

Originally Processed With FOIA(s):
2009-0275-S

FOIA Number:
2009-0275-S

FOIA MARKER

**This is not a textual record. This is used as an
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Library Staff.**

Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Scowcroft, Brent, Collection
Series: China Chronological Files
Subseries: Non-Tiananmen Files

OA/ID Number: 91134
Folder ID Number: 91134-003

Folder Title:
China: Non-Tiananmen (January - April 1990)

Stack:	Row:	Section:	Shelf:	Position:
G	34	3	4	6

Withdrawal/Redaction Sheet

(George Bush Library)

Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01. Memo	Timothy E. Deal to Brent Scowcroft Re: World Bank Loans to China (1 pp.)	1/30/90	(b)(1)	C
02a. Memo	Karl D. Jackson to Brent Scowcroft Re: Kaifu Letter and Japanese Non-Paper on China (1 pp.)	1/4/90	(b)(1)	S
02b. Memo	From Brent Scowcroft to POTUS, Re: Letter from Prime Minister Kaifu on Japan-China Relations [FOIA restrictions redacted] (2 pp.)	n.d.	(b)(1)	S
02c. Letter	Prime Minister Kaifu to President Bush (3 pp.)	1/4/90	(b)(1)	
02d. Non-Paper	Re: Policy Toward China (3 pp.)	n.d.	(b)(1)	S
03a. Memo	Douglas Paal to Brent Scowcroft Re: Your Meeting Today with Chinese Ambassador Zhu Qizhen (1 pp.)	1/31/90	(b)(1)	S
03b. Talking Points	Re: Points To Be Made for Meeting with Chinese Ambassador Zhu Qizhen (2 pp.)	n.d.	(b)(1)	S
04a. Memo	Brent Scowcroft to POTUS Re: U.S. -China Relations: Roadmap for the Weeks Ahead (2 pp.)	2/8/90	(b)(1)	S

Page 1 of 2

Collection:

Record Group: Bush Presidential Records
Office: Scowcroft, Brent, Files
Series: China Chronological Files
Subseries: Non-Tiananmen Files
WHORM Cat.:
File Location: China: Non-Tiananmen (January - April 1990)

Pinksheet Number: cap1115
OA/ID Number: 91134-003
Date Closed: 5/1/2009
FOIA/Sys Case #: 2009-0275-S
Re-review Case #:
P-2/P-5 Review Case #:

Withdrawal/Redaction Sheet

(George Bush Library)

Doc. No. / Type	Subject/Title	Date	Restriction	Classification
04b. Memo	Diane G. Ross to Distribution List Re: Action Taken 2/8 (1 pp.)	2/8/90	(b)(1)	C
04c. Memo	Douglas Paal Brent Scowcroft Re: Roadmap on China Policy for the Weeks Ahead (1 pp.)	2/5/90	(b)(1)	S
05a. Memo	Meg Lundsager to Brent Scowcroft Re: Letter to Secretary Brady on G-7 Consensus on World Bank Lending to China (1 pp.)	4/5/90	(b)(1)	C
05b. Draft Letter	Brent Scowcroft to Nicholas F. Brady (2 pp.)	n.d.	(b)(1)	C
06a. Memo	Douglas Paal to Brent Scowcroft Re: China -- Game Plan for MFN (1 pp.)	4/9/90	(b)(1)	S
06b. Memo	Brent Scowcroft to POTUS Re: China -- Game Plan for MFN (5 pp.)	n.d.	(b)(1)	S
06c. Memo	Douglas Paal to Brent Scowcroft Re: China -- Game Plan for MFN (1 pp.)	4/2/90	(b)(1)	S
06d. Memo	Brent Scowcroft to POTUS Re: China -- Game Plan for MFN (6 pp.)	n.d.	(b)(1)	S

Page 2 of 2

Collection:

Record Group: Bush Presidential Records
Office: Scowcroft, Brent, Files
Series: China Chronological Files
Subseries: Non-Tiananmen Files
WHORM Cat.:
File Location: China: Non-Tiananmen (January - April 1990)

Pinksheet Number: cap1115
OA/ID Number: 91134-003
Date Closed: 5/1/2009
FOIA/Sys Case #: 2009-0275-S
Re-review Case #:
P-2/P-5 Review Case #:

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

0736

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

~~CONFIDENTIAL~~

January 30, 1990

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

Natl Sec Advisor
has seen

FROM: TIMOTHY E. DEAL *te*
SUBJECT: World Bank Loans to China

David Mulford told me this morning that World Bank Executive Directors (EDs) of the G-7 met last night to consider their reaction to Barber Conable's plan to bring both the earthquake and agricultural loans for China before the World Bank board in mid-February. You will recall the interagency understanding that the U.S. would support the earthquake loan at the mid-February meeting and probably also give our approval to the agricultural loan if it were not brought before the board until the end of February. Despite requests to Conable that he proceed with caution, Conable circulated loan documents for both the earthquake and agricultural loans on January 26.

The G-7 EDs propose to tell Conable tomorrow (January 31) that their governments will vote no on the agricultural loan if he brings it before the board now. They hope in this way to force Conable to withdraw temporarily the agricultural loan from consideration, since the combined vote of the G-7 would be enough to block it, and in the process give Conable a message that he cannot act with impunity on matters of major political and economic concern to the major creditors.

Mulford would like your concurrence to join the other G-7 members in taking the position outlined above. He is contacting Bob Zoellick as well to ensure that State backs this approach.

I recommend that we support the proposed G-7 approach.

Concurrence by: Douglas *Phan*

RECOMMENDATION:

That you authorize me to inform Mulford that you concur in the proposed G-7 approach to approve the earthquake loan but vote no on the agricultural loan if brought before the board in mid-February.

Approve _____

Disapprove _____

*Let the others
do it.*

~~CONFIDENTIAL~~

Declassify on: OADR

~~CONFIDENTIAL~~

DECLASSIFIED
PER E.O. 12958,
AS AMENDED
2000-0116-F13
E1 3/22/10

**National Security Council
The White House**

PROOFED BY: _____

LOG # 0736

URGENT NOT PROOFED: ✓

SYSTEM PR5 NSC INT

BYPASSED WW DESK: _____

DOCLOG AC A/O _____

	SEQUENCE TO	HAS SEEN	DISPOSITION
Dep Exec <u>1</u>	<u>1</u>	<u>W</u>	<u>A</u>
Philip Hughes	_____	_____	_____
Bob Gates	<u>✓</u>	<u>APNSA Has Seen</u>	
Brent Scowcroft	<u>3</u>	_____	_____
Philip Hughes	_____	<u>spk</u>	_____
Situation Room	_____	_____	_____
West Wing Desk	<u>4</u>	_____	<u>2</u>
NSC Secretariat	<u>5</u>	_____	<u>2</u>
_____	_____	_____	_____
_____	_____	_____	_____

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

cc: VP Sununu Other _____

Should be seen by: _____
(Date/Time)

COMMENTS

~~SECRET~~
NSC/S PROFILE

RECORD ID: 9000070
RECEIVED: 04 JAN 90 14

CHRON FILE

TO: SCOWCROFT

FROM: JACKSON

DOC DATE: 04 JAN 90
SOURCE REF:

KEYWORDS: JAPAN
HS

CHINA P R

PERSONS: KAIFU, TOSHIKI

SUBJECT: KAIFU LTR & JAPANESE NON PAPER RE CHINA

ACTION: SCOWCROFT APPROVED RECOM DUE DATE: 08 JAN 90 STATUS: C

STAFF OFFICER: JACKSON

LOGREF:

FILES: PA

NSCP:

CODES:

DOCUMENT DISTRIBUTION

FOR ACTION

FOR CONCURRENCE

FOR INFO
JACKSON

DECLASSIFIED
White House Guidelines
E.O. 12958, SEC 3.4 (B) September 11, 2006
By Cop NARA, Date 5/1/09

COMMENTS: _____

DISPATCHED BY _____ DATE _____ BY HAND W/ATTCH

OPENED BY: NSAMM

CLOSED BY: NSAMM

DOC 1 OF 1

~~SECRET~~

~~SECRET~~

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

~~SECRET~~

0070

January 4, 1990

*No non-paper.
I can do it.
Orally with
the chair.
JD*

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

FROM: *JD* KARL D. JACKSON

SUBJECT: Kaifu Letter and Japanese Non-Paper on China

This morning Ambassador Murata delivered a letter for the President from Prime Minister Kaifu. He left a classified non-paper on Japan-China relations. He also requested a meeting with you to discuss this issue.

At Tab A you will find a Memorandum to the President transmitting the letter and non-paper, which are attached at Tab B. It recommends that we go back to Kaifu immediately to restrain Japan from getting out in front of us on economic normalization.

RECOMMENDATION:

That you forward Prime Minister Kaifu's letter to the President.

Approve _____ Disapprove _____

That you agree to meet with Ambassador Murata as soon as possible, to urge the Japanese not to move at this time.

Approve ☒ _____ Disapprove _____

7:10/12 11:00 AM

Attachments

Tab A Memorandum to the President
Tab B Letter to the President w/non-paper

~~SECRET~~

Declassify on: OADR

~~SECRET~~

DECLASSIFIED
PER E.O. 13526

2009-1152-MR
5/21/2014 MM

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02b. Memo	From Brent Scowcroft to POTUS, Re: Letter from Prime Minister Kaifu on Japan-China Relations [FOIA restrictions redacted] (2 pp.)	n.d.	(b)(1)	S

Collection:

Record Group: Bush Presidential Records

Office: Scowcroft, Brent, Files

Series: China Chronological Files

Subseries: Non-Tiananmen Files

WHORM Cat.:

File Location: China: Non-Tiananmen (January - April 1990)

Document Partially Declassified
(Copy of Document Follows)
 By MM on 3/13/2023

Date Closed:	5/1/2009	OA/ID Number:	91134-003
FOIA/SYS Case #:	2009-0275-S	Appeal Case #:	
Re-review Case #:		Appeal Disposition:	
P-2/P-5 Review Case #:		Disposition Date:	
AR Case #:		MR Case #:	2009-1152-MR(505.01)
AR Disposition:		MR Disposition:	Released in Part
AR Disposition Date:		MR Disposition Date:	4/26/2016

RESTRICTION CODES

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

- (b)(1) National security classified information
- (b)(2) Release would disclose internal personnel rules and practices of an agency
- (b)(3) Release would violate a Federal statute
- (b)(4) Release would disclose trade secrets or confidential or financial information
- (b)(6) Release would constitute a clearly unwarranted invasion of personal privacy
- (b)(7) Release would disclose information compiled for law enforcement purposes
- (b)(8) Release would disclose information concerning the regulation of financial institutions
- (b)(9) Release would disclose geological or geophysical information concerning wells

Deed of Gift Restrictions

- C(1) Closed by Executive Order 13526, governing access to national security information
- C(2) Closed by statute or by the agency which originated the information
- C(3) Closed in accordance with restrictions contained in donor's deed of gift [formerly listed as only C]
- PRM. Removed as a personal record misfile

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

- P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]

~~SECRET~~

~~SECRET~~

THE WHITE HOUSE
WASHINGTON

0070



ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: Letter from Prime Minister Kaifu on Japan-China
Relations

Purpose

To alert you to Japan's intention to move toward economic normalization with China in the near term.

Background

Ambassador Murata delivered the Prime Minister's letter to the State Department this morning. The letter itself describes his forthcoming trip to Europe, expresses his concern that Japan has "yet to witness meaningful manifestations of its [Soviet] 'new thinking' in the Asia-Pacific region," and outlines Kaifu's views on the need to improve relations with China.

Significantly, China is the only subject of the non-paper, and it
3.3(b)(1); 3.3(b)(6) Japan will invite State Counselor and Minister of the State Planning Commission Zou Jiahua to visit Japan in January. While refraining from offering new projects, the GOJ will send its Director General of the Economic Cooperation Bureau to China in mid-January to elicit "positive signals from China." GOJ will begin "very preliminary work" on the Third Series of Yen Loans, and also embark on consultations regarding grant aid in February. In delivering the letter to Under Secretary Kimmitt, Ambassador Murata indicated that Japan would consider World Bank loans to China on a case-by-case basis, but believed that we should consider re-opening the World Bank to China for loans targeted on basic human needs.

RECOMMENDATION

That we forward a non-paper back to Japan endorsing Kaifu's long-term goals, but indicating that sending officials to China to discuss Yen loans and grant aid this month would take the

cc: Vice President
Chief of Staff

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Declassify on: OADR

DECLASSIFIED IN PART
PER E.O. 13526

2009-1152-MA

MM 4/26/2016

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~~SECRET~~

2

pressure off at precisely the time when China might be making meaningful concessions that would allow the U.S. and Japan to respond simultaneously and in a positive manner. The non-paper should also mention the danger to U.S.-Japan relations implied by Japan getting out in front of the U.S. with regard to normalizing economic relations; such moves would inevitably receive negative coverage in the U.S. press. Instead, quiet but close consultation should take place between the U.S. and Japan (through the Scowcroft-Murata channel) to insure simultaneity in economic normalization with China.

Approve _____

Disapprove _____

~~SECRET~~

EMBASSY OF JAPAN
WASHINGTON, D. C.

January 4, 1990

Dear Mr. President:

I have the honor to transmit to you, enclosed herewith, a letter from Mr. Toshiki Kaifu, Prime Minister of Japan.

Allow me to extend my warmest regards.

Respectfully yours,

A handwritten signature in dark ink, appearing to read "Ryohei Murata". The signature is fluid and cursive, with the first name "Ryohei" and last name "Murata" clearly distinguishable.

Ryohei Murata
Ambassador of Japan

The President
The White House
Washington, D. C. 20500

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02c. Letter	Prime Minister Kaifu to President Bush (3 pp.)	1/4/90	(b)(1)	

Collection:

Record Group: Bush Presidential Records
Office: Scowcroft, Brent, Collection
Series: China Chronological Files
Subseries: Non-Tiananmen Files
WHORM Cat.:
File Location: China: Non-Tiananmen (January - April 1990)

Date Closed:	5/1/2009	OA/ID Number:	91134-003
FOIA/SYS Case #:	2009-0275-S	Appeal Case #:	
Re-review Case #:		Appeal Disposition:	
P-2/P-5 Review Case #:		Disposition Date:	
AR Case #:		MR Case #:	
AR Disposition:		MR Disposition:	
AR Disposition Date:		MR Disposition Date:	

RESTRICTION CODES

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P-1 National Security Classified Information [(a)(1) of the PRA]
 P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
 P-3 Release would violate a Federal statute [(a)(3) of the PRA]
 P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

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

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

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02d. Non-Paper	Re: Policy Toward China (3 pp.)	n.d.	(b)(1)	S

Collection:

Record Group: Bush Presidential Records
Office: Scowcroft, Brent, Collection
Series: China Chronological Files
Subseries: Non-Tiananmen Files
WHORM Cat.:
File Location: China: Non-Tiananmen (January - April 1990)

Date Closed:	5/1/2009	OA/ID Number:	91134-003
FOIA/SYS Case #:	2009-0275-S	Appeal Case #:	
Re-review Case #:		Appeal Disposition:	
P-2/P-5 Review Case #:		Disposition Date:	
AR Case #:		MR Case #:	
AR Disposition:		MR Disposition:	
AR Disposition Date:		MR Disposition Date:	

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 (b)(9) Release would disclose geological or geophysical information

~~SECRET~~

~~SECRET~~

792

4

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

January 31, 1990

CHRON FILE

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: KARL JACKSON *KJS*

FROM: DOUGLAS PAAL *DP*

SUBJECT: Your Meeting Today with Chinese Ambassador Zhu
Qizhen

DECLASSIFIED
PER E.O. 13526

2010-2785-MR

3L 10/10/12

Natl Sec Advisor
has seen

I learned informally that Zhu is calling on you under instructions. He will discuss where we are now and what is to be done next in U.S.-China relations. The message is said to be "quite encouraging." Given our recent experience, you might want to keep your enthusiasm for this meeting in check until we hear what he has.

Naturally, it will be appropriate to reiterate our desire to see Fang released, especially with the upcoming report to Congress on human rights in China and U.N. Human Rights Commission meeting on the same subject. I will work separately with State to get new instructions on Fang to Jim Lilley, so that he can take the new material from Fang to the Chinese. It is our turn to respond to their stiffened conditions for release.

Zhu may ask whether the President plans a signing statement for the State Department Authorization Bill. He would probably like something said to distance the President from the sanctions. I do not know your thinking on this. If there is to be a statement, my idea would be to have the President express his appreciation to the Congress for the flexibility given him in the "national interest" waiver authority, and nothing more.

I recommend that you hear Zhu out, then foreshadow some of the problem areas immediately ahead, urge Fang's early release and broader measures of leniency, and bring up the need for China to join the next Perm Five meeting on Cambodia, which Beijing seems to be trying to avoid. Points to be made are at Tab A.

RECOMMENDATION

That you use the points to be made at Tab A.

Approve _____

Disapprove _____

Attachment

Tab A Points to be made

~~SECRET~~

Declassify on: OADR

~~SECRET~~

POINTS TO BE MADE FOR MEETING WITH
CHINESE AMBASSADOR ZHU QIZHEN

- I recognize that the Chinese side is eager to see greater movement in the World Bank and toward normalization of our relations.
- We have taken steps fully in keeping with our representations to you on your package proposal last December. I believe more comprehensive movement by China on the release of detainees and data concerning those arrested and imprisoned will facilitate more comprehensive movement by the World Bank.
- I reiterate that even with the President's success with his veto of the Pelosi Bill -- which was politically very costly -- it is important that our people in Beijing make progress soon on the release of the Fang Lizhi family.
- You are surely aware of our requirement to report to Congress soon on the human rights situation in China. You must also be aware of the upcoming United Nations human rights meeting. Fang's release will undoubtedly help offset the impact of these two coming events.
- Next month we will also face important discussions with you on the FMS programs. This is an extremely sensitive area in which to move in the current atmosphere. More comprehensive efforts by China and the release of the Fang family will affect this atmosphere.

~~SECRET~~

~~SECRET~~

2

- We will soon send Ambassador Lilley to talk again with Vice Foreign Minister Liu and urge rapid movement.
- (If asked about a signing statement) We do not plan a statement now; the President has established his position on China policy. Further attention to it in connection with this bill will not help. Nonetheless, I will take what you have to say into consideration.
- Cambodia I hope Vice Foreign Minister Xu will be able to join Perm Five discussions in New York on February 5 - 6 or 6 - 7. Attention continues to build in this country on the need for progress toward a settlement. It will not help if China is perceived as obstructing progress.

~~SECRET~~

~~SECRET~~

**National Security Council
The White House**

PROOFED BY: 24 LOG # 0792
 URGENT NOT PROOFED: _____ SYSTEM PRS NSC INT
 BYPASSED WW DESK: _____ DOCLOG 24 A/O _____

	SEQUENCE TO	HAS SEEN	DISPOSITION
Dep Exec	<u>1</u>	<u>W</u>	<u>A</u>
Philip Hughes	<u>2</u>	<u>APB</u>	
Bob Gates	<u>3</u>		
Brent Scowcroft	<u>4</u>	<u>✓</u>	
Philip Hughes			
Situation Room			
West Wing Desk	<u>5</u>		<u>N</u>
NSC Secretariat	<u>6</u>		<u>AD</u>
_____	_____	_____	_____
_____	_____	_____	_____

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

cc: VP Sununu Other _____

Should be seen by: _____
 (Date/Time)

COMMENTS

*Scowcroft mtg w
Zhu, 1/31, 4:30*

~~SECRET~~
NSC/S PROFILE

RECORD ID: 9000898
RECEIVED: 05 FEB 90 08

CHRON FILE

TO: PRESIDENT

FROM: SCOWCROFT

DOC DATE: 08 FEB 90
SOURCE REF:

KEYWORDS: CHINA P R

USSR

PERSONS:

SUBJECT: US / CHINA RELATIONS / ROADMAP FOR WEEKS AHEAD

ACTION: NOTED BY PRES

DUE DATE: 08 FEB 90

STATUS: C

STAFF OFFICER: PAAL

LOGREF:

FILES: PA

NSCP:

CODES:

D O C U M E N T D I S T R I B U T I O N

FOR ACTION

FOR CONCURRENCE

FOR INFO

DEAL

DYKE

JACKSON

PAAL

DECLASSIFIED

White House Guidelines

E.O. 12958, SEC 3.4 (B) September 11, 2006

By Caf NARA, Date 5/1/09

COMMENTS: _____

DISPATCHED BY _____ DATE _____ BY HAND _____ W/ATTCH _____

OPENED BY: NSMEN

CLOSED BY: NSAMM

DOC 2 OF 2

~~SECRET~~

~~SECRET~~

THE PRESIDENT HAS SEEN
- 1990

THE WHITE HOUSE
WASHINGTON

~~SECRET~~

NOTED

0898

*Brent
good
paper.
I agree with
approach*

February 8, 1990

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT *B*

SUBJECT: U.S.-China Relations: Roadmap for the Weeks Ahead

It is becoming increasingly clear that the progress we hoped to set in train with my visit to Beijing in December was delayed and limited by China's reaction to the fall of Ceausescu. It is likely to be further delayed and limited by heightened factional infighting during the run-up to China's National People's Congress (NPC) in March. The events in Moscow this week will cause China to brace even more.

Since we gave ammunition to China's reformers for good relations with us through my visit, your actions on Ex-Im and the satellites, and -- most importantly -- defeat of the Pelosi Bill override, the Chinese response to our demands has been modest. Li Peng and the dogmatic faction have successfully used fear of internal unrest and traditional xenophobia to force compromises that produced minimal Chinese action and maximum demands on us.

Now that the Chinese leadership has entered the period leading up to formal consideration of personnel changes (this does not necessarily mean there will be significant changes in the end), the prospect of moderate Chinese behavior is reduced until after the NPC. Deng Xiaoping cannot be expected to expend his political capital on foreign policy niceties when he is fighting to rescue his legacy and reputation. The nasty Chinese statements prior to the Pelosi vote and just after the Senate passed the State Authorization Bill sanctions are signs of the times. They should be viewed primarily as for domestic consumption.

How should we behave? For the next six weeks or so, we should take a step back from China-related issues. In view of earlier commitments, we will need to insure that World Bank lending for basic human needs slowly resumes. This is a gesture proportionate to China's very limited relaxation of martial law and grant of leniency. I will also recommend that you endorse a statement at the time you sign the State Authorization Bill, arguing generally against Congress' practice of legislating sanctions. Such a statement will respond minimally to China's request for a signing statement separating the Administration from the sanctions.

cc: Vice President
Chief of Staff

~~SECRET~~

Declassify on: OADR

~~SECRET~~

DECLASSIFIED
PER E.O. 13526
2010-2785-MR
31 10/10/12

~~SECRET~~

At the same time, we need to take actions that help to discipline U.S.-China relations. Simply put, Li Peng and those Chinese who apparently believe that they can take a tough stance and we will come crawling back need to know that this is not the case. Their adversaries will want us to teach this lesson.

Your decision to order the divestiture of Mamco, the release of a strong but straightforward human rights report, and a U.S. vote with the consensus resolution in the U.N. on human rights in China will demonstrate to the hardliners that the U.S. is not desperate to restore relations, and that we have our requirements, too.

One additional step we will be considering is how to respond to Taiwan's application to join the GATT. On economic grounds, Taiwan deserves to be in the organization. We probably can find a means of acquiescing to a GATT consensus that Taiwan join, while adhering to our commitments in the three communiques with China. Congress is moving to support this. A small signal at the end of the month that the U.S. will join the consensus would be a sharp reminder to Beijing of its increasing isolation and the need to accommodate us. I am not asking you to endorse this option yet, however, because the details need close review beforehand. ✓

This overall approach should help to rebuild support in this country for a constructive China policy. It should also help us as we prepare to enter another very tough round of talks on the FMS "Peace Pearl" program at the end of February.

Naturally, gratuitous shots at the Chinese are not called for and could have some negative effect on the politics there prior to the NPC. But a low-key, steady approach that shows we have our limits yet are willing to push ahead in a measured way should work to the advantage of better U.S.-China relations in the long run.

~~SECRET~~

NATIONAL SECURITY COUNCIL

08-Feb-1990 15:47 EDT

~~CONFIDENTIAL~~

MEMORANDUM FOR: SEE BELOW

FROM: Diane G. Ross
(ROSSDG)

SUBJECT: Action Taken 2/8

Florence called down to let us know that the General has taken action on the following items:

- 1) #0898 - ROADMAP ON CHINA POLICY FOR WEEKS AHEAD
The General has given this package to the President
- 2) #0731 - BACKGROUND INFORMATION REGARDING USSR SHIPMENT OS MIG-29S
The General has noted with the following comment: "O.K."
- 3) #0504 - PROPOSED SECDEF VISIT TO POLAND & SOVIET UNION IN JULY/CROSSHATCH
The General has disapproved the recommendation.

The originals will be forwarded upon the General's return. That's it for now folks!

Distribution:

FOR: Entell Ford	(FORD)
FOR: Anita J. Craig	(CRAIG)
FOR: Carol D. Mitchell	(MITCHELL)
CC: Barbara Browne	(BROWNE)
CC: Brenda I. Hilliard	(HILLIARD)
CC: Wendy E. Gray	(GRAY)
CC: Diane G. Ross	(ROSSDG)
CC: Cathy Millison	(MILLISON)
CC: G. Philip Hughes	(HUGHES)
CC: William F. Sittmann	(SITTMANN)
CC: Florence E. Gantt	(GANTT)
CC: Diane L. Edwards	(EDWARDS)
CC: Wilma G. Hall	(HALL)

DECLASSIFIED
PER E.O. 12958,
AS AMENDED
2000-0116-F13
01 12/13/06

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~~SECRET~~

0898

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

February 5, 1990

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: KARL JACKSON *ZSJ*

FROM: DOUGLAS PAAL *DP*

SUBJECT: Roadmap on China Policy for the Weeks Ahead

At Tab I is an information memorandum for the President setting forth an approach to China policy through the ups and downs in U.S.-China relations we should expect through the end of March.

Concurrence by: *DP*, *Dyke*.

RECOMMENDATION

That you sign the memorandum for the President at Tab I.

Attachment

Tab I Scowcroft/President memo

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Declassify on: OADR

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DECLASSIFIED
PER E.O. 12958,
AS AMENDED
2000-0116-F13
① 12/13/00

~~CONFIDENTIAL~~

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NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

April 5, 1990



*Not necessary
Done verbally*
Nat Sec Advisor
has seen

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: TIMOTHY E. DEAL *TD*

FROM: MEG LUNDSAGER *ML*

SUBJECT: Letter to Secretary Brady on G-7 Consensus on
World Bank Lending to China

Attached at Tab A is a letter for your signature to Secretary Brady, asking him to raise World Bank lending to China at his G-7 Ministerial meeting this Saturday. Indications are that several G-7 countries are wavering in their commitment to limit World Bank lending solely to basic human needs (BHN). Secretary Brady's meeting presents an excellent opportunity to renew that G-7 consensus.

We should send this letter to Secretary Brady by noon Thursday. He is leaving later that afternoon for Paris.

Concurrence by: Doug Paal *DP*

RECOMMENDATION

That you sign the letter to Secretary Brady at Tab A.

Attachment

Tab A Letter to Secretary Brady

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Declassify on: OADR

~~CONFIDENTIAL~~

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PER E.O. 12958,
AS AMENDED
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21 3/22/10

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~~CONFIDENTIAL~~

THE WHITE HOUSE
WASHINGTON

Dear Nick:

As you know, the G-7 countries have been successful to date in limiting World Bank lending to China to loans which address basic human needs (BHN). That consensus may now be wavering, and I would like to ask that you raise this issue at your Ministerial meeting on Saturday, in order to reaffirm G-7 unity on this important issue. (C)

My fear that we may be losing that consensus stems from several recent developments. World Bank President Conable has told the press and Hill staffers that the Bank will soon resume normal lending to China. A senior Chinese finance official told State Department officials that Conable down-played the importance of BHN criteria for China during a recent meeting in Washington. Also, the EC Ambassador to Beijing told U.S. officials that EC attitudes on Chinese sanctions are softening. He expected Italy to push for economic normalization with China when it assumes the EC Presidency in July. (C)

In addition, a UK foreign affairs official told the State Department that the UK was also interested in "getting back to business with China" because of Hong Kong concerns. Finally, World Bank Senior Vice President Qureshi is now in China and meeting with the top Chinese leadership. The Chinese can be expected to try to impress Qureshi with glowing reports of their economic achievements and strong statements about China's commitment to policy reform, despite recent indications that the Chinese are exercising even more control over economic activity. (C)

For reasons with which you are very familiar, I believe we should maintain our G-7 consensus on limiting Bank lending strictly to BHN loans. World Bank lending is presently our most important leverage for prodding China towards political and economic reforms. As you know, if we lose just one G-7 member, we lose our 51% vote needed to block non-BHN loans at the Bank. And as House Foreign Operations Subcommittee Chairman David Obey said to you, Congress would find it impossible to go forward with International Development Association (IDA) funding if the World Bank group resumes normal lending to China. (C)

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PER E.O. 13526

2009-1152-MR
5/21/2014 MM

~~CONFIDENTIAL~~

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Nick, I know you share all these concerns. I hope that this weekend you will be able to reaffirm the G-7 commitment to our strategy for pursuing political and economic reform in China. (C)

Sincerely,

Brent Scowcroft

The Honorable Nicholas F. Brady
Secretary of the Treasury
Washington, D.C. 20220

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

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NSC/S PROFILE

RECORD ID: 9002505
RECEIVED: 02 APR 90 09

74

TO: SCOWCROFT

CHRON FILE

FROM: PAAL
JACKSON

DOC DATE: 09 APR 90
SOURCE REF:

KEYWORDS: CHINA P R

INTL TRADE

PERSONS:

SUBJECT: CHINA - GAME PLAN FOR MFN

ACTION: NOTED BY GATES W/ COMMENT

DUE DATE: 05 APR 90

STATUS: C

STAFF OFFICER: PAAL

LOGREF:

FILES: PA

NSCP:

CODES:

DOCUMENT DISTRIBUTION

FOR ACTION

FOR CONCURRENCE

FOR INFO

JACKSON

PAAL

DECLASSIFIED

White House Guidelines

E.O. 12958, SEC 3.4 (B) September 11, 2006

By Cop NARA, Date 5/1/09

COMMENTS: _____

DISPATCHED BY _____ DATE _____ BY HAND W/ATTCH

OPENED BY: NSEF

CLOSED BY: NSJRP

DOC 2 OF 2

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2505 Redo

NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

April 9, 1990

CHRON FILE

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: KARL JACKSON *KJ*
FROM: DOUGLAS PAARD *DP*
SUBJECT: China -- Game Plan for MFN

At Tab I is an information memorandum for the President that goes into considerable detail on the impending issue of a waiver for China to continue receiving the benefits of MFN. I think that the President's personal exposure on China policy merits taking a close look at the downside risks regarding MFN. It will not be pleasant reading.

Clearly, the "responsible" course to take is to continue MFN in China, and the President will want to do so, but the attendant political costs are equally clear. They may be small, with luck. They may also be on the order of the Pelosi fight, if we are not so lucky. The Washington Post and New Republic are already drawing lines in the sand over MFN.

Concurrences by: *DP* Virginia A. Lampley, *DP* Nicholas A. Rostow, *DP* Deal, *DP* Peter Rodman

RECOMMENDATION

That you sign the information memorandum to the President at Tab I.

Attachments

Tab I Scowcroft/President Memorandum
Tab II 4/2/90 Staff Submission - 2505

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PER E.O. 12958,
AS AMENDED
2000-0116-F/2
31 8/14/07

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Declassify on: OADR

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*Brent -
Should we add to the
memo what exactly we might do
tell the Chinese they must do
for the President to support
MFN?
J*

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2505 Redo

THE WHITE HOUSE
WASHINGTON

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT

SUBJECT: China -- Game Plan for MFN

DECLASSIFIED
PER E.O. 12958,
AS AMENDED
2000-0116-F/2
32 8/14/07

An ugly confrontation with Congress and Beijing awaits us over waiver of Jackson-Vanik for China. We need to move early to signal to China and to the American public your strong commitment to human rights in China before human rights activists and political opponents seize the lead. This is an opportunity for us to move from defense to offense domestically on China issues, while maximizing incentives for China to take steps in the right direction.

The predicament. Draft legislation in both houses -- now stalled -- may give the Congress the means for a fast-track joint resolution of disapproval by the time the China waiver goes forward. To continue MFN, the waiver must be sent to the Hill by June 3, the anniversary of Tiananmen.

Good estimates of how the Congress will vote are not yet available; it is too early for them to focus on it. Most staffers say a majority in both houses will be eager to humiliate our China policy, but they probably lack the two-thirds necessary to override a veto of a joint resolution of disapproval. They hope to have it both ways: humiliation of the policy and the trade benefits of MFN with China.

The best way to proceed is to take the offensive vs. both the Chinese and Congress, by taking a position that, under present circumstances, you cannot recommend extending MFN for China. This will anger the Chinese, but force them to face the issue of better relations squarely. It will leave defense of MFN to Congress and the business community.

The Chinese. There are early signs that the Chinese want to help prevent loss of MFN. Chinese steps so far have been small (Peace Corps and Fulbright implementation) and politically useless. Beijing may be willing to do more; we need to encourage much more.

cc: Vice President
Chief of Staff

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Declassify on: OADR

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Internal leadership tensions and common fear of the masses will lead to compromise efforts to placate you. Beijing will undoubtedly try to delay any actions they may "promise" to take. For example, one PRC Embassy official has suggested that you recommend continuing MFN just before the due date of June 3. The argument goes that China will carry out what we ask for after the June 3-4 Tiananmen anniversary, and before Congress votes. This may be Beijing's intention, and it may also be a trick. The risk of another battle royal with Congress is too great to follow this approach.

China must face the choice at some point. Either accommodate the people and world opinion and risk downfall, or retreat into greater isolation. The latter tendency is already strong, and doctrinaire leaders will welcome a rupture with the U.S., perhaps believing they can get what little they think they need from the rest of the world.

A key point on which public debate here over MFN will turn is whether to retaliate and squeeze China for its human rights offenses and bad international behavior or work to strengthen the forces of economic growth and reform. Over the next two months, anniversaries and dissident tactics will continue to have the regime seized with fright and ruthlessly determined to crush dissent. Therefore, it will be important not to get ourselves into defending China's record or otherwise get put on the defensive over what happens in China. In fact, we will want to be seen as actively interested in the human rights of the Chinese people and working against irresponsible Chinese behavior abroad.

Why MFN for China? The primary case to make for MFN for China is economic. Two-way trade last year was \$17.8 billion, of which U.S. exports were \$5.8 billion. If MFN is lost, China will retaliate against every American exporter who has competition on the world market. (The U.S. is the only country with MFN legislation like Jackson-Vanik.) Foreign Minister Qian has also threatened major "retrogression," probably meaning at least downgrading relations to the charge level. (Of course, the flip side of the trade figures is that loss of MFN should remove the \$7-8 billion trade deficit from the U.S. account.)

CIA calculates that loss of MFN would cost China significantly more than \$2.5 billion in export earnings immediately, and the Chinese would seek to impose a similar cost on U.S. exporters. Beijing has increasingly centralized trade authority since Tiananmen, so it has the tools. Loss of MFN would probably strengthen the voice of hardliners who seek further recentralization. This could make eventual restoration of reforms and opening to the outside world all the more difficult.

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Joint ventures in China, such as Beijing Jeep, will have exorbitant duties imposed on equipment needed to operate the ventures; they will fail. Our competitors in trade and investment will be the immediate beneficiaries.

Moreover, the extremity of the consequences of withdrawal of MFN will tempt the G-7 to break ranks on other issues such as the current limits on World Bank lending to China. Our human rights legislation will not permit us to vote for the loans, but with any G-7 country voting for World Bank lending, the loans may go through. If they do, Congressman Obey has threatened to withhold IDA replenishment, which in turn will lower the U.S. voting share below the current 15.5% and lead to loss of a U.S. veto on certain matters concerning the Bank.

A second reason for MFN is Hong Kong. Loss of MFN would threaten to rupture many of the economic links through the colony. Unemployment will climb dangerously in South China, and substantially in Hong Kong, where \$5.5 billion of Chinese goods are reexported. U.S. investors in Hong Kong are already seeking legislative help to restore confidence among their Hong Kong white-collar employees; loss of MFN will wipe out any such effort.

Concerns about the future of Hong Kong should help to sustain China's MFN. Congressmen Solarz and Porter, for example, take a strong interest in both human rights in China and Hong Kong's future. Importers in Solarz's district have complained when he has threatened MFN.

The third argument is human rights and the well-being of the people of China. Since you first articulated your sanctions against China, you have insisted on trying not to hurt ordinary Chinese people, on keeping a line out to those with an interest in opening and reform. You will be questioned on how to reconcile your desire to avoiding hurting the Chinese people with not supporting MFN. One answer is to throw back the question by asking how can you help the people of China when your efforts on behalf of the relationship are taken by Beijing as endorsement of its current behavior.

The opponents of MFN. The China-watching community in the U.S. has been traumatized by the repression since Tiananmen. They are hurt, angry and vengeful as a group. Like many ordinary Americans and Chinese students here, they believe the collapse of the Chinese regime is just a shove away, a la East Europe. Frankly, many are also outraged by their perception of the two trips to China last year and the Pelosi veto. They believe, paradoxically, that the Administration should be made to squirm over MFN, yet you should not be so "irresponsible" as to let a

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resolution of disapproval stand. There are a few exceptions, especially in Washington and among those with policy experience.

(The Chinese-American community is also traumatized, but not for the first time, and so is much more inclined to favor continued MFN. Many Chinese-Americans, of course, also have business interests in China, but their human rights interests are no less genuine.)

Human rights activists have energy to spare following the developments in the Soviet Union and East Europe. China has rapidly become the test case for many as to how this Administration stands on human rights. They particularly like China because it is easy to make the Administration look bad. Naturally, adversaries on the Hill will exploit this to the extent their constituents permit.

What to do? First, the Chinese will need to be told quietly that under present circumstances, you cannot recommend that MFN be retained. We should not go public with this for a week, as Beijing will be somewhat more responsive if it is not publicly backed into a corner at the outset.

We also need to get you on record as much as possible favoring advancement of the human rights of the Chinese people. A speech on Asia which touches on the subject would help. China also needs to hear you speak firmly on proliferation of missiles.

As outrages occur during the spring anniversary season in China, we should modestly escalate our rhetoric of condemnation. This will run against instinct, but even the Chinese will understand (though not agree) if they see the rhetoric protecting the policy.

If Congressional support for MFN manifests itself, when the waiver is sent to the Hill, its text will require close attention to the human rights potential of continued MFN and the costs of its loss. Critics will point to new restrictions on study abroad imposed since the Pelosi veto to embarrass you and to block MFN, on the narrow Jackson-Vanik grounds of restrictions on emigration. There is potentially some flexibility on this point -- based on compulsory national service precedents -- but not much, and the Chinese should be pressed to change the regulations.

More importantly, we need to jolt allies of the MFN in the business community to carry on a campaign in the Congress. So far, business people appear reluctant to take up China with their senior management, let alone with Congress, but for some companies the numbers in the China trade are very large.

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Options. In the end, your options boil down to the following:

- Threaten to let MFN lapse. You could blame China for the chill in relations. China will be reluctant to respond as fully as is necessary, but pressure will build for China to recognize the realities of the situation. You will be criticized for "irresponsibility" by the business community and some foreign policy observers and modestly praised for yielding to the human rights activists, but you have a chance at generating support for your management of China policy.
- Send the MFN waiver, but not fight for it. Say it is up to Congress to decide. This may amount to turning China policy over to the legislative branch, if we are not successful beforehand in getting the Hill to decide to support MFN.
- Prepare for another fight over your right to conduct foreign policy by signalling an intention to veto. Given the way China has reneged on the scorecard of positive steps since the Pelosi veto fight, we will need maximum help from the business community, which of course will be reluctant to be seen publicly trying to stay in China.

For the time being, we are publicly characterizing you as not having addressed the issue yet. In talks with trade groups, my staff has found that business people become energized when they hear that your veto of a resolution of disapproval is not guaranteed.

**National Security Council
The White House**

PROOFED BY: MEN

LOG # 2505

URGENT NOT PROOFED: _____

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	SEQUENCE TO	HAS SEEN	DISPOSITION
Bill Sittmann	<u>1</u>	<u>W</u>	<u>A</u>
Bob Gates	<u>2</u>	<u>[initials]</u>	
Brent Scowcroft	<u>3</u>	<u>[initials]</u>	
Bill Sittmann			
Situation Room			
West Wing Desk	<u>4</u>		
NSC Secretariat			
<u>Paul</u>	<u>5</u>		<u>FPN</u>

90 APR 4 P. 2. 52

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

cc: VP Sununu Other _____

Memo F. P. Should be seen by: _____ (Date/Time)

COMMENTS China - Game Plan for MFR

Open Sec Ofc has diskette

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2505

NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

April 2, 1990

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: KARL JACKSON *KJS*
FROM: DOUGLAS PAAL *DP*
SUBJECT: China -- Game Plan for MFN

At Tab I is an information memorandum for the President that goes into considerable detail on the impending issue of a waiver for China to continue receiving the benefits of MFN. I think that the President's personal exposure on China policy merits taking a close look at the downside risks regarding MFN. It will not be pleasant reading.

Clearly, the "responsible" course to take is to continue MFN in China, and the President will want to do so, but the attendant political costs are equally clear. They may be small, with luck. They may also be on the order of the Pelosi fight, if we are not so lucky. The Washington Post and New Republic are already drawing lines in the sand over MFN.

The memorandum does not ask the President to endorse any specific action. It is intended in part to evoke any guidance, however, that he may want to direct. State is moving on a parallel track, and will take longer to produce more concrete recommendations.

Concurrences by: Virginia A. Lampley, *DL* Nicholas *DL* Rostow, Tim Deal, Peter Rodman *mm*

RECOMMENDATION

That you sign the information memorandum to the President at Tab I.

DECLASSIFIED
PER E.O. 12958,
AS AMENDED
2000-0116-F/2
31 8/14/07

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Declassify on: OADR

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2505

THE WHITE HOUSE
WASHINGTON

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: BRENT SCOWCROFT
SUBJECT: China -- Game Plan for MFN

DECLASSIFIED
PER E.O. 12958,
AS AMENDED
2000-0116-F/2
JL 8/14/07

An ugly confrontation with Congress potentially awaits us over waiver of Jackson-Vanik for China. We need to move early to make the case for MFN for China to key Congressional leaders before human rights activists and political opponents seize the lead on this issue. We will need allies in the business community to help.

The predicament. Draft legislation in both houses--now stalled--may give the Congress the means for a fast-track joint resolution of disapproval by the time the China waiver goes forward. To continue MFN, the waiver must be sent to the Hill by June 3, the anniversary of Tiananmen.

Good estimates of how the Congress will vote are not yet available; it is too early for them to focus on it. Some staffers suggest there is no real appetite to deny MFN. (MFN was not included in the omnibus China sanctions bill.) Others say a majority in both houses will be eager to humiliate our China policy, but they probably lack the two-thirds necessary to override a veto of a joint resolution of disapproval.

The worst case scenario would be:

- Your waiver, followed by vigorous, emotional denunciation of any dealings with the Chinese regime.
- A joint resolution of disapproval, with considerable moralizing on the floor and in the press.
- A veto and floor fight, followed by an override and a strong, damaging Chinese reaction.
- Alternatively, your veto is sustained, with more editorials and cartoons about "kowtowing" to China, and yet your critics' constituents lose no China business.

cc: Vice President
Chief of Staff

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The best case scenario would be:

- Early, reasoned consultations with the Congress, especially leaders representing constituencies with trade and investment in China.
- Testimony by the business community, as well as opposing testimony by human rights groups and academics, as a result of which there would be no leading to a joint resolution of disapproval.

It seems to me the obvious way to proceed is to try for the best case outcome, but be guided carefully by the potential for the worst case. It is highly likely that the adversarial Democratic leadership will not be able to resist scoring points off the China policy in any event.

The Chinese. We can count on Beijing being no help whatsoever in approaching MFN. It would be of some benefit if the Chinese simply stay silent during the run-up to the MFN vote, but that will not happen. Congressional statements and the media will bait the current leaders in China. Some doctrinaire leaders may actually hope for a rupture of this sort in our relations as they try to guide China back to the misty past. Missile sales, the Khmer Rouge, Rabta -- all these will hurt. On balance, however, responsible Chinese will recognize the calamity inherent in loss of MFN, although they lack the freedom internally to be helpful.

A key point on which debate over MFN will turn is whether to retaliate and squeeze China for its human rights offenses and bad international behavior or work to strengthen the forces of economic growth and reform. Over the next two months, anniversaries and dissident tactics will continue to have the regime seized with fright and ruthlessly determined to crush dissent. Therefore, it will be important not to get ourselves into defending China's record or otherwise get put on the defensive over what happens in China. In fact, we will want to be seen as actively interested in the human rights of the Chinese people and working against irresponsible Chinese behavior abroad.

We will also want to be reticent in describing the damage that loss of MFN would cause the Chinese regime. A combination of abuses in China and Beijing's fulminations against the U.S. could lead to increased sentiment to use MFN to punish China. Most observers already believe you are overly concerned for the Chinese leadership and they could portray concern about the downside as unwarranted deference to Deng and company.

Finally on the Chinese, they have adopted a smug pose, saying that in the end you will veto a resolution of disapproval. The Ambassador here heard that from former President Nixon. In

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meetings, the Embassy's officers laugh at and belittle our efforts to take this issue seriously. Nonetheless, other behavior belies this bluff. Key trade officials are concerned, yet feel helpless. Li Peng resorts to threats.

Why MFN for China? The primary case to make for MFN for China is economic. Two-way trade last year was \$17.8 billion, of which U.S. exports were \$5.8 billion. If MFN is lost, China will retaliate against every American exporter who has competition on the world market. (The U.S. is the only country with MFN legislation like Jackson-Vanik.) The record is clear on China's willingness and capacity to retaliate; Foreign Minister Qian has threatened "retrogression," probably meaning at least downgrading relations to the charge level, and in 1983, when we had a textile dispute, China cut off grain purchases from the U.S.

CIA calculates that loss of MFN would cost China significantly more than \$2.5 billion in export earnings immediately, and the Chinese would seek to impose a similar cost on U.S. exporters. Beijing has increasingly centralized trade authority since Tiananmen, so it has the tools. Loss of MFN would probably strengthen the voice of hardliners who seek further recentralization. This could make eventual restoration of reforms and opening to the outside world all the more difficult.

Joint ventures in China, such as Beijing Jeep, will have exorbitant duties imposed on equipment needed to operate the ventures; they will fail. Our competitors in trade and investment will be the immediate beneficiaries.

Moreover, the extremity of the consequences of withdrawal of MFN will tempt the G-7 to break ranks on other issues such as the current limits on World Bank lending to China. Our human rights legislation will not permit us to vote for the loans, but with any G-7 country voting for World Bank lending, the loans may go through. If they do, Congressman Obey has threatened to withhold IDA replenishment, which in turn will lower the U.S. voting share below the current 15.5% and lead to loss of a U.S. veto on certain matters concerning the Bank.

A second reason for MFN is Hong Kong. Loss of MFN would threaten to rupture many of the economic links through the colony. Unemployment will climb dangerously in South China, and substantially in Hong Kong, where \$5.5 billion of Chinese goods are reexported. U.S. investors in Hong Kong are already seeking legislative help to restore confidence among their Hong Kong white-collar employees; loss of MFN will wipe out any such effort.

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We should exploit concerns about Hong Kong to sustain China's MFN. Congressmen Solarz and Porter, for example, take a strong interest in both human rights in China and Hong Kong's future. We should acknowledge their former concern, while appealing to the latter in the case of MFN.

The third argument is human rights and the well-being of the people of China. Since you first articulated your sanctions against China, you have insisted on trying not to hurt ordinary Chinese people, on keeping a line out to those with an interest in opening and reform. Curiously, Chinese outside China -- such as the student leadership here -- are far more eager to use every method, however extreme, to bring down the current regime than are reformers and students within China. We will need to make clear that those outside China enjoying the privileges and rights of the West have no business trying to make life harder for their brothers in China.

The opponents of MFN. The China-watching community in the U.S. has been traumatized by the repression since Tiananmen. They are hurt, angry and vengeful as a group. Like many ordinary Americans, they believe the collapse of the Chinese regime is just a shove away, a la East Europe. Frankly, many are also outraged by their perception of the two trips to China last year and the Pelosi veto. They believe, paradoxically, that the Administration should be made to squirm over MFN, yet you should not be so "irresponsible" as to let a resolution of disapproval stand. There are a few exceptions, especially in Washington and among those with policy experience.

(The Chinese-American community is also traumatized, but not for the first time, and so is much more inclined to favor continued MFN. Many Chinese-Americans, of course, also have business interests in China, but their human rights interests are no less genuine.)

Human rights activists have energy to spare following the developments in the Soviet Union and East Europe. China has rapidly become the test case for many as to how this Administration stands on human rights. They particularly like China because it is easy to make the Administration look bad. Naturally, adversaries on the Hill will exploit this to the extent their constituents and we permit.

What to do? First, we need to get you on record as much as possible favoring advancement of the human rights of the Chinese people through engagement. A speech on Asia which touches on the subject would help. China also needs to hear you speak firmly on proliferation of missiles.

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Delayed enforced departure of Chinese students will expire at the end of June. We are already getting pressure to issue an extension because students are confronting real problems getting employment and making plans beyond June. You should order the extension before you are seen to be pressed into doing so, but as close as possible to the date when you send the MFN waiver to the Hill. My staff will do more work on this.

As outrages occur during the spring anniversary season in China, we should modestly escalate our rhetoric of condemnation. This will run against instinct, but even the Chinese will understand (though not agree) when they see the rhetoric protecting the policy.

Thus far, we have kept the Dalai Lama at a distance from the White House. Now that he is a Nobel prize winner, my staff is hearing soundings for a visit by this religious leader with you. We may, after further consideration, want to arrange a meeting, carefully, to burnish your human rights credentials, while avoiding the Dalai Lama's political agenda as much as possible.

When the waiver is sent to the Hill, its text will require close attention to the human rights potential of continued MFN and the costs of its loss. Critics will point to new restrictions on study abroad imposed since the Pelosi veto to embarrass you and to block MFN, on the narrow Jackson-Vanik grounds of restrictions on emigration. There is potentially some flexibility on this point--based on compulsory national service precedents--but not much.

More importantly, we need to enlist allies in the business community to carry on a quiet campaign in the Congress. So far, business people appear reluctant to take up China with their senior management, let alone with Congress, but for some companies the numbers in the China trade are very large. Our rhetoric should refer to the economic costs of the loss of MFN, but it should concentrate on the human rights benefits for the Chinese people. It is on this political battleground that the issue will be fought. Congress will not want to address the economic issues frontally.

One hope is that quiet persuasion on the Hill, plus consultation and testimony by Administration figures, well in advance of the due date, will deflect the Congress from a confrontation. My staff and State are already speaking to trade groups and investors urging them to make their views clear.

Options. In the end, your options boil down to the following:

- Let MFN lapse by not sending a waiver to the Hill. You could blame China for the chill in relations. China will

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not respond to this type of pressure. You will be criticized for irresponsibility by the business community and modestly praised for yielding to the human rights activists.

- Send the MFN waiver, but not fight for it. Say it is up to Congress to decide. This may amount to turning China policy over to the legislative branch, if we are not successful beforehand in persuading the Hill to go along quietly on MFN.
- Prepare for another fight over your right to conduct foreign policy by signalling an intention to veto. Given the way China has reneged on the scorecard of positive steps since the Pelosi veto fight, we will need maximum help from the business community, which of course will be reluctant to be seen publicly trying to stay in China.

For the time being, we are characterizing your position as "keeping your options open." In talks with trade groups, my staff has found that the business people become energized when they hear that your veto of a resolution of disapproval is not guaranteed.

Unless you direct otherwise, we will continue along these lines to encourage business people to make their views clear. We will also look for opportunities to strengthen the public perception of your position on human rights in China and on China's irresponsible international behavior.

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