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CHINA (I)

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General Trends in Foreign Policy

Chinese foreign policy since the establishment of the People's Republic of China has not been particularly consistent. While many observers would point to continuities in objectives and strategy, nonetheless, Beijing did lean towards the USSR in the 1950's, glorified its isolation in the 1960's and appeared to be headed toward an alignment with the United States in the 1970's. In the mid-1980's, the overriding purpose of the PRC's foreign policy was to forge a tranquil security environment in support of an ambitious domestic economic modernization programme. China's leaders hoped that their country could benefit from effective participation in the international economic system and could attract foreign involvement in its economic development. At the same time, they sought to preserve Chinese sovereignty and autonomy.

Their determination to regain China's former greatness to advance national interests remains very strong. Deng Xiaoping and his supporters constantly reveal their dedication to making China a major actor in world affairs. Today's PRC leaders are flexible in tactics, subtle in strategy but deeply devoted to the preservation of national independence. There has been no erosion in their long-term commitment to the reunification of China (including Taiwan, Hongkong, Macao, disputed islands in the South and East China Seas) or to the settlement of its border claims on terms suitable to Beijing. Some Western experts do not exclude the possibility that as its military strength grows, China will begin to press more firmly some of its more ambitious foreign policy goals.

How do Chinese leaders perceive the way to the PRC security environment? They no longer assert, as in the 1960's, that a chaotic world and intense Soviet-American confrontation serve their interests. They now believe that contained rivalry between Moscow and Washington benefits Beijing, but that beyond a certain point the tension is harmful. It fuels an arms race that leaves China further behind. This is why Chinese leaders wish to develop broad-based relations with the United States, forge extensive economic ties with Japan and improve and stabilize their relations with the Soviet Union. They balance their slowly growing military ties with Washington with improvement in political, economic and cultural relations with Moscow.

China's current assessment of the global strategic balance is guardedly optimistic. The Chinese now perceive that strategic parity exists between the Soviet Union and the United States and is likely to persist through the rest of the century. As a result, instead of calling for Sino-American strategic co-operation, Beijing now underscores its determination to pursue an independent foreign policy. A favourite formula used by all leaders in public and private is that China will not be subordinate to or ally itself with any superpower. (You will hear this formula many times during your stay in Beijing. vk)

\* \* \* \* \*

In the 1980's, China started to play a more active role in the field of disarmament. The basic stand of the Chinese government on disarmament was that:

- The United States and the Soviet Union should shoulder special responsibilities for disarmament and should take the lead in a drastic arms reduction; after that, China will take appropriate actions too.
- All nuclear-weapon states should undertake not to be the first to use nuclear weapons and not to use or threaten to use nuclear weapons against non-nuclear states or nuclear-weapon-free zones.
- Nuclear, chemical and biological weapons should be totally banned and destroyed; there should be drastic reduction of conventional arms.
- Outer space should be used exclusively for peaceful purposes, no country should develop, test or deploy space weapons in any form; an international agreement on the complete prohibition of space weapons should be concluded as soon as possible.

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- Every country should have a say in the question of disarmament. The United Nations should play a greater role in disarmament. No disarmament negotiations or agreements between the major nuclear powers should jeopardize the interests of other countries.

- Disarmament and international security are closely related. Efforts for disarmament should be combined with those for the maintenance of world peace and security.

The Chinese government supported Moscow's recent proposal to abolish intermediate-range missiles in Europe.

At the 42nd session of the United Nations General Assembly, China, for the first time, submitted two disarmament-related resolutions which were adopted. The resolution on nuclear disarmament urged the United States and the Soviet Union to take the lead in halting the nuclear arms race. It also called for them to negotiate in earnest a drastic reduction of their nuclear arsenals. China's second resolution, on conventional disarmament, called for the countries with the largest military arsenals and the two major military alliances to continue negotiations and to reach agreement, as soon as possible, on the limitation and gradual and balanced reduction of conventional forces.

\* \* \* \* \*

The PRC government always actively supported the non-aligned movement which "as independent political force is exercising ever greater influence in international affairs." During the 1970's, the official view of China was that non-alignment could even become a "third way" in world politics. China holds that the basic principles of its foreign policy are in accord with the purposes of the NAM. It maintains friendly and good co-operative relations with a vast number of non-aligned countries. China hails the NAM for withstanding "various external interference and pressure" and constantly accuses the U.S. and the USSR for their efforts "to influence the Movement and meddle in its internal affairs by all means in a bid to divert it from the right path."

Meanwhile, China's strained relations with the Soviet Union and its new relationship with the West have created considerable dilemmas for the Non-aligned Movement. It was not and still is not clear for non-aligned countries whether China seeks to be another superpower or to remain the champion of Third World aspirations. Chinese leaders always say: "China belongs to the Third World and shares its fate."

Political declarations of the NAM's summits are traditionally supported by Beijing. The Harare Conference had "special significance" because of "special concern for the situation in southern Africa." There was one point of open disagreement: China regretted that the Harare Summit had failed to correct the mistake of the Havana Summit and decided to keep the Kampuchean seat vacant.

NAM's economic views are also shared by Beijing's in most cases. In particular, China supports proposals of Latin American countries to improve the terms of debt repayment, with creditor and debtor sharing responsibility and seeking new ways to solve the debt problem.

The PRC steadily develops co-operation with third world countries. Between 1950 and 1986 China sent more than 400,000 engineers and technicians to help in more than 1,500 projects in about 90 countries, including farms, steel works, oil refineries, power stations, transport, medical and other projects. 1154 projects were completed. While training about 38,000 technicians and students from some 70 countries, China also dispatched teachers there to start courses and train the local personnel. China has exported 170,000 labourers to work for 2,886 projects in 88 countries. The PRC has also been making special donations to relevant United Nations bodies for technological co-operation with developing countries. The annual commitment remains at a level of about \$3 million.



In 1986 China undertook 253 projects of economic and technical assistance to 67 countries in Asia, Africa and Latin America. It completed construction of 28 projects. All these projects have been financed by low-interest, long-term loans from the Chinese government. To some under-developed countries grant assistance was offered.

China will give economic and technical assistance to 222 projects in 63 developing countries this year. About 40 projects are expected to be completed in 1987.

\* \* \* \* \*

P.S. Tentative topics for the forthcoming issues on China:

- UN related international problems; PRC-UN co-operation.
- Open-door policy, foreign trade.
- China-USSR, China-USA.
- Economic and political reforms; internal events; economic development.

## CHINA (II)

United NationsI. UN-related political questions

China's position on the international problems the UN actively deals with is an integral part and continuation of Beijing's foreign policy line at large. Seeking to set up a secure international environment to achieve the national goals, the Chinese government supports dialogue on an equal footing for peaceful settlement of international disputes between states. The Chinese views, as expressed at UN, fora are mainly addressed to the Third World and aimed also at underscoring independence of the PRC foreign policy. This is why President Reagan's policies in South Africa and the Middle East get vocal condemnation from Beijing and Soviet behaviour in Afghanistan and Indochina is blamed with equal vehemence.

The Chinese government always holds that the Pretoria regime's suppression of the black people in South Africa is a challenge to human dignity and international justice. It calls for united and forceful sanctions through the mobilization of the international community to force the South African authorities to change their policy of apartheid and racial discrimination. Beijing opposes the occupation of Namibia and supports the struggle of the Namibian people for national independence. The PRC maintains quite close relations with the front-line states. There is widespread opinion that China is one of the major arms suppliers to the national liberation movements in Africa but Beijing never advertises this.

The Chinese government is very critical of the US and Israeli policy in the Middle East. It strongly blames both for their refusal to negotiate with the PLO, objections to convene an international conference and for constant military provocations against Arab countries. What bothers the Chinese is that the negative position assumed by Israel and the United States might have the cumulative effect fraught with the serious threat of a new bloody conflict in the region. China supports the struggle of the Palestinian people for the restoration of its national rights and demands the withdrawal of Israel from all Arab territories it has occupied since 1967. At the same time, the right to existence of all countries in the Middle East should be recognized. The PRC government upholds the proposal for an international conference on the Middle East attended by the parties concerned and the five permanent members of the UN Security Council.

As far as the Gulf war is concerned, the problem for China is that Iran and Iraq are Beijing's friends. China feels uneasy about the perspective that the war might spread further over the region and "pose a grave threat to peace and stability" of the neighbouring countries. But what bothers the Chinese even more is that Iraq and Iran belong to the Third World and the war jeopardizes the fundamental interests of both countries. While regretting that all mediation efforts have proved futile, Beijing last month alone three times officially urged Iraq and Iran to quickly end the bloody conflict and settle their dispute in a fair and reasonable manner through peaceful negotiations in accordance with the norms of international law. The Chinese government is going to continue its efforts to bring about reconciliation between the two Islamic states. (Unfortunately, I failed to find in Chinese official statements and publications the mentioning of UN efforts, Secretary-General's in particular, concerning the Iran-Iraq situation. Perhaps it's my fault. - vk)

Two relating remarks:

- Considering the Gulf region to be a large potential market for Chinese consumer goods and taking into account that many Gulf countries have adopted free trade policies including low-import taxes and no quotas on import volume, the PRC government established in January a special body named The China General Corporation on Trade with Gulf Countries to supervise and expand trade with the region.

- When US Secretary of State Shultz visited China this month, he asked Beijing's leaders, according to an American official, to stop selling weapons to Iran. The Chinese categorically denied that they sold arms to Iran but Western sources say that China's sales to Teheran top \$1 billion a year and Beijing will continue to serve as Iran's chief weapon supplier. (Taking the fifth position in the world in arms trade, China sells arms to Iraq too).

The problem of Afghanistan takes a specific place in the foreign policy of China which is the major arms supplier to the Afghan Mujahedin. The Chinese also claim that this problem is one of the three obstacles which inhibit the normalization of Sino-Soviet relations. The PRC delegation always voted in favour of the relevant UN resolutions. Beijing insists that the Soviet Union should implement these resolutions, work out a reasonable time-table for its troops withdrawal through consultations with the interested parties and pull out all its troops from Afghanistan without delay. Till 1987 the Chinese took quite sceptically the proximity talks in Geneva stating that those negotiations had failed to achieve substantive progress.

Beijing's approach to the policy of national reconciliation announced by the Kabul government at the beginning of 1987 can be characterized as cautious but at least the Chinese did not try to discredit it. Privately Chinese official representatives welcome the progress made in Geneva in February-March on the time-table question and say that the PRC government will support any solution that will be acceptable to Pakistan.

Another outstanding point in the Chinese foreign policy agenda is the Kampuchean question. A mixture of security considerations and wounded national pride makes this problem really painful for the Chinese. So one can not exclude that, at this stage, China sincerely wants to see Kampuchea a peaceful, independent, neutral and non-aligned country with no single group (the Khmer Rouge?) monopolizing power. The PRC states, and this is important, that China is ready to join other countries to guarantee internationally the above-mentioned status of Kampuchea.

The main precondition for the political solution of the problem - withdrawal of Vietnamese troops from the country. For the Chinese this is not negotiable. To achieve this goal, they appeal to both Vietnam and the USSR. According to Prince Sihanouk, China offered Vietnam "tremendous" aid to rebuild its economy and closer bilateral relations in an effort to persuade Hanoi to withdraw from Kampuchea. Beijing's leaders apparently believe that at some point the Vietnamese leadership will adjust its policy. Either Soviet support will diminish or the new generation of Vietnamese leaders will seek to reduce their difficulties in order to focus on their domestic problems. The recent changes in Vietnam's leadership gave Chinese a new hope.

A serious suggestion was made to the Soviet Union too. Having taken smartly into account Soviet desire to improve relations with his country, Deng Xiaoping stated that he would be ready to meet Gorbachev if a solid step towards the removal of the three major obstacles in Sino-Soviet relations was taken, particularly if the USSR urges Vietnam to end its aggression in Kampuchea and withdraw its troops from there. So the Kampuchean problem is now officially qualified as "the main obstacle" in Sino-Soviet relations.

The Kampuchean problem is now at an important juncture. Many observers are inclined to perceive some parallels between this problem and the Afghan process. The UN plays a very important and useful role in the latter. Your visit to Beijing will probably show what can be done for the former.

Central America is not a focal point of the PRC foreign policy and the Chinese choose to keep a low profile on the issue. They also prefer not to call names but from time to time they blame the United States for violating the norms of international relations by supplying arms to the anti-government forces in Nicaragua. In its turn, the Chinese government has not provided and does not provide military assistance to Nicaragua.

China always speaks highly of the efforts of the Contadora Group and the Lima Group to promote the peace process in Central America, and pledges its continuing support to the two groups in their endeavours. It holds that it is imperative to respect the sovereignty, independence and territorial integrity of all countries in the region and do away with all external interferences and power politics so that the people of these countries will be able to solve their own problems.

During President Ortega's visit to Beijing in September 1986, the two sides signed agreements on trade, scientific and technological co-operation including a S20 million interest-free loan to Nicaragua.

## II. Co-operation with the United Nations

China's support for the United Nations was always plain and unequivocal. It has invariably abided by the principles of the United Nations Charter and increased step by step its participation in the activities of the Organization as a permanent member of the Security Council in particular.

During the period of the financial crisis of the Organization, the Chinese representatives have tactfully backed up the Secretariat and the Secretary-General, stating that necessary structural reforms should be rational and aimed at strengthening not weakening the role of the Organization.

In response to the Secretary-General's request, China paid its 1987 financial contribution in January.

Here are some latest concrete facts about co-operation between the United Nations and China which you might find useful in the light of your forthcoming trip:

- As of end of 1986 the total amount of the UN bodies commitments in China reached \$460 million since 1979.

- After extensive discussions between UN officials and Chinese leaders, the Second Country Programme (1986-1990), a new product of co-operation with the UNDP started last year. It has five priority areas - human resources development, technical transformation of existing industries, development of advanced technology, improving of living standards and application of information technology. To finance the Second Country Programme which is the largest UNDP technical co-operation project in the world, the UNDP Governing Council approved the budget of \$138,3 million which will be combined with China's cost-sharing contribution.

- Last November the World Food Programme approved a new food-aid project for the PRC. The project was aimed at developing fish-farming in the rural areas of the country. The WFP contributed \$38,3 million for food farmers participating in the project.

- Same month China pledged \$4,02 million and \$190,000 in the national currency to UN development programmes for 1987 and made a voluntary contribution to the UNHCR. The money will be used by 15 UN development agencies with \$2,21 million going to the UNDP and \$550,000 to UNICEF.

- For the first time in its history, the UN Revolving Fund for Natural Resources Exploration has decided to spend \$700,000 for mineral exploring in coastal Fujian Province.

- In 1985-1989 UNICEF plans to grant China \$50 million for 38 projects. While receiving the Fund's donations China has since 1979 contributed \$2,05 million and 260,000 yuan to the Fund and donated \$20,000 to Lebanon through the Fund.

- At the beginning of this year China announced that it would, for the first time, send technical experts to join the UNDP. For years China has been receiving all kinds of technical aid from the UN but had sent only language translators to the Organization. Now, as the country opens to foreign investment, Chinese technicians are becoming more experienced both in skills and in foreign languages so they may qualify as UN workers.

- To respond to the International Year of Shelter for the Homeless designated by the UN for 1987, the Chinese Government plans to build more than 2,7 million flats in urban areas and 600m million square metres of housing in the countryside this year. 50 million people will move into new homes.

- Recently the Chinese press have published for the first time an article on the importance of the two UN covenants on human rights - on economic, social and cultural rights and on civil and political rights. The PRC has not yet signed the covenants though there have been recent indications that it is considering doing so.



## CHINA (III)

### Open-Door Policy

At the end of 1970's the new Chinese leadership came to realize that it was imperative to the country to open to the outside world in order to ensure a sustained and steady growth of the national economy. A number of bold and tradition-breaking measures were decreed. It was the beginning of a new phase in the PRC economic relations with the developed countries.

The main components of China's policy of opening to the outside world (or open-door policy, as it is often called) are the utilization of foreign investments and loans, transfers of modern technology and modern methods of management. It is important to stress that not just any participation of foreign capital is sought but, above all, the introduction of progressive technology in the Chinese economy.

China has concluded long-term trade agreements and established scientific-technological co-operation with virtually all advanced countries. Since 1979 the PRC has been using the following ways of ensuring a steady influx of foreign capital and technology:

- Co-operation involving supplies of know-how and equipment by foreign firms while China provides materials, labour and servicing. Profits are divided according to prior agreements.
- Joint ventures in which foreign firms and China share investments; the amount of the invested capital is decisive for the management of the joint enterprise and for the division of profits.
- Operations of foreign companies in China on the basis of purely foreign capital participation. The first takes all risks but retains all profits.
- Compensation deals under which foreign suppliers of equipment receive payments in products. Foreign partners handle sales of Chinese products abroad.



As an important part of the open-door policy, special economic zones (SEZ) were established - so far four. The purpose is to facilitate effective transfers of foreign technology and absorption of capitals. Basically, capitalist laws of enterprise are applied in these zones. A sharp differentiation of workers' earnings in the SEZ and in Chinese factories causes the danger of social friction and the Chinese authorities make considerable efforts to eliminate the negative political consequences of the SEZ influence. This is why they are trying to isolate these "enclaves of capitalism" from the rest of the country. (It is highly probable that the Chinese will suggest to you to visit briefly a SEZ. I would recommend to accept this suggestion since the experiment is quite interesting. vk)

Between 1979 and 1986 China established more than 7,700 equity joint ventures, contractual joint ventures and wholly foreign-owned enterprises. From 1979 to 1985 medium-and long-term foreign loans totalled \$13,1 billion and direct foreign investments reached \$6.1 billion. In 1986 only the PRC signed foreign loans agreements worth \$6,9 billion. The IMF approved last year a loan of \$717 million to China to help the country pay for imports. (China owes the IMF \$334 million from an earlier loan.)

There are two stock markets in China (Shanghai and Beijing) - another new phenomena in the country. Large state-owned companies issue shares which can be bought freely on the market by companies or individuals.

The open-door policy significantly advances the PRC foreign trade. Its total volume in 1986 was close to \$60 billion with \$5,75 billion deficit. The trade deficit is still heavy but China has succeeded to reduce it by 31.6% last year with tighter import control. The major trade partners of China are Japan, Hongkong, EEC and the United States.

Recently arms became an important item in Chinese export. Last November Premier Zhao Ziyang stated: "China will increase its arms trade with foreign countries." For that purpose China now regularly hosts international military equipment and technology exhibitions. The most advertised equipment for export are fighter aircrafts, attack aircrafts, ocean patrol planes, helicopters and missiles.

Last year the PRC government applied to the GATT Secretariat to resume China's status as a contracting party to the GATT. In accordance with the trade forum application procedures, China presented a month ago a memorandum on its foreign trade and domestic economic activities. The memorandum will be examined by the GATT working group in the nearest future.

It would be, of course, an exaggeration to say that this new policy and economic practices are being implemented smoothly without trouble and complications. The Chinese side is not satisfied with foreign firms' reluctance to export advanced technology to China for fear that the Chinese would copy it. Red tape, bureaucratic practices and inefficiency have brought widespread complaints from foreign businessmen. Doubts about investments in China generally fall into two categories - whether the technical and legal problems can be solved to the satisfaction of both sides and whether the country will stick to its current course.

These misgivings increased after student protests at the end of last year and the resignation of Hu Yaobang, the General Secretary of the CPC, led to the campaign against Western ideas. Now foreign businessmen fear that if the current "anti-bourgeois liberalization" campaign with its anti-Western overtones continues, it may no longer be prudent to maintain large-scale business operations in China. The atmosphere has definitely deteriorated, they say, and it would be foolish for a foreign company to enter into a long-term investment. From the point of view of Western representatives, the political stability was one of the PRC best drawing cards for foreign investment but now it has been thrown into question. To what Westerners consider as the unfavourable business climate, a pessimistic evaluation is added that China's foreign exchange reserves are critically low (\$10,4 billion in 1986 in comparison with \$16,7 billion in 1984). So the general mood of the business community now is downcast.

These trends were noticed in Beijing right away. All influential Chinese leaders are now participating in the counter-campaign trying to assure foreigners that China is still determined to continue its policy of opening to the outside world. Deng Xiaoping puts it straight: "There is no question of retrenching this policy in any aspect. Without the open policy, it will be impossible to invigorate the domestic economy."

On 25 March, in his report on the work of the government to the Fifth session of the Sixth National People's Congress (the PRC Parliament - vk), Premier Zhao Ziyang insisted that China's economic initiatives, intended to infuse the economy with Western management techniques and market mechanisms, would continue, although he acknowledged that some would slow. At the same time, he urged "to eliminate the pernicious influence" of Western ideas in China.

Original Given to Paul  
on 7-4-87.

Angeles

56-2222  
3 April 1987

## CHINA (IV)

### The PRC Relations with the US and the USSR

China officially seeks a position of independence and equidistance between the USSR and the US. Reading Chinese press one may get the impression that sometimes Moscow is treated better than Washington. Current Beijing's attitude towards Gorbachyov's economic reforms and Sino-Soviet exchanges is quite laudatory. The image of the Soviet Union conveyed in China's official media today is dramatically different from a decade ago. In some respects it is more favourable than the official portrayal of the United States.

But in reality, the PRC has a more intimate relationship with the US than with the USSR. In almost every sphere and at every level China continues to manage its relations with the United States in a steady and methodical fashion. Today, these relations are strong and multifaceted. However, they are not without problems, in each of their facets there are obstacles to further progress.

The US and China are pursuing parallel policies with their Pacific Basin neighbours. There is a coincidence of interests in Chinese and American policies toward Japan, Korea, the ASEAN states and Indochina. The exception to this is Taiwan. The Chinese continue to refer to Taiwan as the most important obstacle to further improvement in Sino-American relations. They are not satisfied with current American policy on the reunification of Taiwan with the mainland. Beijing has made what it regards as its most generous offer of terms for reunification. In addition, it has concluded an agreement for the transfer of the sovereignty over Hongkong that is considered a model and a potential incentive for Taiwan. Despite that, Taiwan has refused to enter into negotiations over the question of reunification. Beijing believes that only United States pressure can persuade Taiwan to negotiate. Using a Chinese argument that the Taiwan question is an internal matter, the United States has so far refused to exert pressure on Taiwan. The Chinese side calls this problem a hidden time-bomb in Sino-US relations.

The trade and economic relations between the two countries are expanding rapidly and substantially. In 1986 the Sino-American trade totalled \$6 billion. The amount of American investments in China reached \$2,2 billion last year. But several obstacles lie in the path of the further, more rapid development of US-Chinese economic ties. At the moment, the most important of these obstacles is a sharp drop in Chinese foreign currency reserves. A second obstacle is the fear of United States firms of the political risk involved in investing in China. For their part, the Chinese have expressed dissatisfaction with American hesitation to license generously the sale of advanced technology to China. They also complain that more than 90% of China's total textile goods exported to the US are now subject to restraints. Both sides have failed to reach an agreement on the textile trade dispute.

Cultural relations, especially academic exchanges, are flourishing now. More than 19,000 Chinese students and scholars are currently living and working in the United States. But this relationship too, is not free of problems. One of these is the question of reciprocity. There is an inevitable imbalance in the academic exchanges, given the level of development of American science and the financial resources available to fund exchanges. On the Chinese side, the potential for a "brain drain" is of particular concern. There are no reliable statistics on the number of Chinese scholars and students who have decided not return to the PRC, but the State Education Commission in Beijing regards the problem as potentially serious. Another problem in cultural exchanges is an attitude on the part of some Chinese that these exchanges will have a pernicious effect on China's politics, society and culture. Arguments against "spiritual pollution" have recently resulted as a campaign against "western liberalization".

Perhaps the most significant area of development in the bilateral relations in recent years has been that of military co-operation and arms sales. It was highlighted in 1986 by the American licensing of munitions technology and advanced avionics equipment for sale, frequent exchanges between the defense establishments of the two countries (including Secretary of Defence Weinberger's visit in the fall of 1986), a naval pass exercise in the South China Sea and the call on a Chinese port by the U.S. Navy. But again, several factors militate against further arms sales and the rapid development of security ties between the United States and China. Both believe that Moscow will view closer Sino-American security ties with alarm. Neither side sees an advantage in alienating the Soviet Union. Also important is China's reluctance to become dependent on a foreign supplier for key military hardware.

Secretary of State Shultz's visit to China in the beginning of March demonstrated that both countries are now in a period of good accord. Mr. Shultz was received at the highest levels and with the pomp and hospitality usually accorded a head of state. Chinese and American officials swapped analyses of the international situation, discussed Soviet military presence in Afghanistan, Chinese and American aid to the Afghan guerillas, the Kampuchean problem, US military and technical sales to China and Soviet-American arms negotiations. But divergence in views on some problems of international security and disarmament were not overcome.

Relations between the PRC and the United States are well developed but not without problems. The relationship has become multifaceted embracing foreign policy, trade and investment, security ties and cultural relations. However, each of these facets involves potential stumbling blocks and the existence of these requires careful management from both sides.

The Chinese claim that three obstacles inhibit the normalization of Sino-Soviet relations: the presence of Soviet troops in Afghanistan, Soviet support of the Vietnamese occupation of Kampuchea, the military build-up in Mongolia and the Soviet Far East. In spite of these obstacles, Beijing remains intent upon expanding commercial, scientific and cultural relations with the Soviet Union. Exchange of visits by high-ranking leaders and a marked improvement in the general atmosphere have characterized Sino-Soviet relations over the past two years. At the diplomatic level, the number of contacts have increased substantially. Nine rounds of discussions on improving relations have now been held at the deputy foreign minister level. In February, the bilateral border talks were resumed after a nine-year lapse and both sides said that it was "a good beginning" (the next round of the border negotiations will be held in Beijing around August.)

Trade between the PRC and the USSR has grown rapidly from \$1,2 billion in 1984 to \$2,6 billion in 1986. A notable feature of trade relations has been the renewal of trade linking contiguous regions in China and the Soviet Union. Along 6,000 miles border new trading posts have been opened and the volume of trade has rapidly increased. The forging of these links not only restores long-standing natural trading patterns, but also improves the atmosphere of civility along what was for a long time a tense and incident-prone border. After more than 20 years technical co-operation between the two countries has been resumed. In 1987-90 the Soviet Union will help China to build seven and update technologically 17 industrial projects.

After a lapse of many years, Soviet and Chinese artists, musicians, dancers, athletes, film-makers and others are again performing in one another's country under the terms of cultural co-operation agreements signed by the two governments. Educational exchanges are constantly growing.

In the sphere of strictly bilateral relations there no outstanding conflicts between the two countries. If this assertion is correct, can it be concluded that the Sino-Soviet relations have been normalized? The Chinese reject such an idea: they say that the relationship cannot be normalized so long as the Soviet Union refuses to budge on the three obstacles.

A specific case is the Chinese refusal to re-establish party-to-party relations. Why should the Chinese be so unwilling to resume formal relations with the CPSU? After all, CCP Politburo member Li Peng has already met twice with Gorbachyov; other officials involved in state-to-state relations are, of course, highly placed in their respective parties. The three obstacles have nothing whatsoever to do with party relations. Why, then, should formal party relations be held hostage to significant changes in Soviet foreign policy? This is just because the Chinese leaders, by abstaining from re-establishing relations with the CPSU, want to emphasize their continuing disapproval of Moscow's position on some international problems. Moreover, the core value of political autonomy is symbolically protected by China's refusal to re-establish party links.

While one reflects upon the three obstacles, the key to their meaning may be found in China's overall foreign policy posture, particularly its stance toward the superpowers. The Chinese criticize aspects of both Soviet and American foreign policy even while developing relations with both of them. In the relationship with the United States, the question of Taiwan has both real and symbolic importance; it is the issue Washington and Beijing have failed to resolve. Using a researcher's metaphor, the Taiwan issue is the nuclear control rod that Beijing raises and lowers to regulate the temperature of Sino-American relations. In Sino-Soviet relations, the three obstacles perform an analogous function. When some movements started in the realm of two obstacles (Afghanistan and Mongolia) and Gorbachyov in 1986 offered to expand contacts, Deng Xiaoping was quick to note that the Soviet leader had excluded Indochina from the areas in which the Soviets were prepared to accommodate Chinese interests.



Although the Chinese assert that no progress has been made in political relations between the two countries, this claim cannot be taken seriously. To accept it would be to say that trade, economic assistance, cultural exchanges and tourism have no political meaning, to say nothing of high-level visits and official meetings.

At present, Sino-Soviet relationship exhibits a combination of co-operative and conflictual elements in a balance that neither side has reason to upset. In this sense, the normalization of Sino-Soviet relations has already occurred.



Original given to Paul on 14 April 1987

Yanick

10 April 1987

## CHINA (V)

### On Reforms in China

The problems inherited by China's post-Mao leaders were enormous. After a decade of intense conflict China was still in the midst of an acute political crisis and faced a wide range of chronic economic problems. The economic system was overbureaucratic, insufficient and wasteful. Past growth had been achieved through huge investments which had precluded significant increases in living standards. The economy was plagued by imbalances, bottlenecks and shortages. Although agricultural output had grown, it lagged seriously behind the country's needs. Virtually all consumer goods were in short supply and most were of poor quality. Unemployment was sizable, underemployment was everywhere. China's educational and research institutions were in shambles as a result of the Cultural Revolution; after years of isolation Chinese science and technology had fallen far behind those of advanced nations.

Problems such as these convinced Deng Xiaoping and other reform-minded leaders that what was required was not just minor modification of past policies, but basic systematic reforms. The breakdown of the political system during the Cultural Revolution had weakened resistance to change, making it possible to consider far-reaching political and economic reorganization.

It is interesting to note that, as they have moved in this direction, the PRC leadership have been quite eclectic and experimental. They have borrowed ideas from numerous foreign sources - the major capitalist nations, Eastern Europe and their East Asian neighbours - yet none of their borrowing was mechanical; whatever they have drawn from others' experiences they have modified and adapted. As a result, the mix of policies is distinctive. Attempts to solve some problems have created new ones and each step toward partial reform has demanded additional steps. They have encountered some serious setbacks and failures but the process of reform has continued.

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China's leaders now define their ultimate economic goal as the creation of a new kind of "socialist commodity economy" which can be read to mean a Chinese form of "market socialism." The most important - and difficult - aspect of their efforts to change the system is price reform. Effective price reform is the key to the success of most of the other efforts to reform enterprises and develop markets. The leadership has proceeded cautiously in this area for good reason. Most price changes involve risks of inflation which could not only have a destabilizing economic impact but could also create social unrest. Some of the once centrally controlled prices have been decontrolled; prices of other commodities may float within a range of 20%; the prices of small daily-use articles and fresh foods have been abandoned to the play of market forces; rationing has been ended for most commodities.

In recent years, the Chinese leaders have tried to enhance overall productivity by decentralizing economic decision-making power. They want to encourage lower level, smaller scale units, in particular, those who may be able to make the best use of such autonomy. New rulings have also permitted different forms of ownership; collectively and individually-owned and managed enterprises and commercial concerns are encouraged to compete with state-managed enterprises. Collectives and individuals may lease and even own factories and shops formerly owned by the state.

First steps in the reform were made in the rural area of the country. The household contract responsibility system was introduced, the purchasing price for farm products was substantially raised. The system of monopoly, fixed-quota purchase of farm and sideline products was abolished in favour of the planned contract system. This new policy stimulated the farmers' enthusiasm for production, initiated moves to industrialize and commercialize China's agricultural economy. But the latter is still developing unevenly. Although 94% of the farmers have enough to eat and to wear, the living standards of the other 6%, especially those in west China, is very low. That is about 50-60 million people which is equal to the population of Britain or France.

The urban reform is going in the same direction as the rural one but it started later and in a more cautious manner. For business management, the Government turns more to economic and legal means and less to administrative levers. Enterprises now possess more decision-making power so that they become relatively independent economic entities with full responsibility for their own management, profits and losses. They have been given the status of a legal person.

The economic results of the reforms are impressive (some figures for 1986 will be given at the end of this paper - vk.) But at the same time, the reforms have been accompanied by disquieting side effects that have more than once troubled the Chinese leaders. There has been mass dissatisfaction over wage changes that have not kept pace with inflation set off by reforms (12% in 1985, 6% in 1986); there is abuse of power by officials who have taken advantage of loopholes in the dual price structure. At the last session of the National People's Congress (March-April) the speakers admitted that bribery, tax evasion, speculation, smuggling and other crimes "have reached very serious proportions."

Chinese leaders assert that to consolidate the achievements of the ongoing reform of the economic structure, a political reform is of the utmost importance. This is why after 1978 the reform has been gradually spreading to the political field. The NPC, as the highest organ of state power in China, has enacted a new Constitution and a large number of new laws and decrees. Measures have been taken to abolish life tenure of office for leading officials and to promote competent young people to leadership at various levels. Political power has been restored to the townships which now replace the people's communes. From Beijing's point of view, however, these changes will not be enough to attain its long-term political and economic goals. It is expected that further steps will be taken to separate the functions of the Party from those of the government to reform the system of appointments and perfect the legal system. Administrative structures will be simplified and management streamlined to raise efficiency. According to Deng Xiaoping, the tentative plan for China's political reform will be announced at the 13th National Congress of the CCP scheduled for this autumn.

So far there is no unity among the Chinese leaders about the pace and depth of the reforms. Different approaches to the problem led to the student unrest at the end of 1986, the resignation of Hu Yaobang, General Secretary of the CCP and heir apparent to Deng Xiaoping, and the beginning of "anti-bourgeois liberalization" campaign. For the last two months Western ideas and values have been under relentless attack in China. At least seven newspapers and journals have been shut since January. Most of university and college students must now attend two political classes a week and spend part of their vacations toiling in factories or on farms. Western suits are beginning to lose ground and the so-called "Mao jacket" is back in vogue.

Nevertheless, all these events do not appear to undercut Deng Xiaoping primacy as the guiding force for the party's and the country's fundamental policies.

The next showdown between China's leaders on the reform problem will come at the 13th Party Congress. Virtually every aspect of the PRC modernization drive will be debated in the months ahead until that gathering.

In any case, the Chinese leadership is strongly committed to reforms that will continue "the elimination of the old structures and the building of the new." Problems and setbacks will certainly occur, but this will not necessarily deflect the Chinese leaders from their present course. In fact, the pressure to move further and faster in reform could even increase; many of China's reformers, especially younger ones, recognize that the full benefits of reform cannot be realized unless they are taken even further.

Although it is not yet possible to predict confidently what either the political or economic system will look like after Deng's reform programme has run its course, there is little doubt that the reforms already have begun to transform China in important ways. The key question is how much further this transformation is likely to go in the years ahead.

The reforms are changing profoundly not only the lives of more than 1 billion people but they are apparently altering the PRC relationship with the rest of the world. The Chinese are now trying to normalize and broaden political as well as economic ties with virtually all nations. Beijing has in effect disengaged itself from the strategic superpowers competition and is now attempting to achieve a normalization with Moscow while continuing to improve relations with Washington. So it is reasonable to expect that China is more likely to play a moderate, constructive role in international affairs if it succeeds in its modernisation and reform programmes than if it fails. (One may justifiably guess that the correlation between the reforms and foreign policy will be one of the favourite conversation topics of your Chinese hosts - vk).

#### The PRC economy in 1986

Last year China achieved a 9.2% industrial growth over 1985 - more stabilized and healthier pace in comparison with 18% in 1985. Total agricultural output was 3.5% higher than in the previous year. China harvested 391 million tons of grain in 1986. National income came to 779 billion yuan (\$210 billion), an increase of 7.4%.

The average annual income for 800 million rural population was 424 yuan (\$115) per capita, up from 397 yuan (\$107) in 1985. 5% of the people suffered a drop in real income because prices rose. Most of those affected were teachers or intellectuals.

While wage increases and inefficiency in state-owned enterprises resulted in a budget deficit, China managed to cut its trade deficit although it is still about \$12 billion. The total amount of foreign trade reached \$73.8 billion.