Committee and the party's Foreign Affairs Group as well. Like Deng, Li has had broad experience in foreign affairs. He has been involved in the US-China reconciliation since its inception in the early 1970s when he stood behind Chairman Mao Zedong and Premier Zhou Enlai's opening to the United States against formidable opposition. Unlike Deng, who was still in political disgrace, Li was a participant in the 1972 meetings with President Nixon. [redacted]

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In recent years, Li has reaffirmed that Chinese strategic cooperation with the United States is both imperative and long-term. Li told a former senior US official in August 1981, for example, that good relations with the United States were "essential to preserve and enhance global stability" and praised the administration's efforts in areas of Chinese concern, especially aid to Pakistan. At the same time, however, Li has taken a harsh, rigid line on US arms sales to Taiwan. In April 1981, Li was among the first leader to label US policy toward Taiwan as "hegemonist" and later declared that China "cannot make any concessions" on arms sales. [redacted]

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Li may favor the adoption of a more balanced approach to Sino-Soviet-US relations but, we believe, he does not advocate significantly improving relations with the Soviets. He has been willing, however, to use the threat of improved relations with the Soviets to try to extract greater concessions from the United States. He told the Romanians in 1979, for instance, that China would watch the results of Vice President Mondale's visit to China in August to help determine the positions it would take when negotiating with the Russians. Similarly, in January 1982, as tension with the United States over arms sales to Taiwan rose, he told the Italian Communist paper "L'Unita" that China would indeed be willing to talk to the Soviets. [redacted]

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Li, who is currently in poor health and quite frail, will probably touch only briefly on matters of substance. Nonetheless, it is possible that he will include a frank statement on arms sales to Taiwan in his opening remarks. [redacted]

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## Zhao Ziyang

As Premier and a member of the Politburo Standing Committee, Zhao Ziyang plays a major role in China's foreign policy.

[redacted] he is the head of a high-level party Foreign Affairs Group that debates and makes decisions on sensitive foreign policy initiatives. But Zhao's chief concern is the management of China's modernization program. In foreign affairs, he tends to concentrate on bilateral issues and on international economic policy. [redacted]

Zhao's strategic views, to the extent that he has expressed them, appear to be in line with those of Deng. Zhao has been most closely involved with the implementation of policy toward Asia and the Third World. In 1981, for instance, Zhao traveled throughout ASEAN and led efforts to build support for China's Kampuchean policy. Last year, Zhao took a largely symbolic trip to 11 African states. [redacted]

Zhao appears increasingly to be charged with management of US-China relations, however, and has a special stake in furthering trade and technology transfer. He is personally involved, for instance, in a US corporation's effort to establish a joint coal mining venture in Shanxi Province. Recently, he has lobbied US businessmen and officials to increase investment in Chinese industries. [redacted]

In his meetings with the President, we expect Zhao to reiterate the same themes he did in January. He has repeatedly expressed his interest in making the official trip a successful one and, as the President's host, he will want to set the tone for the entire visit. We believe that Zhao will focus on bilateral economic matters and continue to press for US concessions on a variety of issues, including: greater access to US technology; easing of COCOM restrictions; concessional US funding for joint ventures; Presidential assistance in amending the Foreign Assistance Act; US support for China's position on the Asian Development Bank; and US assurances that it will continue to follow a one-China policy. [redacted]

## Hu Yaobang

As Deng Xiaoping's chosen successor, Hu Yaobang is probably the most important leader the President will meet with the exception of Deng himself. In his capacity as head of the party's Secretariat and a member of the Politburo's Standing Committee, Hu Yaobang plays an important role in formulating and implementing foreign policy decisions. Since the party and government reorganization in 1982, Hu Yaobang has gained considerable control over the Chinese foreign policy apparatus, and, [redacted] has placed trusted associates in the Foreign Ministry--including Foreign Minister Wu Xueqian [redacted]

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Unlike Deng Xiaoping, Hu does not have long experience in foreign affairs--although he has gradually begun to extend his grasp. He has been primarily concerned with internal party and ideological matters. [REDACTED] Hu began to assume a leading role in articulating China's foreign policy in the spring of 1981, when he delivered a major address on China's relations with the US and the Soviet Union. In September 1982, he formally enunciated China's "independent foreign policy" line in a speech to the 12th Party Congress. He has promoted China's ties with the East European Communist parties--travelling to Romania and Yugoslavia in May 1983--and has indicated his interest in improving relations between China and other Eastern European countries. Hu has also begun to play a key role in China's relations with North Korea and Japan. In June 1983 Hu escorted Kim Chong-il during a visit to China, giving implicit Chinese backing to him as Kim Il-sung's successor. Hu also visited Japan last November--his first trip abroad to a modern industrial power. [REDACTED]

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Hu does not appear to have clearly articulated views on the Soviet Union. He did not become directly involved in the Sino-Soviet rivalry and probably does not share the bitterness of Deng Xiaoping and the old guard toward the Soviets. Although Hu has been sharply critical of Soviet behavior toward China on occasion, he appears to have favored the establishment of a more balanced relationship with the USSR. In the late 1970s,

[REDACTED] 25X1

[REDACTED] Hu was among the Chinese leaders who argued that China should not place ideological obstacles in the way of normalizing relations with the Soviets. In addition, Hu recently praised the Soviet Union for adhering to a "one-China" policy. [REDACTED]

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Although Hu has publicly supported current efforts to improve relations with the United States, he is not as closely identified with this policy as Deng. Hu appears to be suspicious of the West in general and particularly of the United States. Last November, for instance, Hu warned that Premier Zhao's visit would be cancelled if the United States did not repudiate the language in the Pell Resolution and the ADB rider to the IMF funding bill. He has also vigorously criticized US policy toward Taiwan both publicly and privately. Hu also told [REDACTED] that the US commitment to terminating arms sales to Taiwan was stated so vaguely that the United States could continue to do so for "forty years or more." [REDACTED]

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We believe that Hu's perceptions of the United States are limited by his lack of exposure to the West. He was clearly impressed by the sophistication of Japanese society that he witnessed during his November visit. Moreover, he has demonstrated tolerance to new ideas and a willingness to absorb different points of view. We believe that Hu would be receptive to an invitation to visit the US and that his view of the US would be significantly altered by it. [REDACTED]

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Hu is not the cold, calculating strategic thinker that Deng is. In conversations with foreign officials, he is often extremely animated and sometimes appears to exceed his brief. He also has a fervor and an intensity that surpasses that of the other leaders with whom the President will meet. Based on the record of his past conversations, we expect Hu to address briefly and pointedly China's concerns about US policy but to show greater interest in discussing bilateral economic cooperation and Chinese domestic matters. In his meeting with former President Carter, in August 1981, for example, Hu reviewed the direction of China's domestic policy and his own role in it. [REDACTED]

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### Deng Xiaoping

As the first among equals on the Politburo's six-man Standing Committee, Deng establishes the agenda in China's foreign policy, makes the key decisions, and is the leadership's primary strategic thinker. Deng has consistently supported the maintenance of a firm strategic relationship with the United States, and has sought US assistance and technology for China's modernization program. At the same time, he has been the most staunchly anti-Soviet member of China's current leaders. [REDACTED]

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Deng's deep distrust of the Soviets is rooted in his participation in the bitter Sino-Soviet ideological disputes of the late 1950s and early 1960s. Deng has long shared Mao Zedong's view that the Soviet Union has been attempting to encircle and to dominate China. In 1979-80, [REDACTED]

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[REDACTED] Deng argued against improving relations with the Soviets, and, we believe, agreed to enter into talks with Moscow in 1982 primarily on tactical grounds. More recently, in February, Deng told a US delegation that the Soviets will become "more rigid" in their policy toward China during the transition in Soviet leadership. [REDACTED]

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Deng has advocated close strategic ties with the United States since 1974, when he began taking part in high-level discussions with US visitors, including Henry Kissinger and President Ford. At the time of normalization, Deng proclaimed that US-China ties had a "long term strategic significance" and proposed the formation of a United Front against the Soviet Union. Although Deng has acceded to the shift in China's foreign policy toward a more independent stance--and has associated himself with the more nationalistic aspects of that policy--he has indicated that his strategic views have remained constant. [REDACTED]

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Deng has an important political stake in relations with the United States. Deng personally orchestrated the normalization of relations and agreed to set aside the issue of US arms sales to Taiwan at that time. More important, Deng's policy of opening to the West for aid in China's modernization rests on good relations

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[redacted]

with the United States. Deng has stated his own disappointment that bilateral relations have not been more fruitful. In addition, when relations with the United States soured, [redacted] critics were able to use the unfulfilled expectations of normalization and US actions toward Taiwan to question Deng's domestic and foreign policies. Deng has reflected these pressures in the occasional bitterness of his criticism of the United States. [redacted]

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We believe that Deng's first objective in his talk with the President will be to establish good rapport. Deng will seek to win the President's sympathy for China's point of view on key issues, such as Taiwan, and to stress the two countries' mutual interest in promoting stability on the Korean peninsula and cooperating on other complex problems. Deng can be unusually blunt, intense and manipulative. Although we do not believe that Deng will behave in this manner with the President, the President should be prepared for some frank remarks about US policies e.g., with regards the Third World. [redacted]

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On Taiwan, Deng may formally ask the President to take steps to rescind the Taiwan Relations Act by the end of his term--as Zhao Ziyang suggested in January. At a minimum, Deng will ask the President to manage the TRA in a manner that least harms Chinese interests and to observe the provisions of the August Communique. Deng may also press for fewer US restrictions on the transfer of sophisticated technologies and US circumvention of COCOM restrictions. [redacted]

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Deng will want to probe the President's thinking on China's strategic importance to the United States and expect to be treated as an equal. Deng and other Chinese leaders recently reiterated to the CSIS delegation their sensitivity to being treated as a "junior partner", and their unhappiness over being relegated to the status of a regional rather than global factor in US strategic calculations. They have noted with some concern that the United States has steadily strengthened its military ties with Japan and South Korea--ostensibly without taking Chinese concerns into consideration. [redacted]

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We expect Deng to reiterate that China sees the Soviet Union as the primary threat to Chinese security and that China supports the US military buildup against the Soviets. Deng, however, is also likely to argue that the United States has regained the initiative from the Soviets and should now pursue less aggressive policies to avoid alienating natural opponents of the Soviets. Deng told the US delegation in February, for example, that the US "policy of confrontation" with the Soviets in Europe allows the Soviets to exploit anti-war sentiment and to drive a wedge between the United States and NATO. Zhao Ziyang similarly urged that the United States reduce tensions and seek to sign a disarmament agreement with the Soviets. [redacted]

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Finally, Deng probably will want to discuss Korea. Deng has long been concerned with maintaining stability on the Korean peninsula and excluding Soviet influence by preserving good relations with North Korea. Deng has been actively involved in relations with the North--including his role as an go-between in seconding the North Korean proposal for a confederal solution--in part to balance these aims. Deng may not present any new ideas but indicated to the CSIS delegation that he would like to explore with the President the notion of confederation as a solution for Korea, and for Taiwan and Hong Kong as well. As he said in February, "We must work out of some blind alleys that we are in."

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

15 March 1984

Deng-Zhao Talks with Brzezinski--An Assessment [Redacted]

Although it is easy to overinterpret the sometimes delphic pronouncements of Chinese leaders, Deng and Zhao's remarks to Zbigniew Brzezinski and other members of a Georgetown University delegation on 22 February strike us as revealing a good deal about current Chinese foreign policy concerns. [Redacted]

The Chinese have often used visits by such unofficial US groups for tactical purposes--to air their concerns in strong terms, thus hoping to place subsequent official visitors on the defensive even before their arrival. In this case, however, both Deng and Zhao appeared anxious initially to signal their satisfaction with Zhao's visit in January and President Reagan's April trip, and to highlight the strategic and economic importance China continues to attach to close relations with the United States. [Redacted]

Both became defensive and critical of US policy only after some members of the delegation accused China of inconsistency in its policies. In rebuttal, Deng and Zhao sought to cast themselves as friends offering advice, but they strongly criticized US foreign policy in general and toward China in particular over the past few years. We believe this sharp reaction reflects underlying Chinese fears of being relegated to a less important strategic role in US calculations and a deep seated Chinese concern that China will be treated as less than an equal by the United States--just as Moscow dealt with Beijing during the 1950s. [Redacted]

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Shifting Strategic Assessment

The Chinese assessment of the strategic balance has changed significantly over the past few years. During much of the 1970s China saw the US and its NATO allies on the defensive and Soviet power and influence expanding. Hence, China favored a "united front" strategy to check Soviet expansion and viewed normalization of relations with the United States as a key ingredient of that strategy. [REDACTED]

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But, since 1980 the Chinese believe the balance has begun to shift back in favor of the West. The United States and its allies have greatly strengthened their military power and resolve in the face of the Soviet challenge, while the Soviets have become increasingly beset by domestic and foreign policy problems. Deng indicated the Chinese see little chance of that changing under Chernenko's "transitional" leadership. [REDACTED]

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From China's perspective this shift has had both positive and negative consequences, some of which Beijing clearly did not anticipate. Over the short run, for example, it has lessened Chinese concern over the Soviet threat to their security. It has also allowed them to drop their call for a united front, to distance themselves from the United States publicly, and to adopt a more flexible strategy toward the Third World designed to enhance Chinese influence and combat the Soviets. The Chinese have been particularly critical of those US policies toward the Third World they regard as counterproductive and as playing into Soviet hands, such as US support for Israel. China's resulting "independent" policy has also reflected its deep suspicion of US policy on Taiwan. [REDACTED]

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But as the United States has moved to rebuild its military strength and political resolve, the Chinese fear it has:

- Stimulated US-Soviet competition in Asia that threatens to weaken China's position and thus make it even less of a factor in the strategic calculations of both superpowers.
- Raised in turn the prospect that China will have even less leverage with the United States over Taiwan as time goes by. [REDACTED]

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## China's Advice

Deng and Zhao's complaints and advice to the delegation should be seen as reflecting these concerns and therefore as self-serving. Both, for example, emphasized that the United States should temper its military buildup and seek to ease tensions with the USSR by seeking an arms accord. They also held

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the United States should avoid military actions in the Third World or close association with the so-called four unsinkable aircraft carriers--Taiwan, South Korea, South Africa and Israel.

In our view, China would prefer to see a rough strategic parity maintained that gives China maximum maneuverability and leverage on both sides. Increased superpower tensions and arms competition in particular will only complicate China's ability to deal with resulting growth in Soviet military capabilities in Asia. The Chinese are also concerned that the Soviets might still succeed in driving a wedge between the United States and its European allies by exploiting public concern in Europe over the deployment of more US missiles there. [REDACTED]

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At the same time, China wants to develop closer economic, political and perhaps even military ties with the United States, but to avoid tarnishing its reputation with the Third World and "progressive" parties in the developed countries, or with nationalists at home concerned with the issue of Taiwan. [REDACTED]

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Deng also criticized US policy in East Asia, especially US support for allies and friends such as South Korea and Taiwan, asserting that this impedes the search for stability in the region. Deng stressed his desire to get out of the "blind alleys" of the past which, in the case of Korea, could result in what he called a "slide into war." He referred to President Carter's troop withdrawal plan as a "good idea." He offered his own vaguely defined proposals stressing "confederation" as a means to stabilize the situations not only in Korea and Taiwan, but also Hong Kong, Macao, and the Nansha (Spratly) Islands. We believe Deng sees a stronger United States as less willing to compromise on issues such as Taiwan and Korea on terms advantageous to China or its North Korean ally. [REDACTED]

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Finally, Deng and Zhao focused on alleged US unwillingness to modify US laws and procedures (e.g. Taiwan Relations Act, Export Administration procedures) to accommodate China. This again reflects in part China's concern that the United States no longer needs China as much as in the past as a strategic asset against the USSR, and therefore will be less likely to accommodate Chinese interests. Zhao was especially outspoken in asserting that China "will never agree" to be a "second class partner" of the United States, but will resist just as it resisted Soviet efforts in the past to make China a "junior partner." [REDACTED]

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## Central Intelligence Agency



Washington, D.C. 20505

## DIRECTORATE OF INTELLIGENCE

15 March 1984

Sino-Soviet Relations 

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We expect China and the Soviet Union to remain suspicious, wary antagonists, continuing to arm against each other and to maneuver in an effort to restrict each other's power and influence in Asia. The current series of Sino-Soviet talks are likely to contribute to a gradual expansion of contacts, especially in economic areas, and a reduction in tensions, but we foresee no major breakthrough on key security issues.

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Many factors divide the two sides:

- Moscow's refusal to halt its unrelenting buildup of military power in Asia or reduce its continued close ties with Vietnam, Afghanistan, and Mongolia.
- China's determination to counter a perceived long-term Soviet effort to intimidate and subjugate China with military power and political encirclement.
- Historical, territorial, racial and ideological grievances felt deeply by the top leaders in both Moscow and Beijing.

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The impasse in relations continues to center on China's demand that Moscow remove the so-called three obstacles to Sino-Soviet relations--the Soviet occupation of Afghanistan, support for Vietnam in Kampuchea, and Soviet military deployments along the Sino-Soviet border and in Mongolia. Evidence of a continuing deadlock on these questions includes:

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- Chernenko's public refusal early this month to deal with China on issues affecting third countries.
- Soviet stationing--as of late last year--of TU-16 bombers in Vietnam.
- Sino-Vietnamese armed tension during the current dry season.
- Sino-Soviet propaganda exchanges over Vietnam and Mongolia in February and March.
- Continued steady buildup of other Soviet forces in Asia--especially SS-20s. [REDACTED]

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Nevertheless, for tactical reasons both sides will continue gradually to progress in secondary areas:

- Moscow seeks to normalize relations to drive a wedge between the United States and China.
- China seeks to reduce tensions, increase its maneuvering room in the US-Soviet-Chinese triangle, and project a more nonaligned image in the Third World. However, it still regards the Soviet Union as its principal security problem and its strategic interests as largely compatible with those of the United States. [REDACTED]

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China's growing contacts with Moscow parallel its emphasis on an "independent" foreign policy--an attempt to rely less explicitly in the United States as a strategic counterweight to Soviet power, and more on diplomacy to counter Soviet pressure. But, China clearly recognizes that it runs grave risks if it goes too far in easing tensions with the USSR.

- It could alarm and alienate the United States and Western-oriented countries that provide an essential counterweight to Soviet pressure on China and are a vital source of economic and technical help for China's modernization.
- It could reduce Soviet incentive to compromise and confirm Moscow in its hardline policy of military pressure and containment. [REDACTED]

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Thus, progress in relations remains confined to secondary areas:

- Trade doubled in 1983 and is expected to increase 60 percent in 1984 to a level of \$1.2 billion--still far below Sino-US trade.

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- Two separate forums for talks at the vice foreign minister level have been established--one to deal with "bilateral" issues and another to discuss "global" issues.
- Soviet Deputy Prime Minister Arkhipov is slated to visit China in May--the highest level Soviet official to visit China in 15 years. Arkhipov reportedly will discuss increased economic cooperation. Meanwhile, the Chinese and Soviet foreign ministers have agreed in principle to meet, but no date or venue has been set.
- Low level cultural, sports and scientific exchanges have resumed. Each side is to exchange 100 students this year, and the USSR has agreed to study refurbishing a few Soviet-supplied plants in China.
- Moscow has muted most anti-China polemics; Beijing continues to attack Soviet foreign policy but has stopped criticism of Soviet "revisionism." [redacted]

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In the near future, Beijing will probably continue to use its carefully modulated interchanges with the USSR to contain Sino-Soviet tensions, increase its leverage with the United States, and demonstrate Chinese "independence". It is no accident that Beijing scheduled Arkhipov's visit in May on the heels of President Reagan's visit to China, and plans tentatively to send defense Minister Zhang Aiping to the United States the following month. [redacted]

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Moscow, while concerned about the possibility of Sino-US ties, especially in the military sphere, seems generally satisfied with the gradual improvement in Sino-Soviet exchanges, and has little incentive to offer a far reaching initiative designed to meet China's demands on the three "obstacles." The Soviets also would like some sort of an agreement and will probably continue to seek some common ground with China on bilateral security issues, without accommodating China's demands. [redacted]

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There is a low possibility (5-10 percent chance) that events such as a sudden change in leadership in Moscow or Beijing, a sharp deterioration in US relations with either Moscow or Beijing, or the outbreak of war in Korea, could prompt China and the USSR to move toward greater accommodation than anticipated. But there is an at least equal possibility that Sino-Soviet relations could worsen over the next few years as a result of such events as Sino-Vietnamese conflict over Indochina, closer US-Chinese military ties, or Soviet efforts to expand in the fluid situation in Southwest Asia. [redacted]

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DIRECTORATE OF INTELLIGENCE

27 March 1984

China and a Korean Dialogue [redacted]

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Since the Rangoon bombing in October, China has consistently indicated it prefers to play an indirect role in any Korean dialogue. [redacted]

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[redacted] China:

- supported North Korea's reunification plan and its tripartite talks proposal.
- left open the door for later participation in talks on Korea.
- still opposed diplomatic cross-recognition of the two Koreas. [redacted]

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We believe that the Chinese see little reason to change this cautious approach, primarily because the prospects for any Korean dialogue seem dim:

- Pyongyang remains intractable in its call for 3-way talks and on its basic goals, primarily withdrawal of US troops from the South. We believe the North's tripartite talks proposal is only a tactical maneuver to engage the US in direct talks.
- Seoul has all but rejected the North Korean proposal, calling instead for direct talks with Pyongyang. The South also wants at least an implicit apology from the North for the Rangoon bombing. [redacted]

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Beijing is further inhibited from pursuing a more activist approach by its interest in maintaining strong ties with Pyongyang. We believe the Chinese want to avoid antagonizing the North Koreans, who for now clearly do not want Chinese direct involvement in a dialogue. Pyongyang instead wants to portray Seoul as a US dependency, to avoid displeasing Moscow by its exclusion, and to minimize Chinese contacts with the South Koreans. China, moreover, does not want to be in a position where it would be expected to seek concessions from the North Koreans to keep the talks alive. Finally, the Chinese would like to prevent Soviet participation in the talks, which Beijing may fear could lead to improved Soviet-North Korean relations. [redacted]

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We believe China for the near term will continue its policy of endorsing both the North's proposals and the need for "peaceful" reunification of Korea. The lack of an explicit US rejection of tripartite talks probably reinforces Beijing's inclination to adopt a wait-and-see approach. China meanwhile can maintain its strong position in Pyongyang at a low cost to other Chinese interests, such as improved ties with the United States and Japan. [redacted]

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At the same time, the Chinese remain interested in reducing tensions on the Korean Peninsula. China wants to keep North Korea from turning to Moscow as a strategic counterweight to the US-South Korean alliance, and to avoid a conflict in Korea that would pit Chinese forces against the US. Beijing has announced that party leader Hu Yaobang will visit North Korea in early May. We believe one of the key discussion topics during his visit probably will be the status of North Korea's tripartite proposal. [redacted]

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## DIRECTORATE OF INTELLIGENCE

19 March 1984

## Sino-Soviet Trade and Economic Relations [redacted]

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China's economic relations with the Soviet Union have expanded significantly over the past two years, principally as the result of the easing in political tension between the two states. Trade has reached the highest level since the early 1960s, and China has apparently concluded that the USSR can play a useful, supplemental role in China's modernization. We believe, however, that the Soviet role in China's modernization will remain small, in part because of Soviet inability to provide technology as advanced as that available in the West and Japan, and in part because of painful memories of the Soviet application of economic sanctions against China in 1960. [redacted]

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Sino-Soviet trade will increase 60 percent in 1984 to a projected value of \$1.2 billion. This follows a doubling of trade in 1983 and gives substance to a recent Chinese statement on the "great potential" for economic and technical cooperation with the USSR. The markets in the Soviet Far East for Chinese textiles and other consumer goods and in China for Soviet timber, fertilizer, and machinery provide ample room for further expanding total trade which is still only about 15 percent of Sino-US trade. Recent Soviet and Chinese comments that total trade could reach \$5 billion by 1990 suggest that Beijing may be willing to consider a long-term trade agreement with Moscow. [redacted]

China also reportedly has agreed to use Soviet assistance in the technical upgrading of several industrial plants built by the PRC with Soviet help in the 1950s. Because Beijing's leaders remember past Soviet efforts to exploit China's economic dependence for political purposes, we believe they will sharply limit the number and activities of Soviet technical experts used in China to help plant modernization. The Chinese also will not

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go so far in improving economic relations with Moscow that they will jeopardize the much greater gains--in trade, technology, and investment--China receives from its relations with the United States, Japan and other non-Communist states. [REDACTED]

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First Deputy Premier Arkhipov, who is slated to visit China in May to discuss problems in trade and economic and technical cooperation, will be the highest level Soviet official visitor in 15 years. We believe the Chinese will not accept any dramatic new Soviet proposal in the economic field until they see how the overall policy of the new Soviet leadership toward China develops. [REDACTED]

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## DIRECTORATE OF INTELLIGENCE

30 March 84

China and Japan: Building for the Long-Haul [redacted]

Prime Minister Nakasone's recent visit to Beijing underscores the convergence of Chinese and Japanese strategic and economic interests. China looks to Japan both for help in promoting its modernization program and in countering Soviet expansionism and promoting regional stability. Japan hopes that support for China's modernization will enhance prospects for the survival of a moderate leadership in Beijing, help to reinforce China's "opening to the West," and reduce incentives for a Sino-Soviet rapprochement.

- During Nakasone's trip, both sides reaffirmed their opposition to the increasing Soviet military buildup in Asia, particularly the deployment of more SS-20s. The two sides agreed to share information on these Soviet missiles.
- Premier Zhao used the occasion to stress that the Soviet Union represents the primary threat to Chinese security.
- The Soviet media have reacted sharply to the visit, accusing China and Japan of "distorting" Soviet Asian policies to "camouflage" US and Japanese military intentions.

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- [REDACTED]
- Nakasone and his hosts reiterated their common interests in peace on the Korean peninsula. The two sides remained far apart, however, on the issue of a Korean dialogue, with China repeating its support for Pyongyang's tripartite proposal and with Japan endorsing Seoul's call for direct North-South contacts. Hu Yaobang, moreover, stated that China would "never" change its stance of promoting "from the sidelines" Korean reunification and a reduction of tensions there.
  - The Chinese agreed to allow separated Korean family members living in China and South Korea to meet in either those two countries or Japan. Premier Zhao also suggested that China would favorably consider participation in the 1986 Asian Games and the 1988 Olympics, both to be held in Seoul.
  - The long-term commitment by both sides to strong bilateral ties was symbolized by the establishment of a committee to promote Sino-Japanese friendship into the 21st Century." [REDACTED]

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Over the past several years, China and Japan have pursued parallel policies in Asia:

- In Southeast Asia, both China and Japan provide strong diplomatic support for ASEAN's efforts to bring about a Vietnamese withdrawal from Kampuchea. Both sides provide assistance to Thailand, with China also supporting the Kampuchean rebels.
- In Southwest Asia, both sides have condemned the Soviet occupation of Afghanistan, and sought through diplomatic and economic means to bolster Pakistan. Beijing reportedly also provides arms and other aid to the Afghan rebels.
- In Northeast Asia, both states have sought to exercise a moderating influence over their respective Korean partners to reduce tensions. [REDACTED]

Complementary economic interests meanwhile have served to further strengthen Sino-Japanese relations. China hopes to acquire increased Japanese imports, financial credit, and technology, as well as a larger Japanese market for Chinese goods. Japan regards China as a potentially lucrative export market, and as a significant source of raw materials.

- During his recent trip to China, Prime Minister Nakasone announced a seven year, 470 billion yen (approximately \$2 billion) development credit package

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[REDACTED]

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for 7 communications, energy, and transportation projects.

- The Japanese are considering about \$3 billion in Export-Import Bank loans to support Chinese coal and oil projects.
- Tokyo also has agreed to a one-time export of nuclear reactor equipment, subject to on-site "visits" by Japanese officials. Tokyo, however, is apparently demanding stricter controls before it will sign a bilateral nuclear cooperation agreement, allowing the export of more such equipment. [REDACTED]

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These mutual strategic and economic benefits serve to minimize several latent problems in the relationship, such as Chinese concern over the long-term implications of growing US-Japan defense cooperation and Japan's extensive ties to Taiwan, as well as Japanese concern over China's ability to maintain its current domestic and foreign policies. We thus believe both sides will continue efforts to consolidate their relations and to lay the groundwork for even closer ties. [REDACTED]

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## DIRECTORATE OF INTELLIGENCE

21 March 1984

China's Taiwan Policy 

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Since last summer, Beijing has revived its reunification campaign. Deng Xiaoping and others have issued authoritative statements designed to flesh out Ye Jianying's 1981 nine points proposal to Taiwan by:

- stressing both sides' commitment to one China and the need for peaceful reunification;
- calling for negotiations between the Chinese Communist Party and the Kuomintang as equals;
- proposing to make Taiwan into a special administrative region with full control over its internal affairs and continued access to international trading markets;
- suggesting that anything short of full independence can be discussed;
- promising not to send Chinese troops or bureaucrats to Taiwan and holding the door open for Taiwan's officials to seek government positions on the mainland;
- rejecting Taipei's position that reunification be based on its official ideology of the "Three People's Principles" (civil liberties, Chinese nationalism, and equal economic opportunities);

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- leaving unclear whether Taiwan will be allowed to purchase foreign arms after reunification;
- offering Taiwan a limited role in international organizations. Since 1981, Taipei has rejoined numerous nongovernmental bodies through the "Olympic solution," by adapting a different name--China, Taipei--and flag. China has recently suggested that a similar solution could be used to resolve the ADB impasse; Taiwan, however, has explicitly rejected this approach for governmental organizations. [redacted] 25X1

Such proposals are intended to contrast Beijing's "flexibility" with Taiwan's "intransigence" in order to:

- induce Washington, as well as Overseas Chinese and foreign businessmen, to encourage Taipei to enter negotiations;
- entice Taipei to be more flexible;
- demonstrate to Washington Chinese interest in improving Sino-US relations. [redacted] 25X1

Believing that US support for Taiwan--and particularly arms sales--reinforces Taipei's refusal to negotiate, Beijing continues meanwhile to demand that the US abide by its agreements with China. During Zhao Ziyang's recent trip to the US, he repeatedly emphasized that the Taiwan issue remains the key obstacle to smooth progress in Sino-US relations. Zhao and the Chinese media also called on the US to take concrete steps "this year" to implement its commitments in the August 1982 communique on arms sales to Taiwan. [redacted] 25X1

At the same time, China wants to limit what it sees as the growing influence of Taiwan self-determination sentiment. Beijing recently has stepped up its criticism of self-determination advocates, especially in the US. The Chinese also have warned that a declaration of Taiwan independence, or the continued refusal (over the long term) of Taipei to begin reunification talks could trigger the use of force to bring about unity. [redacted] 25X1

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## DIRECTORATE OF INTELLIGENCE

15 March 1984

China-Southeast Asia [redacted]

Vietnam's occupation of Kampuchea and an increased Soviet presence in Indochina remain among Beijing's primary security concerns. Since China's first effort to "teach Vietnam a lesson" in 1979, Beijing has followed a consistent strategy designed to:

- Force the withdrawal of Vietnamese forces from Kampuchea.
- Deprive Vietnam of its new client by promoting a neutral government in Kampuchea.
- Weaken and eventually break the Soviet-Vietnamese alliance with the aim of removing the Soviet military presence in Southeast Asia.
- Bring about a leadership in Hanoi more responsive to Chinese interests. [redacted]

The key ingredients in that strategy are:

- Direct military pressure along the Sino-Vietnamese border, tying down Vietnam's best troops and equipment.

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- Indirect military pressure by backing Kampuchean and Laotian resistance groups.
- Diplomatic efforts aimed at isolating Vietnam.
- Pursuit of better relations with ASEAN to encourage united opposition to the Vietnamese--with Thailand as the keystone.
- Encouraging US involvement as a counterweight to Soviet support for Vietnam.

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China continues to insist on a settlement based on the International Conference on Kampuchea formula--complete withdrawal, neutralization of Kampuchea under UN supervision, free elections. But in the October 1982 session of the Sino-Soviet talks the Chinese offered a five-point proposal with some modifications and inducements. These include:

- Allowing a Vietnamese withdrawal in phases within a specified time period.
- Offering to resume Sino-Vietnamese talks--broken off in 1980--after the first increment of troops withdraw.
- Moving to normalize Sino-Soviet relations depending on the evolution of Sino-Vietnamese talks and a settlement of the Kampuchea issue.

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Thus far, the Chinese show no signs of relenting--their policy costs them little while Beijing believes Hanoi is paying dearly. Nevertheless, China expects Hanoi to hold out for at least several more years.

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Beijing's strategy has some obvious weak points that Hanoi tries to exploit:

- Several ASEAN states regard China as a greater long-term threat to their security than Vietnam because of Chinese ties with local Communist parties and overseas Chinese.
- Chinese aid to the Communist Khmer resistance forces is interpreted in some ASEAN and Western capitals as a desire to see Pol Pot return to power. Beijing maintains Pol Pot's group is the most effective fighting force and points to the aid it gives the non-Communists.
- Without Thai cooperation China could not provide adequate support for the Khmer insurgents.

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And, even though Beijing has increased its ability to conduct a wide variety of military actions against Vietnam the credibility of its threats to teach Hanoi a "second lesson" has actually diminished. Indeed, we believe China would be reluctant to undertake major offensive operations against Vietnam unless Thailand's security or the existence of the Khmer resistance were clearly threatened. The reasons:

- Cost: Beijing suffered 20,000 casualties in 1979 and spent at least \$1 billion.
- Vietnamese strength: Hanoi has nearly doubled its troop strength along the border since 1979 while upgrading its equipment.
- Soviet presence: The Soviets have beefed up their naval and air assets in Cam Ranh Bay--making Chinese air and sea operations against Vietnamese-held islands more risky.

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## DIRECTORATE OF INTELLIGENCE

16 March 1984

China: Leadership and Succession [redacted]

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Deng Xiaoping, 79 and formally only the third ranking member in the Communist Party, is the most powerful man in China. Since his ascendance in 1978, Deng has generally controlled the policy agenda, using it to reverse some aspects of Mao Zedong's legacy and to promote his own vision of a stable, prosperous China. He and his allies have enjoyed a string of modest successes in their efforts to overcome political opponents, to focus economic activity on improving the general standard of living, and to reform China's sprawling bureaucracy. Deng has had failures as well, the most notable being an inability to refurbish the public image of the Communist party after two decades of political strife and oscillating policies. [redacted]

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**Successors**

Deng recognizes that he has little time remaining to accomplish all his goals. To continue his program and preserve his reputation for posterity, Deng has installed younger, politically compatible leaders in the top party and state posts. Party General Secretary Hu Yaobang, 68, has been a protege of Deng for more than 40 years. Premier Zhao Ziyang, 64, has no longstanding personal ties to Deng but nevertheless is a capable and pragmatic lieutenant who shares Deng's views. [redacted]

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Most of what Deng has attempted to do over the past five years has a succession angle. Hu and Zhao have generally shared in Deng's victories over political rivals, and they also stand to gain from economic and bureaucratic reforms. Indeed, they have staked their careers on achieving progress in these areas. The three-year party "rectification" campaign--an effort to reindoctrinate veteran members, recruit educated young leaders, and purge the politically unreliable--is being run by Hu Yaobang with an eye to making the party more loyal to reformist goals and reformist leaders, such as himself. Hu and Zhao seek to raise a new generation of party members who are more

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sophisticated and professionally competent than the party's peasant old guard. If able to effect broad personnel changes, they will simultaneously be expanding their own political bases. [redacted]

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### After Deng

Should Deng die soon, however, we believe Hu would not immediately inherit Deng's place as first among equals in the leadership. Although Hu may have stronger credentials than any other leader of his own generation, he remains distinctly junior to Deng's peers on the Politburo. Moreover, we believe that Hu has only thin support among senior military officers, a group he has actively cultivated. In our view, only a leader whose standing and personal connections in the party approximates Deng's could assume Deng's crucial roles of broker, conciliator, and final decisionmaker. Deng's peer group has scant reason to defer to Hu and would likely prefer that Deng's authority gravitate to one of their own, such as President Li Xiannian or National People's Congress Chairman Peng Zhen. [redacted]

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In the post-Deng period, collective rule is probable, at least until a new pecking order is sorted out. We believe that the leadership would choose to avoid a divisive power struggle, which would convey all the wrong signals both in China and abroad. Given Hu's impulsive nature, however, we cannot rule out the possibility that a blunder or series of missteps by Hu might provoke a concerted move by party traditionalists to replace him. Barring that, Hu would likely remain the titular head of the party, presiding rather than ruling, holding on until the gerontocrats left the scene. For the longer term, we believe Hu is well situated to inherit Deng's political power.

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## DIRECTORATE OF INTELLIGENCE

20 March 1984

China: Economic Reforms [redacted]

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In the last five years, China has instituted a series of economic reforms aimed at using market forces to supplement the planning apparatus. Specifically, the reforms seek to reduce direct government involvement in economic affairs, encourage entrepreneurial initiative, and motivate the work force by more closely linking pay to productivity. The reforms continue to face opposition from ideologues, who decry their departure from Marxist dogma, and from cadre at all levels, who resent the erosion of their own authority resulting from the reforms. [redacted]

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## Reforms in Place

The most sweeping and successful changes thus far have come in agriculture, where over three-quarters of the land is now under the effective control--though not legal ownership--of peasant households. Peasant farmers are free to market and retain the income of production above the amount contracted for by the government. [redacted]

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In industry, enterprises that formerly remitted all but a small share of their profits to the government now retain a significantly larger share, which they may use to pay bonuses or invest in new facilities. In finance, provincial governments now have greater discretion in spending locally generated revenues. In commerce, free markets reappeared in cities and the countryside with official sanction, and enterprises are permitted to sell some of their product outside the government-run commercial system. In the credit sector, bank loans are gradually replacing government grants as sources of fixed and working capital. [redacted]

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The government has even given its blessing to some very limited forms of private enterprise, though the number of individuals engaged in privately owned production or service activity is still only about 2 percent of the nonagricultural workforce. Ownership of capital continues to be strictly controlled by the government, and we do not expect these controls to be eased. [REDACTED]

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#### The Report Card

To date the reforms have yielded mixed results. Agricultural output is running at record levels, reflecting the combined results of the reforms, better than average weather, and price increases. In the industrial sector, however, productivity remains low, and a tremendous waste of resources is continuing. Reforms have also generated some new problems. Runaway local investment has siphoned off funds and raw materials needed for infrastructure projects that Beijing regards as key to its modernization effort. Moreover, poor industrial performance has prevented government revenues from increasing rapidly enough to counterbalance expenditures. Continuous budget deficits since 1979 have placed upward pressure on prices. [REDACTED]

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#### Prospects

We expect Beijing to push ahead with reforms, albeit in a groping fashion. Where reforms create unacceptable problems--economic or political--Beijing will retrench, falling back on command-style controls. We have already seen some recentralization in a number of areas, such as foreign trade and production of certain agricultural goods. Irrational prices prevent market forces from yielding efficient results, but so far Beijing has proven reluctant to institute necessary price adjustments. Therefore, we expect the reforms to yield only modest economic gains over the next few years. [REDACTED]

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## DIRECTORATE OF INTELLIGENCE

19 March 1984

US-China Economic Relations [REDACTED]

Prospects are good for improved US-China economic relations in 1984. The tensions over technology transfer and commodity trade, which last year dampened Chinese imports and left the United States a deficit for the first time since 1977, have abated. The liberalization of US high-technology exports, combined with China's keen interest in acquiring machinery and technology to upgrade its factories and transportation system, should help revive US sales to China. [REDACTED]

Commodity Picture

US exports to China in 1984 should exceed the \$2.2 billion level of last year. Up to \$1 billion in high-technology contracts will probably be signed this year. Many of these are multiyear undertakings, thus the full amount will not be reflected in 1984 trade. We do not expect the Chinese to buy whole plants, except for used plants that become available because of bankruptcy or replacement. [REDACTED]

Grain sales could see moderate gains, even with continued good Chinese harvests and improved internal distribution. Sales of pesticides and fertilizers, especially phosphates, will probably remain strong to support agricultural development; log sales could increase as much as 20 percent. US exports of synthetic fibers, however, will probably continue to stagnate. Although China's requirements increased this year, most will be supplied by Asian and European producers at prices about 10 percent below US offers. [REDACTED]

Chinese exports to the United States will continue to be dominated by textiles and apparel, probably followed by petroleum

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products. Other important export goods will be chemical products, footwear, and crafts. [REDACTED]

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### Investment

US investment in China now exceeds \$500 million. The Industrial and Technological Cooperation Accord, the patent law (approved 12 March), and pending agreement on a bilateral investment treaty will bolster investor confidence and encourage additional commercial ties. Some investments will be prohibited until agreement on nuclear cooperation is reached and others may be inhibited because China's patent law does not cover all technologies--chemical formulations, for example. [REDACTED]

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### International Organizations

China will continue to join international economic organizations. Beijing, a member of GATT's Multifiber Arrangement since January, is now exploring the intricacies of full GATT membership. Although unlikely in 1984, Chinese accession to GATT would remove the last legal requirement for Generalized System of Preferences status. China is also unlikely to obtain membership in the Asian Development Bank this year, but Beijing will continue to test the ADB for indications of support for Chinese membership. [REDACTED]

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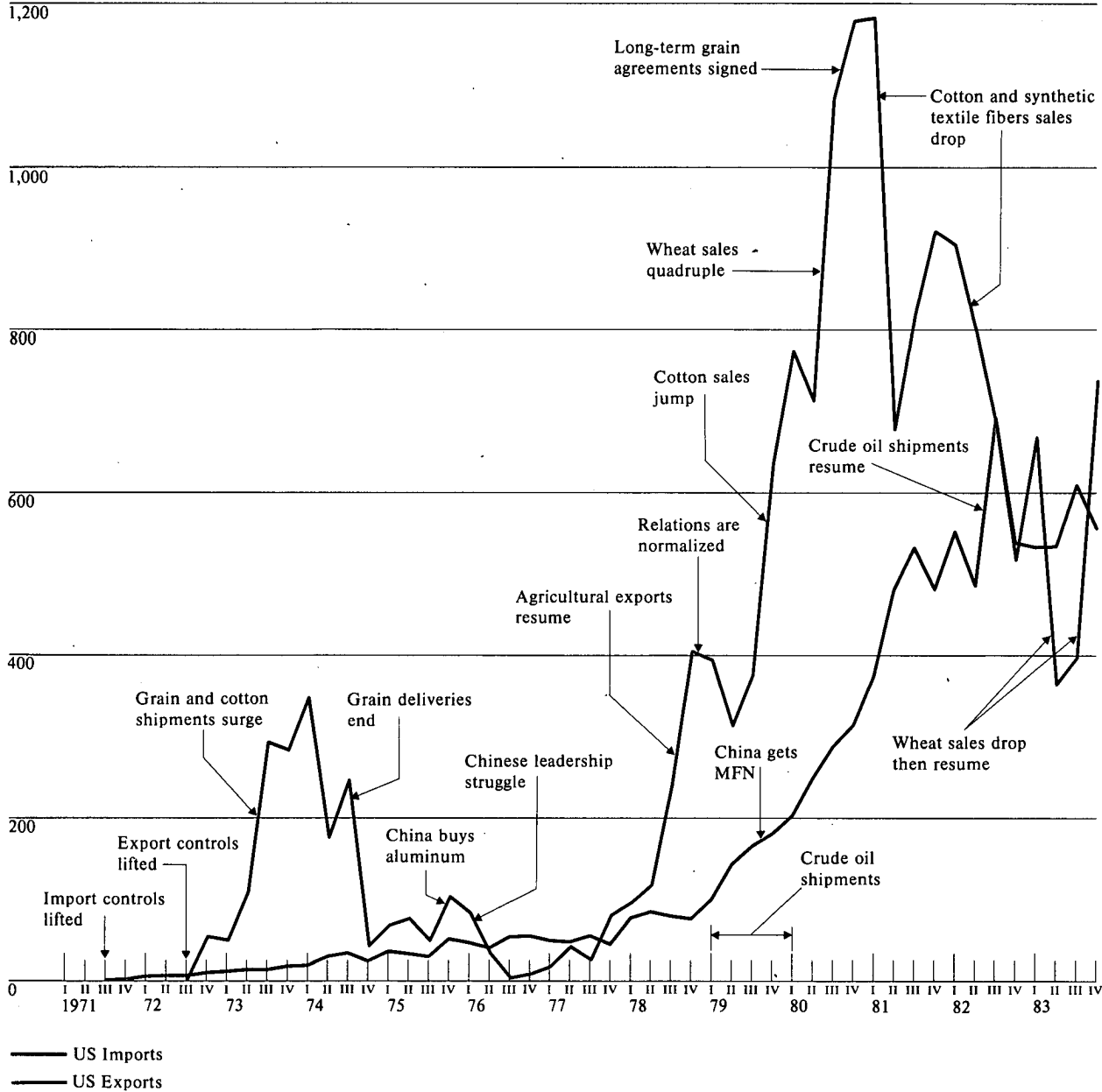
### Potential Stumbling Blocks

Despite the improvement in Sino-US ties there is still a potential for friction that could endanger economic relations. In recent weeks, the Chinese have complained in the press and through diplomatic channels about US sales of arms to Taiwan. US restrictions on Chinese exports, primarily textiles; also irritate the Chinese leadership. Further, China is annoyed that, in spite of relaxed US controls on technology sales, its purchases are still delayed by COCOM approval procedures. Should any of these irritants be aggravated or should Chinese tolerances decline, Beijing could once again turn to other suppliers at the expense of US firms. [REDACTED]

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### China: Highlights of Trade With the United States

Million US \$



Data from US Department of Commerce shows both exports and imports on an f.o.b. basis.

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DIRECTORATE OF INTELLIGENCE

19 March 1984

China: Expanding Market for US Energy Firms



China's need for new technology, both to develop new energy resources and to improve the efficiency of domestic energy consumption, is a major reason for Beijing's decision to strengthen commercial links with the West. China, we believe, sees the United States as the best source for much of this technology and access to it is a pivotal consideration in its official dealings with the United States. This linkage may provide a relatively stable underpinning for China's opening to the United States. Beijing did not, for instance, allow the 1983 political and economic controversies with the United States to impede the critical offshore oil contract negotiations that were occurring at the same time.

Key areas in which energy technology is already forging important commercial links between the two countries include joint ventures for offshore oil exploration and development, coal mining, and electric power development. Two areas of potential cooperation--contingent upon solving difficult investment and political problems--include hydroelectric and nuclear power development which some Chinese view as the likely dominant energy sources in the next century (see Appendix).

In most of these fields, China believes the US holds the most desirable technology; however, US firms usually face fierce competition from European and Japanese firms. China, moreover, has proved adept at playing these competitors against each other. This competition will probably become more intense, particularly when it comes to the financing of energy projects--an area in which the United States appears at considerable disadvantage.

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China's oil and coal export earnings--approximately \$5 billion last year mostly from Japan but also including significant gasoline sales to the United States--put Beijing in a good position to pay cash for imported equipment. Official concern over the possible need to reduce or even eliminate oil exports, however, is causing Beijing to be very conservative in spending its cash reserves. 

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## Appendix: Selected Energy Projects

Oil and Gas

Offshore Oil Thirteen US firms have contracts to explore and develop large sections of China's continental shelf. At least 20 wells will be drilled in 1984, the first year of a minimum three-year exploration effort. If successful, this exploration will lead to long-term--up to 35 years--commitments by the firms to work in China in an industry of vital importance to Beijing. [REDACTED]

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Onshore Oil US firms are rapidly increasing sales of seismic surveying and processing equipment--including high speed computers--and secondary recovery technology needed by China to maintain current onshore production rates. [REDACTED]

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Natural Gas Atlantic Richfield and Santa Fe, the first contractors for offshore oil exploration, have already made a natural gas discovery that may be large enough to warrant development of a petrochemical/fertilizer complex. The discovery has been marred, however, by the loss of a US drill ship and its 80 member US-Chinese crew. [REDACTED]

25X1

Coal Mining

Beijing spent \$1.13 billion on coal mining equipment and technology purchases from the West in 1978-82 and is looking for \$5 billion in foreign investment in China's coal mine development through the 1990s. China has turned to European and Japanese suppliers for mining machinery, but favors US suppliers in several key areas:

Open Pit Mining The Chinese want US firms to help develop production at huge coal mining areas in northern China. Talks with Occidental Petroleum for development of the \$1 billion Pingshuo area have stalled over financial details and marketing responsibility, although some equipment for Pingshuo is on order. [REDACTED]

25X1

Coal Slurries US firms are the preferred vendors--both Bechtel and Fluor provided feasibility studies last year--for several coal slurry pipelines that China is considering building, but negotiations with other suppliers, primarily Japanese, have also occurred. [REDACTED]

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Mining and Processing Equipment China signed an agreement in October 1983 to purchase US power shovel technology, and negotiations are under way for coal washing and drying equipment, quality sampling equipment, and fluidization and gasification technology. [REDACTED]

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Electric Power

A 1979 technology transfer agreement with Westinghouse is helping China to produce 300 MW turbine generator units and will eventually lead to production of 600 MW units as well. Beijing may seek modifications of these units for use in nuclear power plants. US firms are also leading contenders for supply of computerized grid management systems and are providing technical training for Chinese managers. US expertise has been used to help plan China's ambitious hydropower efforts but the Chinese now appear to be leaning toward Japanese firms for the actual purchase of construction equipment and technology. US firms may play an important role in China's nuclear power plans, contingent upon the signing of a US-China nuclear power agreement.

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## DIRECTORATE OF INTELLIGENCE

19 March 1984

China: Nuclear Power Prospects [redacted]

China is one of few countries in the world still optimistic about the use of nuclear power. No nuclear plants are on line--nor will they be until probably the early 1990s--but Beijing hopes to have 5 to 10 plants operating by the year 2000, contributing at least 10,000 megawatts (MW) or 5 percent of the country's power requirements. [redacted]

Beijing has been trying to develop indigenous nuclear power technology since 1970 and now has a relatively small (300 MW) plant in an early stage of construction near Shanghai. The thrust of the Chinese nuclear program is to import at least two 1800 MW turnkey plants along with the technology to begin building such plants. Even the domestically designed plant is slated to use considerable Western technology, including a Japanese built reactor vessel, West German coolant pumps, and US-designed turbine/generator units. [redacted]

France, which has signed several nuclear agreements with China since 1978 but still has not made a sale, leads in the competition to provide the turnkey plants. Prominent Chinese officials now state that Framatome has won a contract to provide an 1800-MW plant to be constructed near Hong Kong. Hong Kong has been asked to help finance the plant in return for a large share of the power output. We expect Framatome will also be awarded contracts to build a similar plant northwest of Shanghai. [redacted]

China has long preferred US nuclear technology--not being content with the Westinghouse derivative technology offered by Framatome--but has been prevented from purchasing US plants because of Beijing's unwillingness to agree to certain non-

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[REDACTED]

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proliferation provisions in US export control regulations. China, according to press reports, last month accepted similar Japanese provisions including "friendly" visitation rights by the Japanese and appears close to such an agreement with West Germany and the United States. [REDACTED]

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China is already attempting to sign contracts with US firms for consultation and engineering help for the French reactors-- still prohibited under US law--and has carried out extensive negotiations with Westinghouse and General Electric for the supply of nuclear reactors. It is also discussing the purchase of two surplus 1300-MW power reactors from TVA. Financing of such projects--providing a nuclear agreement is reached--could still be a major hurdle, however, as China is reluctant to borrow at commercial or even EX-IM Bank rates. A direct purchase would be a major strain on the country's already pressed electric power investment budget. [REDACTED]

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## DIRECTORATE OF INTELLIGENCE

19 March 1984

China: Changes In Military Industrial Development  
Policy--Implications for the United States [redacted]

China is merging its military and civilian R&D organizations in order to strengthen its scientific and technological research capabilities. At the same time, military industries--most notably the six military machine-building industries--are being integrated with civilian industry to enlarge their contribution to the overall development of the economy. [redacted]

A series of organizational and policy changes introduced since 1981 will have a major impact on future Chinese military and civilian industrial activity:

- o Planning of military and civilian S&T and industrial activity will be increasingly centralized.
- o Military and civilian research institutes and factories will be consolidated into specialized research and production combines.
- o Acquisition of advanced foreign technologies and equipment will be stepped up. [redacted]

The closer military-civilian relationship will pose new problems for the United States in monitoring Chinese weapons programs and in implementing the export control system:

- o The merger of military and civilian institutes and factories into specialized combines will further obscure Chinese progress in the strategic and special mission areas; so will newly tightened security measures in

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Chinese research and production facilities and on Chinese personnel.

- o Determining the military or civilian status of end-users of US and Western technology exports will become far more difficult.
- o If China follows through on its stated preference for acquiring US technologies, other members of COCOM may become even more reluctant to agree to further liberalization of export restrictions.
- o The new policies also increase the likelihood of closer military linkages to joint ventures and similar technology transfer mechanisms. These types of transactions may become a more sensitive issue in COCOM deliberations than the export of particular pieces of equipment and machinery.

We believe that Beijing will benefit from these changes in several ways:

- o There will be a more systematic ordering of priorities. This could eliminate some of the wasteful duplication of past Chinese efforts to acquire technology and equipment abroad.
- o Although military needs will remain paramount, civilian industry will also profit from increased access to technology developed or acquired for military purposes.
- o Increased production of civilian goods by military industry should also be a plus--for the military in terms of greater use of idle capacity and increased revenues; for the civilian economy in terms of larger quantities of badly needed producer and consumer goods.

The concentration on key industrial and S&T projects implied by these policy changes may already be beginning to bear fruit. China's new "Galaxy" super computer was developed by combining the talents of both military and civilian research organizations and using both domestically produced and imported components.

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