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MEMORANDUM FOR THE VICE PRESIDENT  
THE SECRETARY OF STATE  
THE SECRETARY OF THE TREASURY  
THE SECRETARY OF DEFENSE  
THE SECRETARY OF COMMERCE  
THE DIRECTOR OF CENTRAL INTELLIGENCE  
UNITED STATES TRADE REPRESENTATIVE  
THE CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: U.S. Policy Toward China (S)

We are scheduling a Deputies Committee Meeting for the week of February 22, in preparation for a possible Principals Committee Meeting, to consider specific steps we might take with regard to China. (S)

The objective of this review is to develop broad strategic goals and strategies that will guide our policies toward China. In preparation for the Deputies Committee meeting and a possible Principals meeting, a policy paper should be prepared based on the best current information, addressing the questions listed below. No presumptions should be made about limitations on policy. Possible conflicts among different policy options should be part of the analysis. (S)

## BACKGROUND

As the remaining major communist power and the fastest growing economy in Asia, China presents a number of potential challenges for United States foreign policy. A nuclear armed country of over a billion people with a veto in the UN Security Council, China is in the midst of rapid economic expansion that will greatly enhance its economic and trade position in the years ahead. While we share common economic and strategic interests in some areas, conflicts have continued over the repressive nature of the Chinese political regime, its military modernization program, proliferation practices, and unacceptable economic practices. President Clinton has emphasized that Chinese behavior in these areas affects our relationship and expressed support for conditioning MFN on Chinese progress. (S)

A comprehensive review of U.S. policy toward China should seek ways to address these issues, capitalizing on U.S. leverage and the interest of the Chinese government in good relations with the United States. (S)

PART I: ASSESSMENT

In recent years, China has been going through a political transition. We expect further leadership changes at the March session of the National People's Congress. Additionally, Taiwan is proceeding along its own democratization path and Governor Patten has made democracy proposals for Hong Kong which have upset Beijing. (S)

- As Deng Xiaoping and other elderly leaders play less of a role in the political process, what direction will China's political evolution take? (S)
- Who are likely to emerge as the new leaders? (S)
- How will the regime's program of economic reform progress and how will it affect its monopoly on political power? (S)
- What effect will leadership changes have on Chinese attitudes toward the United States? (S)
- How are China's policies toward Hong Kong and Taiwan likely to evolve and what are the implications for U.S. economic and strategic interests? For the promotion of democracy? (S)
- What is the future of Taiwan democratization and its impact on the one China policy? (S)
- What is the impact of the Hong Kong democracy proposals? How is this best handled? (S)

Despite its rapid economic modernization, China's government remains opposed to political reform and democratization. It has refused to account for those arrested or killed during the Tiananmen Square clashes in 1989; it continues to imprison people for the peaceful expression of their political or religious views; its rule in Tibet is harsh; and it violates basic human rights in other areas. (S)

- What sanctions imposed after Tiananmen Square remain in effect? Which ones are most effective? (S)
- What progress has been made in political reform since June 1989? What are the current estimates of political prisoners, including students involved in Tiananmen? (S)
- Which approaches are most effective in bringing about progress in these areas? The Japanese believe that with continued economic liberalization in China, democratization will follow. Has this pattern been demonstrated elsewhere in Asia? Has it been effective? (S)

- What can the U.S. do to encourage peaceful reform in China's political system which would permit greater participation, the free expression of opinion and a relaxation of political controls? (S)
- What are the prospects for Tibet? (S)

As a result of market-oriented reforms, China's domestic economy and trade with the world has expanded rapidly. China is now our fifth largest supplier of imports and our seventh largest trading partner. China is also the source of our second largest bilateral trade deficit, reaching close to \$19 billion in 1992. China has agreed to reform its trade regime by protecting intellectual property rights, improving market access and preventing exports of products made by prison labor and by adhering to GATT rules through accession. Nonetheless, unfair trade practices still exist. (S)

- What are our economic objectives in China? How effective has our current strategy been in achieving them? (C)
- How will China's expanding economic relations with Japan and other East Asian countries affect U.S. economic and strategic interests? (C)
- What are the prospects for continued market-oriented economic reforms and what effects will these reforms have on economic relations? China's GATT accession? (C)

MFN is the core of our economic relationship with China. Following the Cold War, many would argue that MFN is currently the glue that binds the overall relationship. Since Tiananmen, conditioning MFN on Chinese democracy/human rights progress is viewed as an effective tool for inducing change. Debate over renewal of MFN raises questions about whether it can/should remain the focus of our relationship. (S)

- What would be the impact on U.S. economic and other foreign policy interests were we forced to withdraw MFN status? Particularly, what would be the impact of this on the economies of Hong Kong and Taiwan? (C)
- What sectors of the U.S. economy might be most adversely affected? (S)
- If conditions were imposed on renewal of MFN along the Pelosi/Mitchell approach, would the Chinese meet them? How far is China from the conditions now, including the POW issue? (S)
- What are the implications of Chinese GATT accession for Jackson-Vanik's requirement of conditional MFN? (S)

Spurred by the financial demands of its modernization program, China's military has looked toward arms exports as a means of financing weapons development. China has shown a willingness to

sell conventional weapons and dangerous technologies to unsavory regimes such as those in Iran and Libya. Its long-standing nuclear and missile cooperation with Pakistan has also been of concern. By signing the Nuclear Nonproliferation Treaty and Chemical Weapons Convention and by adhering to the Missile Technology Control Regime, China has committed itself to curb proliferation practices. (S)

- What is the Chinese record with respect to commitments? List violations. Which entities have been supplying? (S)
- How do we persuade China to abide strictly to its nonproliferation commitments? (S)
- Can we encourage China to adopt full-scope safeguards for nuclear sales and to follow or join other control regimes? (S)

As a permanent member of the UN Security Council, China has voted with the U.S. on critical votes on collective security and UN sanctions. Similarly, China has acted responsibly in the region by opposing North Korean nuclearization and supporting the Cambodian peace process. These actions -- taken in contravention of historical Chinese positions -- have generally served U.S. interests, but have not reached the stage where China can be considered a supporting partner in shaping a post-Cold War order. (S)

- Where has China been helpful? Not helpful? Is it still helping Khmer Rouge? (S)
- What areas should we watch Chinese behavior most closely? What is its record at the UN? What is its position toward Bosnia, Iraq and Somalia? (S)
- Will the Chinese seek an increasingly multi-polar world to set itself up as a rallying point in the UN and in Asia for opposition to U.S. interests? (S)
- To what extent does our economic and political relationship provide leverage to encourage more cooperative actions? (S)

## PART II: OPTIONS FOR POLICY

- What are the objectives of U.S. policy toward China? (S)
- What are the policy tools to bring about these interests? (C)
- How can the U.S. use the tools to influence China's behavior in these spheres:
  - Political? (S)
  - Trade? (S)
  - Military/Strategic? (S)

- Human Rights and Democracy? (S)
- What are the trade-offs between U.S. interests in these four areas? (S)
- What are the trade-offs between other Asian relationships? (S)
- How should the renewal of MFN in June be handled? (S)
- How should we expand ties to the democracy movement? (S)
- What is our assessment of Radio Asia (which the President has endorsed) and its impact on achieving objectives in China? (S)
- What is the likely reaction to various policy options from interested actors in the Congress, the private sector, and among our principal allies? (S)

PART III: TASKING

- The Assistant Secretary of State for East Asian and Pacific Affairs shall convene an Interagency Working Group, task specific drafting responsibilities, and set deadlines for drafts. (S)
- Should there be differences of opinion, they shall be clearly stated rather than compromised for the sake of an agreed product. (U)
- A final paper is due to the NSC Executive Secretary not later than February 19, 1993. (S)



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