

NATIONAL SECURITY COUNCIL

Nancy:

Please note the edited memo to
re covering memo to HAK
the President/is now Attachment

A¹.

Mary

Delivered by Messengers
to Addressees - 158
during Tues. A.M.

APR 12 1971

Nancy -
John Holdridge
and Jeanne
Davis know
this is signed
and will be sent
tomorrow AM.
Judy per Musical

NATIONAL SECURITY COUNCIL CORRESPONDENCE ROUTING AND CONTROL PROFILE

NUMBER MO DA HR

26167 02 23 19

DOCUMENT DESCRIPTION

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 HAK _____ ROGERS _____ C _____ NODIS
 LAIRD _____ LOU _____ EYES ONLY
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DOC DATE: 02/23 Irwin, J

SUBJECT: Steps towards Aggravation of Travel & Trade between Peoples Republic of China & US
7102316

ENCLOSURES: () () NOT XEROXED FOR SUSPENSE FILE

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	ACTION	INFO	RCD CY
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EUROPE/CANADA			
LATIN AMERICA			
UNITED NATIONS			
ECONOMIC			
SCIENTIFIC			
PLANNING GROUP			
PROGRAM ANALYSIS			

ACTION REQUIRED

MEMO FOR HAK ()

MEMO TO PRESIDENT ()

REPLY FOR HAK SIGNATURE ()

REPLY FOR PRES SIGNATURE ()

MEMO _____ TO _____ ()

RECOMMENDATIONS ()

JOINT MEMO ()

APPROPRIATE ACTION ()

ANY ACTION NECESSARY ()

CONCURRENCE ()

DUE DATE: _____

COMMENTS: (Including Special Instructions)

Dispositive
only one of rec'd X

Jennedy
USC folder, NSSM106
NSDM 17

INTERNAL ROUTING

DATE	FROM	TO	ACTION REQUIRED
<u>2/24</u>	<u>NSC/S</u>	<u>Holledge</u>	<u>Trans from Davis</u>
<u>2/27</u>	<u>NSC/S</u>	<u>HAK</u>	<u>Approved Pres for Decision (3/5)</u>
<u>3/3</u>	<u>Holledge</u>	<u>HAK</u>	<u>Pres for Decision (3/10)</u>
<u>03/05</u>	<u>HAIG</u>	<u>HOLD</u>	<u>Further Action (0309)</u>
<u>03/08</u>	<u>HOLD</u>	<u>HAK</u>	<u>Pres for decision (0310)</u>
<u>3/25</u>			<u>HAK signed it</u>
<u>3/25</u>		<u>Pres</u>	<u>Decision</u>

DISPOSITION

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SUB _____ NS3 FORM REQUIRED

Checked
Approved

To:

Kennedy/Holdridge

Prepare implementing
structure as soon
as possible.

CD

This is
rewritten

3/24/71

David:

1. The memo HAK
signed is the rewritten
one - OK to send to
President.

2. HAK did not sign
letter. I assume that
his approval of memo to
President also included
approval of the letter -
recommend you may
sign them for dispatch
when memo is forwarded
to President.

RH

MEMORANDUM

NATIONAL SECURITY COUNCIL

26167

ACTION

SECRET

March 21, 1971

MEMORANDUM FOR: DR. KISSINGER

FROM: JOHN H. HOLDRIDGE *JH*

SUBJECT: Steps Towards Augmentation of Travel
and Trade Between the Peoples Republic
of China and the United States

At Tab A is a memorandum from you to the President on the above subject redrafted in accordance with your instructions. My original memorandum to you is at Tab A¹. You will recall that it recommends your signing letters to Mr. Packard and Mr. McClellan at Tabs B and C, respectively.

RECOMMENDATION:

That you sign the memorandum to the President at Tab A.

Approve _____ Disapprove _____

SECRET

MEMORANDUM

26167

NATIONAL SECURITY COUNCIL

SECRET

ACTION
For Signature (4/12/71)

MEMORANDUM FOR: DR. KISSINGER

FROM: JOHN H. HOLDRIDGE *JH*

SUBJECT: Steps Towards Augmentation of Travel and Trade
Between the Peoples Republic of China and the
United States.

In accord with your request (Tab B) at Tab A is an implementing directive for your signature.

RECOMMENDATION:

That you sign the attached memorandum at Tab A.

DISTRIBUTION AUTHORIZATION

(21)

1. TYPE OF DOCUMENT: NSDM 105

2. SUBJECT: Steps Toward Augmentation of Travel and Trade Between the Peoples Republic of China and the US

3. DATE: April 13, 1971

4. CLASSIFICATION: SECRET

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Mr. Bergsten	1		<i>DISPATCHED NSC</i>	

increased contacts between U. S. radicals and PRC intelligence agents.)

In putting forward its proposals, the Under Secretaries Committee carefully considered the possible adverse impact of changes in our trade and travel regulations on our relations with the GRC and the Soviets. Their reactions were assessed as follows:

-- The GRC. The GRC lacks leverage to enable its dissatisfaction with any of these moves to seriously inconvenience us. GRC diplomatic protests can be handled up to the point where GRC attitudes prejudice efforts to work with them on the Chinese Representation Question at the UN, when they would probably pull back themselves. GRC unhappiness over any of these moves would not take the form of limiting our military access to Taiwan, or our activities there.

-- The Soviets. Any of these proposed actions, taken alone, would not be more than a minor irritant to the Soviets. They have had ample warning that the United States intends to take practical steps to improve relations with Peking. What would matter to the Soviets would be the overall impression. Thus, simultaneous implementation of all the recommended options would be tantamount to a much more active policy in Soviet eyes and, accordingly, professed suspicions of our intentions would increase. One possibility is that the Soviets, seeing what they would construe to be a new phase of U. S. China policy, would themselves adopt a more conciliatory attitude toward the Chinese. They are in a position to make concessions in areas of immediate importance to the Chinese, such as on border problems.

The full Under Secretaries Committee report is at Tab F. I summarize the Committee's proposals for you below with my recommendations, along with the GRC and Soviet reactions in more specific terms than I have outlined above. Your decisions is requested now only as to the steps in Group I. The possible subsequent steps are also presented for your information and expression of your views. These steps will be re-examined after we appraise results of the Group I steps.

Group I - For Implementation Within the Near Future

-- Entry of Chinese. Following the expiration of the restrictions against using U. S. passports to travel to Communist China, in order to establish our willingness to facilitate on a reciprocal basis a flow of people between the two countries, the Committee recommends a public statement by the U. S. Government offering to expedite visas for groups of visitors from the Peoples Republic of China to the U. S. This would implement your references to removing needless obstacles to broader opportunities for contacts in your Foreign Policy Report. Justice opposes this because it would afford the PRC better opportunities for intelligence acquisition, permit close clandestine contacts between American Maoists, advocates of domestic violence and the PRC, and make it easier for the PRC to recruit intelligence agents. Commerce favored increased travel as necessary to exploit commercial opportunities. State, Defense and the other agencies felt that the American people were sufficiently resilient to resist any added subversive burdens which the presence of Chinese Communist travelers might

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GROUP I - For Implementation Within the Near Future

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tentative expression of your views. These steps will be reexamined after we appraise results.

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NSC - U/SM 91

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SECRET/SENSITIVE

SECRET/SENSITIVE

NSC - U/SM 91

TRAVEL AND TRADE WITH COMMUNIST CHINA

February 22, 1971

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INTRODUCTION

The Under Secretaries Committee has examined within the broad framework contemplated by NSSM 106, as well as the earlier decisions of NSDM 17, various steps which can be taken to relax restrictions on travel to and further broaden trade with Communist China. The steps considered by the Committee are set forth below, in some instances providing more than one variant depending on the degree of change desired.

The steps proposed are all within the authority of the Executive Branch, since there are no legislative barriers to less restricted administration of travel controls, and trade steps requiring legislation are more properly addressed in the larger context of East-West trade.

The steps are also primarily unilateral, requiring for the most part no Chinese response. It is recognized that the results of the measures outlined here will depend on how the Chinese react, and that further steps might be possible if the Chinese evidenced positive interest in cooperating. Realistically, it was felt that matters requiring Chinese assent are best treated in the options contained in the long-range study of NSSM 106.

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Further Relaxation of US Restrictions Relating
to Travel Between the US and the PRC

Our attempted restrictions on travel to the PRC, North Korea, North Viet-Nam and Cuba are, under present law, largely unenforceable, and, it can be argued that in the case of travel to the PRC such restrictions are no longer desirable. Nevertheless, we continue to restrict passports for travel to the PRC unless specifically validated for such travel. We have extended these restrictions at six-month intervals by Public Notice in the Federal Register. Without such action they would automatically expire. Meanwhile, under successive relaxations we have already validated nearly 1,000 passports for travel to China, half of these in the last two years. Favorable action is already taken on the vast majority of applications. Possible further steps relating to travel between the US and the PRC follow:

Step 1: Travel of Americans

A. Remove all passport restrictions on travel to the PRC prior to March 15 (the date passport restrictions must either be renewed or will expire).

Principal Advantages

Would be a positive gesture which would attract considerable attention and be viewed as consistent with our desire to improve communications between the Chinese and American peoples. Would put the onus for preventing travel of Americans to the PRC entirely on Peking. If appreciable travel developed, would materially increase our overt access to intelligence on China.

Principal Disadvantages

The GRC would fear that this relaxation portended further US reconciliation with Peking at the expense of Taipei. The GVN and ROK would also be concerned. If the PRC allowed American tourists to enter, they

would not receive USG consular assistance in the PRC if in trouble. Would facilitate contact between the PRC and the American radical left, who might transit China to North Viet-Nam or North Korea.

Anticipated Result

For the near term, probably not many Americans would get into China.

Preferred Timing

Any time before March 15.

Proposed Diplomatic Scenario

Inform the GRC, GOJ, ROK, and GVN three days in advance, pointing out that our controls are not effective anyway, and that this is a positive act to further improve communications.

Scenario for Congressional Notification and Press Guidance

Notify key leaders^{1/} three days before this announcement.

Stress would be placed upon the President's desire to encourage people-to-people contacts. The press would be told that this is a positive move to encourage contacts between the Chinese and American peoples, a move which the USG hopes the PRC will reciprocate. Mention would be made of lack of consular protection for US citizens traveling to the PRC.

B. When passport restrictions are due for renewal on March 15, omit the PRC from the list of designated countries, leaving North Viet-Nam, North Korea and Cuba on the list--RECOMMENDED.

Principal Advantage

Essentially identical to A. above. Would indicate that the US no longer classes the PRC with

1. See Appendix (NODIS).

the DRV, North Korea, and Cuba, and that the US considers contacts with the Chinese people desirable.

Principal Disadvantage

Would have slightly less impact than dropping the PRC restriction separately and earlier; it would still prove a concern to the GRC and others, but probably in lesser degree than A. above. Would facilitate contact between the PRC and the American radical left, who might transit China to North Viet-Nam or North Korea.

Anticipated Result

For the present, not many Americans would get PRC permission to visit China.

Proposed Diplomatic Scenario

Inform the GRC, GOJ, ROK, and GVN three days in advance that the passport restrictions for the PRC will be dropped in order to facilitate non-governmental people-to-people contacts.

Scenario for Congressional Notifications and Press Guidance

Key leaders^{2/} could be informed three days in advance of announcement of new regulations that it seems desirable to facilitate easier contacts between Americans and Chinese. The press could be told that the USG no longer wishes to prevent Americans from using their passports to travel to the PRC, but that travelers should be aware of lack of consular protection.

C. Drop restrictions on travel to the PRC, North Korea and Cuba, on March 15, leaving restrictions on travel to North Viet-Nam.

Advantage

Would have some of the impact of A and B, and would definitely lessen GRC irritation over relaxations on

2. See Appendix (NODIS).

travel to the PRC, which would be grouped together with North Korea and Cuba.

Disadvantage

Relaxation of restrictions on North Korea would irritate Seoul. Elimination of all restrictions on travel to Cuba could greatly complicate our ongoing efforts to prevent further erosion of the OAS sanctions against Cuba following the repudiation of these sanctions by the new Allende government in Chile. Would facilitate contacts between the American radical left and foreign communists.

Proposed Diplomatic Scenario

Inform GRC, GOJ, ROK, GVN and OAS countries three days in advance. Stress unenforceability of those travel restrictions which are being dropped. Existence of armed hostilities necessitates continuance of controls on use of passports to travel to North Viet-Nam.

Scenario for Congressional Notifications and Press Guidance

Key leaders^{3/} could be informed three days in advance of the announcement of new regulations that it seems undesirable to continue unenforceable restrictions relating to travel to the PRC, North Korea and Cuba. The hostilities in Viet-Nam create a different situation with regard to the DRV. The same points would be made to the press.

Step 2: Expedite Travel of Groups of PRC Citizens to the US--RECOMMENDED.

Make public announcement (after agreement with the Attorney General) that in furtherance of a policy of increasing personal contacts, the USG would expedite the issuance of visas to groups of PRC scientists,

3. See Appendix (NODIS).

scholars, athletes, journalists, commercial representatives and others.

Principal Advantages

Would highlight our desire for greater communication between the Chinese and American peoples and lessen US responsibility for restricting communication and travel.

Principal Disadvantages

The GRC would be irritated, especially if PRC officials should be admitted (e.g., those accredited to Canada). Depending on the timing and handling of specific cases, such action might be interpreted as a reflection of weakening US support for the GRC, thus influencing future voting in the UN.

Groups would probably include some members who are intelligence agents. Therefore, such trips would place a greater burden on our counter-intelligence agencies, and extra allocations of resources might be required to maintain adequate surveillance.

Anticipated Result

Probably very few PRC visits, if any at all, in the near future, but international knowledge that the door is open should improve our public image, and enable us to act readily if a useful opportunity should arise.

Correlation

Best correlated with relaxation on restrictions on use of passports by U.S. citizens (Travel, Option B, page 5).

Proposed Diplomatic Scenario

Inform the GRC and the GOJ a week before public announcement of changes in procedure. Inform NATO and SEATO allies, as well as GVN and ROK, the day before any announcement.

Scenario for Congressional Notification and
Press Guidance

Inform key Congressional leaders^{4/} a week before changes in procedure are made public, or several days before first delegation is announced.

Press guidance would stress the Administration's desire to further contacts between the Chinese and American peoples.

4. See Appendix (NODIS).

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Present Trade Controls

In December 1950, as a result of the PRC's attack on UN forces in Korea, the United States established a virtual embargo on direct and indirect trade with mainland China, an embargo which remains largely in effect today in spite of the minor relaxations of the past two years.

In 1952 our Western Allies (COCOM), without instituting a similar comprehensive embargo, substantially broadened and tightened their strategic export controls upon shipments to Communist China beyond those controls applicable to the USSR and Eastern Europe. However, over the years, more and more non-communist nations have moved to reduce their restrictions and develop trade with the PRC, while at the same time the PRC turned its trade away from the USSR for political reasons. As a result, 80 percent of PRC trade today is conducted with Free World partners, in contrast to 70 percent with communist partners as recently as 1959. Today, the only restrictions observed by the industrial countries of NATO plus Japan (i.e. COCOM) are the COCOM lists, containing disguised and confidential controls (the "China Differential"), which are somewhat more restrictive towards China than towards the Soviet Union.

Even if the US embargo is removed, the remaining US unilateral controls would still be considerably more extensive than the COCOM lists and would keep additional strategic and technologically advanced items from being sold to mainland China. These unilateral controls are intended to restrict goods over which the US has effective control, as well as generally to provide a leadership example designed to persuade our Western Allies to hold the COCOM line. Nevertheless, the principal commercial result of our unilateral embargo is denial of opportunity to American businessmen to participate in China's non-strategic trade, while the political effect is reinforcement of the image of the United States as unwilling to deal with the PRC, even at the same level as with the USSR.

US controls have been relaxed since December 1969 to a very modest extent: (a) amended Foreign Assets Control Regulations now permit unlimited non-commercial imports of mainland Chinese goods into the United States and permit US subsidiaries abroad to engage in trade with the PRC in non-strategic goods of foreign origin, and (b) Department of Commerce authorizes, after a case-by-case review, the use of US-origin components in a limited range of foreign-made products destined for the PRC. Otherwise the controls on trade remain essentially unchanged.

Anticipated Results of US Trade Initiatives

It is extremely difficult to predict the volume of commerce that might result from the US steps outlined below. In the first place, the future course of US-China trade will be influenced by political, economic and psychological factors, in both countries, as well as, on the US side, by legal factors. Indeed, the likelihood of Chinese unresponsiveness to any US gradual easing of trade restrictions cannot be ruled out. (Commercial results of the minor relaxation in US controls in late 1969 and early 1970 have been small but tangible.) Obviously, developments in the political sphere will be a major factor in the extent of Sino-US economic relations.

On the other hand, we do know that the China trade of the other COCOM members increased from a level of \$414 million in 1957 to \$1.6 billion in 1969. This expansion was due to a number of factors, including the discontinuation of their special China controls (i.e., those more extensive than COCOM), and the PRC's decision to turn toward Western suppliers. It should be noted, though, that this expansion did not take the form of a steady upward trend, but of several spurts followed by a levelling off. Moreover, the experience of individual Western countries has shown that China is neither a predictable market nor a stable source of supply.

The United States probably could not expect to match the volume or rate of expansion of the other

COCOM members' trade with China, which was greatly facilitated by the concurrent reorientation of Chinese trade from communist to non-communist countries. Furthermore, most US exports would now face stiff competition from other Western industrial suppliers, and from long-established Free World exporters of wheat. The PRC's export potential to the United States is also modest given the predominance of staple foodstuffs and textiles among Chinese exports.

Nonetheless a modest, long-term trade potential exists, if, following the easing of unilateral US trade controls, the PRC should become receptive to resuming trade with the United States. CIA estimates^{5/} suggest a possible range, after several years of development of Sino-US trade during which time American firms could learn how to trade with the PRC, of \$100-200 million in Chinese exports and \$0-270 million in US exports. A modified estimate in the same publication places potential US exports at \$175-200 million, but that is predicated on the assumption that US exports would include \$100 million in grain. It would most likely take several years for the volume of trade to reach even the lower end of the estimated range of two-way trade: \$100 million to \$470 million. While this is less than 1 percent of total US foreign commerce, it is significant in terms of US East-West trade. The projected levels would be equivalent to 1970 US exports to the USSR at the lower end of this range; at the upper end they would exceed current US two-way trade with all of Eastern Europe and the USSR.

5. ER-IM 70-95, July 19, 1970, US-China Trade Potential (Secret). These estimates are based on an analogy with other Western industrialized countries currently trading with China and modified to reflect specific features of the American export and import market, together with political assumptions which include the possibility of a PRC embargo on US exports.

Trade Initiatives

(Note: Seven steps with various options are listed below. The first two steps should be correlated with each other and with some of the later steps, as noted under the rubric Correlation. They need not necessarily be adopted simultaneously. For example, if the export move Step 1 B, page 16, is selected, it should be correlated with import move Step 2 A, page 20, dollar control move Step 4 A, page 24, and transportation move Step 7 B, page 30. Several small moves which can be taken independently are listed below the export and import steps.)

EXPORTS AND IMPORTSStep 1: Exports to China--3 OptionsA. Sizeable Step: Accord approximately same treatment as for Soviet Union

Accord the PRC the same treatment as the Soviet Union in regard to published general licenses and the published requirements for specific licenses, but in licensing decisions on particular transactions take into account differences in the technological and military levels of development of the PRC and the USSR, availabilities in other non-communist countries, and the current PRC-US political context. This would mean that some transactions approvable for the USSR might be denied the PRC. (This is in accord with the principle underlying the COCOM differential--the "China Differential")
Modify components controls accordingly.

Principal Advantages

This substantial relaxation would establish approximate parity of treatment for the PRC and the USSR, though there would continue to be some discrimination in licensing decisions. It maximizes opportunities for increased peaceful trade and would remove friction with our allies caused by our denial of exports from their countries which contain US components or technology.

Principal Disadvantage

Would present greater security problems than Option B (page 16) since it would expand considerably the general license treatment accorded the PRC to include US commodities, technical data, and the foreign-made products of US technologies, which, given the present level of PRC industrial military development, might be of some strategic significance to the PRC. However, the range of US unilateral controls in effect against the USSR would apply to China as well. End-use and end-user information effective in minimizing the security risks in particular export transactions for the USSR would not be available in the case of the PRC.

Anticipated Result

According to a CIA estimate^{6/} US exports to China could reach between \$75 million (excluding grain) and \$200 million after a few years of development, assuming that the PRC did not boycott US goods. Should the PRC generally continue to avoid US merchandise, our exports (both direct and as components in foreign-made products) under the above option could still reach ten million dollars per annum in the short term.

Correlation

Should be correlated with Imports, Option A (page 20), Dollar Controls, Option A (page 24) and Shipping, Option B (page 30).

Proposed Diplomatic Scenario

Notify the GRC in Taipei and the Japanese in Tokyo about one week in advance. NATO and SEATO allies, GVN and ROK, should be notified about two days in advance. The measure would be explained as furtherance of the President's desire to expand trade, decrease tensions and increase peaceful contacts, but

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6. ER IM 70-95, July 1970, US-China Trade Potential (Secret)

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with no implication of lessened support for the GRC. It might be desirable to inform the PRC through the Warsaw channel in advance of the announcement.

Scenario for Congressional Notification and Press Guidance

Notify key leaders^{7/} one week in advance. The positive nature of the move should be stressed: enables American businessmen to compete in the growing China market; and increases people-to-people contacts.

The press would be told the same as Congress by the Department spokesman when regulations are issued.

B. Medium Step: Relax controls, but retain more restrictions upon PRC than for USSR--RECOMMENDED.

Relax existing controls by (1) extending general license for the PRC to all commodities under general license to the USSR, except those commodities which, after interagency item-by-item review, are deemed to be of strategic significance to the PRC, and (2) approving export license applications for the PRC for other commodities^{8/} and technical data (including those having some degree of strategic potential but

7. See Appendix (NODIS).

8. Since wheat is of major importance to China's import trade, consideration should be given as to whether we must automatically exclude US grain by extending the same 50% American bottoms requirement to the PRC that is placed on grain shipments to Eastern Europe and the USSR. Our judgment on whether in this one aspect our treatment of the PRC should be more favorable than that accorded the USSR must take into account the attitude of US labor and shipping interests which have prevented removal of this restriction from the USSR and which might urge with equal, if not greater force, that it should be imposed upon the PRC. If the 50% American bottoms principle is extended to the PRC, then Shipping, Option A (page 28) must be adopted. This note applies also to Export, Options A, (page 14) and C (page 18).

readily available to the PRC from elsewhere), when the review of particular transactions indicates that the exports would not prove detrimental to US national security or foreign policy. Relax components controls accordingly. (The goal would be to place trade with the PRC on the same footing as with the USSR in the future, but the Committee would review the experience with the more restricted level of exports before considering further relaxation to obtain that objective.)

Principal Advantages

Would provide greater liberalization of controls than Option C, and therefore have more political impact on the PRC. Would be of greater commercial significance than Option C to US business. Security risks would be minimized by the interagency item-by-item review and selection of commodities for general license treatment, and by the careful examination of each license application eligible for consideration under the terms of this option. We would make a significant step toward bringing our controls into closer harmony with those of our allies, thereby reducing frictions engendered by our denials of applications to export products of US technology or incorporating US components. We could preserve considerable maneuverability in that the option can be put into effect as a complete package or in installments, as the review progresses.

Principal Disadvantages

Full implementation would require more time than Option C. Moreover, continued US discrimination in favor of the USSR in the published list of commodities--a sensitive issue to the PRC--would still exist.

Anticipated Results

The results would depend on (1) the extent to which vetting the list reduces controls--the greater the reduction, the larger sales should be, and (2) whether the PRC is willing to trade with the US. Might reach several million dollars annually in the short term.

Correlation

Should be correlated with Imports, Option A (page 20) or B (page 21) as well as Dollar Controls, Option A (page 24) and Shipping, Option B (page 30).

Proposed Diplomatic Scenario

Notify the GRC in Taipei and the GOJ in Tokyo one week in advance. NATO and SEATO allies, as well as GVN and ROK should be notified two days in advance. The measure would be explained as part of the President's desire to further trade while maintaining tight security controls on the range of products sold to the PRC, to decrease tensions and increase contacts, but with no implication of lessened support for the GRC.

Scenario for Congressional Notification and Press Guidance

Congressional notification should take place one week in advance, informing key leaders⁹ of both sides. Would stress moves toward extension of trade while retaining strong security controls, but affording increased opportunities for person-to-person contacts. Would emphasize that there is no implication of lessened support for the GRC. The press would be informed similarly, but with less emphasis on security aspects.

C. Small Step: Restricted Exports

Relax existing controls by (1) publishing a limited list of humanitarian and consumer-oriented commodities permitted to move without restrictions (i.e. under general license) to the PRC; (2) approving export license applications for other commodities having no strategic significance; and (3) permitting use of US-origin components and technical data in a wider range of non-strategic foreign-made products destined for the PRC than at present.

Principal Advantages

This would represent a limited but not insignificant step, would not arouse concern from our

9. See Appendix (NODIS).

allies, would minimize security and domestic political problems, and preserve considerable maneuverability for making further concessions as Chinese reactions warrant. It could be quickly and easily implemented. It would constitute a signal to the PRC and to US businessmen that the US is ready to resume limited direct commercial contacts.

Principal Disadvantages

US businessmen would continue to suffer significant disadvantages vis-a-vis their Free World competitors and would find little scope for expanding trade. Since there would still be substantial US discrimination against the PRC in favor of the Soviet Union, these moves would probably have little positive impact on the Chinese, and their limited nature could have a negative impact.

Anticipated Results

This option would be too limited in scope to be commercially meaningful and its value would be only as a signal, which would probably be ignored or denounced.

Correlation

Should be correlated with Imports, Options A (page 20) or B (page 21), as well as Dollar Controls, Option A (page 24) and Shipping, Option B (page 30).

Proposed Diplomatic Scenario

Notification of Japan and the GRC, three days in advance. Notification to ROK, GVN, NATO and SEATO 24 hours in advance. Measure would be explained as a further step to decrease tensions and increase contacts, with no implication of lessened support for the GRC.

Scenario for Congressional Notification and Guidance

Notify key leaders^{10/} three days in advance. Stress the President's desire to develop trade, as well

10. See Appendix (NODIS).

as explanation in Diplomatic Scenario above. Main anticipated objection would be that such a step was too limited. This could be explained as due to certain specific factors in the current situation, whatever applied at the time. The press would be told the same as Congress.

Step 2: Direct Imports from the PRC--2 Options

A. Sizeable Step: Accord approximately same treatment as for the USSR--RECOMMENDED.

Issue an unconditional general license allowing all Chinese goods to be imported into the United States, with the same restrictions as for USSR as to quantity or type of commodity.

Principal Advantages

Would give the PRC greater incentive to develop trade relations than a move only in the export field. By placing our treatment of imports from the PRC on the same level as the USSR, would obviate the need to administer an almost inevitably discriminatory licensing program for US importers such as proposed in the next Option (page 21).

Principal Disadvantages

The PRC would be free to export to the US without having to import US goods (although such refusal is unlikely given Chinese interest in certain US goods). Might disturb Asian allies who could question continuing US resolve to support their independence.

Anticipated Results

The PRC eventually can be expected to take advantage of its opportunities and encourage exports to the US. A CIA study¹¹ estimates potential Chinese exports to the United States as in the \$100 to \$150 million range after several years of trading. (Tariff and quota restrictions would apply to imports from the PRC on the same basis as the USSR.)

11. ER IM 70-95, July 1970, US-China Trade Potential(Secret)

Correlation

Should be correlated with adoption of Exports, Option A (page 14) or B (page 16) and Dollar Controls, Option A (page 24).

Proposed Diplomatic Scenario

Inform the GRC in Taipei, the GOJ in Tokyo, and the British in London and Hong Kong about ten days in advance, stressing the President's desire to increase trade, decrease tension, and afford opportunity for more peaceful contacts, without any implication of lessened support for the GRC. Other NATO and SEATO allies, as well as GVN and ROK, would be notified one day in advance.

Scenario for Congressional Notification and Press Guidance

Inform key leaders ^{12/} ten days in advance, stressing the President's initiative to lower barriers, provide opportunity for mutually beneficial commercial contacts as well as people-to-people contacts. The press would be told the same as Congress.

B. Small Step: Permit restricted commercial imports from PRC.

Permit restricted commercial imports by issuing general licenses for certain commodities that are of short supply significance (e.g. tungsten and antimony), and licensing other imports on a case-by-case basis up to the greater of two figures: a predetermined amount (for example, \$50 million), or the current value of US exports to China.

Principal Advantages

Restricted licensing would permit the beginnings of commercial imports from China and demonstrate our willingness to exchange goods, while maintaining limitations in case the PRC refused to purchase American products. The amount to be licensed could be a subject for discussions at Warsaw.

SECRET/SENSITIVE

12. See Appendix (NODIS).

SECRET/SENSITIVE

Principal Disadvantages

It would be somewhat difficult to administer such a program in a fashion that would be equitable and non-discriminatory for all prospective US importers. Imposition of quota allocations for the purpose of balancing trade would also be a retrograde step in terms of general trade policy.

Anticipated Result

Given PRC limited export availabilities and apparent policy of refusal to sell ores to US firms, a limited move such as this one would probably not lead to much trade.

Correlation

Should be correlated with Exports, Options B (page 16) or C (page 18) and Dollar Controls, Option A (page 24).

Proposed Diplomatic Scenario

Inform the GRC in Taipei, the GOJ in Tokyo, and the British in London and Hong Kong about three days in advance, explaining the measure as an increase in opportunity of contacts on a people-to-people basis. Other NATO and SEATO allies as well as GVN and ROK would be notified one day in advance.

Scenario for Congressional Notification and Press Guidance

Inform key leaders^{13/} three days in advance, explaining the move as a forward step in the progressive relaxation of trade controls which gives opportunity for move contacts between Chinese and Americans. The press would be told the same as Congress.

13. See Appendix (NODIS).

OTHER OPTIONSStep 3: Significant Export Decision to Approve Sale of American Aircraft to PRC --RECOMMENDED.

As a gesture enhancing the political impact of our trade moves, approve the proposed sale, if firm orders materialize, of three used Boeing 720B jet transports, together with necessary spare and replacement parts, but only after removal of certain strategic equipment, by Pakistan International Airlines to the PRC's civil air line. To avoid discrimination, accord the same treatment to proposed transactions involving similar used passenger aircraft of American manufacture, after removal of certain strategic equipment.

Principal Advantages

Highly visible move which would have a favorable impact on the PRC. Would give the US aircraft industry a foothold in the potentially large Chinese market for civilian transport aircraft, a market that European and Japanese competitors stand ready to pre-empt.

Principal Disadvantages

Might be misinterpreted by other nations as a lessening of US determination to continue COCOM controls, particularly the "China Differential." If Exports, Option C (page 18) were adopted, this action would be inconsistent and would create difficulties in licensing other commodities. Would be of concern to the GRC.

Anticipated Results

Could have meaningful commercial impact. Would aid the US aircraft industry to get new sales by providing Free World air lines with replacement aircraft.

Proposed Diplomatic Scenario

Notify the GRC and the GOJ, NATO and SEATO allies, and GVN and ROK, one day before sale approval is announced. Assurances would be given that this is a commercial transaction and does not indicate a diminished support for the GRC.

Scenario for Congressional Consultations and Press Guidance

Notify key leaders^{14/} at the same time we notify the GRC and the GOJ.

Inform the press that approval of this sale is a further example of the Administration's efforts to develop trade and contacts with the PRC.

Step 4: Currency Controls--2 Options

A. Sizeable Step: General relaxation on use of dollars--RECOMMENDED.

Relax Treasury controls under the Foreign Assets Control Regulations--without releasing previously blocked Chinese assets--to permit the PRC to conduct all transactions permitted the USSR, including payments and use of United States dollars in trade and other normal banking transactions involving China, either directly by the United States, or by third countries.

Principal Advantages

Would place our financial treatment of the PRC on the same level as the USSR. Facilitates direct trade with the PRC. Would permit US financial institutions to participate directly in China trade.

Principal Disadvantages

The PRC would be free from US control over use of dollars for subversive or other undesirable purposes. Would permit PRC to maintain reserve balances in dollars, minimizing present risks involving possible devaluation of foreign exchange.

Anticipated Result

Effect would be principally a favorable political impact upon the PRC by removal of an irksome discriminatory regulation which causes foreign policy difficulties. Experience thus far indicates that subventions to subversive groups would probably be very limited.

14. See Appendix (NODIS).

Correlation

Should be correlated with any Option in Exports or Imports which may be adopted. Can also be implemented independently of any other step.

Proposed Diplomatic Scenario

Inform the GRC in Taipei and the GOJ in Tokyo three days before the announcement, emphasizing dollar controls no longer useful. NATO and SEATO allies as well as GVN and ROK would be notified one day in advance.

Scenario for Congressional Notification and Press Guidance

Inform key leaders^{15/} three days before the announcement, pointing out that dollar controls of this nature are no longer useful, and the move would further relax the hostile attitude taken toward the PRC in connection with the Korean War.

The press would be told that this is the removal of a control which is no longer useful, a necessary condition for direct trade between the PRC and the US and a move to improve US-PRC bilateral stance.

B. Small Step: Relaxation on use of dollars between PRC and third countries.

Relax Treasury controls under Foreign Assets Control Regulations--without releasing previously blocked Chinese assets--to permit payments and use of United States dollars in trade and other normal banking transactions involving the PRC and third countries.

Principal Advantage

Removal of the restrictions on PRC and third-country use of dollars would further reduce the extra-territorial application of our laws and reduce frictions between us and third countries engendered by a policy which is increasingly difficult to administer.

15. See Appendix (NODIS).

Principal Disadvantage

Might increase pressure on the US to unblock Chinese assets which have not yet been vested.

Anticipated Result

Would reduce US discriminatory stance vis-a-vis the PRC, improving atmospherics.

Proposed Diplomatic Scenario

Inform the GRC and GOJ embassies in Washington the day before announcement. Also inform NATO and SEATO allies, GVN and ROK embassies one day in advance.

Scenario for Congressional Notification and Press Guidance

Inform key leaders^{16/} or staffs one day in advance.

The press would be told that this is simply the removal of a regulation which is unnecessary and difficult to enforce.

Step 5: Ease Bunkering Controls--RECOMMENDED.

Change Commerce regulations (on use of US-origin petroleum products) and Treasury regulations to permit bunkering of Chinese-owned or controlled vessels and aircraft (except those bound to or from North Viet-Nam, North Korea, or Cuba) as well as bunkering of Free World and East European vessels and aircraft bound for China. (This relaxation would not affect our existing controls on entry of PRC carriers into US ports.)

Principal Advantage

Would permit American oil companies to participate in trade now denied them without altering our controls on vessels going to North Viet-Nam or North Korea.

Principal Disadvantage

None.

16. See Appendix (NODIS).

Anticipated Result

Very little commercial significance at first, since PRC vessels would probably bunker elsewhere, but would improve atmosphere of PRC-US bilateral relationship by reducing barriers.

Proposed Diplomatic Scenario

Inform the GRC in Taipei and the GOJ in Tokyo three days before the announcement. Also inform NATO and SEATO allies and GVN and ROK one day in advance.

Scenario for Congressional Notification and Press Guidance

Inform key leaders^{17/} or their staffs three days in advance.

The press would be told that this increases the opportunity of American companies to compete.

Step 6: Trade Delegations--RECOMMENDED.

Invite a PRC trade delegation or propose an exchange of trade delegations.

Principal Advantage

This would be an initiative which we could use to show our desire to increase contacts between the PRC and the US on the non-political level.

Principal Disadvantages

Would probably not be acceptable to the PRC at first. Would facilitate PRC intelligence collection.

Anticipated Result

Would demonstrate our good intentions and eventually might be successful in leading to improved commercial relations.

17. See Appendix (NODIS).

Correlation

After adoption of one each of the Exports and Imports Options. Would only be taken after a positive PRC response to previous trade relaxations.

Proposed Diplomatic Scenario

This proposal should first be raised at the Warsaw talks, the GOJ, the GRC, NATO and SEATO allies and GVN and ROK to be informed only after agreement is reached.

Scenario for Congressional Consultations and Press Guidance

Key leaders^{18/} in foreign trade and foreign affairs committees should be informed at the same time as in Diplomatic Scenario. Emphasis would be placed upon President's efforts to stimulate contact and increase trade.

The press should be told that the proposed delegations are an example of the President's efforts to increase mutually beneficial exchanges.

Step 7: Ease Shipping Restrictions--3 Options.

A. Sizeable Step: Permit US carriers to enter PRC ports.

Modify or remove Transportation Orders and Foreign Assets Control Regulations to permit US ships and aircraft to call at Chinese ports and carry Chinese cargoes.

Principal Advantage

Would allow American carriers to compete in the China trade. It would signal that we relied upon the PRC to treat our carrier personnel with justice.

Principal Disadvantages

Some American seamen would inevitably get into trouble in ports where they could not receive consular services. Might also be expected to raise strong

18. See Appendix (NODIS).

objections of the GRC with which we have agreed under a bilateral civil air agreement not to allow American planes to fly scheduled routes into China without the prior consultation and agreement of the GRC. US air lines now authorized under the terms of this agreement to fly to Taiwan would object to this move if they thought it would cause the GRC to denounce the agreement. If the GRC did denounce it now, or, as required by its terms, after a year's notice, there would be no certainty that the GRC would permit US carriers to maintain their current schedules.

Anticipated Result

At present it is not anticipated that the PRC would allow American carriers to enter their ports, but later on they would probably allow American shipping to compete with the rest. It is also not likely that they would authorize a scheduled air service by US companies in the near future, but some charter flights might be permitted.

Proposed Diplomatic Scenario

Notification in Taipei would be made a week in advance, unless American aircraft service were actually contemplated. In that case representations would have to be made long in advance and the probable result would be denunciation of the GRC-US air agreement. Notifications to the Japanese in Tokyo at the same time as to the GRC. Notifications to British and Canadian Embassies as well as other NATO, SEATO, GVN and ROK Embassies in Washington a few days in advance of announcement.

Scenario for Congressional Consultation and Press Guidance

Congressional leaders^{19/} especially those concerned with maritime and seamen's affairs, should be consulted two weeks in advance. Stress should be placed on enabling US carriers to compete in an important market.

19. See Appendix (NODIS).

We would admit that we would not be able to offer consular services to seamen in trouble, and would have to rely on ships' masters to warn their men of the problems.

Press guidance would be the same as to Congress.

B. Small Step: Permit US carriers to carry PRC cargoes, but not to China--RECOMMENDED.

Modify Transportation Orders to permit US ships and aircraft to carry to or from ports outside the PRC, e.g. Hong Kong, goods authorized for export to the PRC. In the absence of diplomatic or consular representation, continue the prohibition on US carriers calling at PRC ports.

Principal Advantage

Would please American carriers and remove unneeded regulations.

Principal Disadvantage

GRC might object.

Anticipated Result

Would allow American carriers to participate in a certain amount of freight hauling not now permitted.

Proposed Diplomatic Scenario

Notify GRC, Japanese, British and Canadian Embassies in Washington, as well as other NATO, SEATO, GVN and ROK embassies a day in advance of the announcement.

Scenario for Congressional Notification and Press Guidance

Notify key leaders^{20/} one week in advance, as well as some leaders from coastal states. The press would be told that this is a further step to help American business to be competitive.

20. See Appendix (NODIS).

C. Permit US-owned foreign flag carriers to carry cargoes to Chinese ports--RECOMMENDED.

Modify current Foreign Assets Control Regulations to permit foreign flag carriers owned by US firms and their foreign subsidiaries to call at Chinese ports and to accept PRC cargoes.

Principal Advantage

Permits more direct US-PRC commercial contact while minimizing the problem of protection of US citizen crewmen since they normally are not employed on such ships. Eliminates present anomalous situation in which foreign subsidiaries of US firms may charter foreign flag carriers for the China trade but are not permitted to utilize their own foreign flag carriers.

Principal Disadvantages

Places American-owned carriers in PRC hands. Would have to be made public but, not necessarily publicized. GRC would probably raise objections.

Anticipated Result

Would be favored by US business and would expand Sino-US trading ties. (US firms have already applied to Treasury for license to ship to and from China in their own foreign flag bottoms.)

Proposed Diplomatic Scenario

Notify GRC, GOJ, NATO allies and SEATO as well as GVN and ROK day before announcement.

Scenario for Congressional Notification and Press Guidance

Notify key leaders^{21/} day before announcement.

The press should be informed on announcement that this is a relaxation of extraterritorial controls.

21. See Appendix (NODIS).

Timing Considerations--2 Options.

Adoption of options marked "RECOMMENDED" would significantly reduce the restrictions on trade with the PRC which are the legacy of the Korean War. It would place trade with the PRC on a basis approaching our position on trade with the USSR, demonstrate to the world US willingness to deal with the PRC, and remove many of the overt discriminations which are very galling to the PRC. The Committee is agreed that it is in our national interest to adopt all these recommended options.

A major consideration in deciding whether to implement our recommendations in one dramatic move or in a steady undramatic sequence of steps is the effect either of these approaches may have on our consultation with Taipei over the crucial issue of Chinese representation in the UN. We also need to time our actions in relation to the determination of our policy on Chirep.

If we decide to try to persuade the GRC to adopt a more flexible approach on CHIREP, this will have a direct bearing on the timing of further steps to remove restrictions on trade with mainland China. A recent series of articles and editorials in leading Taipei dailies on US China policy and the Chirep issue supports other indications we have that there are some officials within the GRC who are now working actively to move the government to a more flexible position. It will be important to the success of their efforts that they be able to maintain confidence at high levels within the GRC and that the US continues to demonstrate a reasonable regard for GRC interests and sensibilities despite a possible US shift on Chirep and our continued efforts to improve relations with mainland China. The sudden dramatic removal within a short period of time of a broad range of trade controls, such as a package of all the recommended steps, desirable as it would be for other reasons, is likely to have a contrary effect, particularly since this could be taken by President Chiang and his close advisors as an indication that the US is moving rapidly toward an accommodation with the PRC on a number of fronts without regard for GRC concerns.

There would be a better chance of avoiding such a reaction if the recommended steps are made in orderly successive stages, undramatic in fashion, and take due account of discussions with the GRC on Chirep. In fact, a first step in this process, if not too dramatic, might well be helpful in making clear to the GRC that while we are anxious to help preserve their position, our purpose of seeking improved relations with the mainland is still firm and something which they would do well to take seriously.

It also is possible that if the full package of recommended steps were put into effect before we have made known to other governments the position we intend to take on the Chirep issue at the 26th UN General Assembly, this action will be misinterpreted as a sign that the US is prepared to make a major retreat on the Chirep issue, placing our interest in improving relations with the PRC ahead of our concern for the GRC and for protecting its international position.

On the other hand, implementation of all the steps marked "RECOMMENDED" as a package would be the course most likely to have a favorable impact on the PRC. A package approach would ensure that all aspects of our trade relaxations are properly coordinated, whereas a sequential approach would be likely to produce temporarily disjointed positions. If the US decides not to seek a significant change in Taipei's position on Chirep this year, rapid implementation of a package would be in our over-all interest.

A. Implement recommendations in spaced stages--
RECOMMENDED.

(1) Move now before we are fully engaged in consultation with Taipei on Chirep to relax controls on direct exports to the PRC at a level below that of the USSR (Exports, Option B, page 16). Should Export, Option A be chosen, i.e., a move to the Soviet level, implementation should be staged so that this level is reached only after Chirep consultations.

(2) After the crucial stage of Chirep consultation with Taipei, follow up at appropriate intervals with a series of steps:

(a) relax controls on commercial imports (Imports, Option A, page 20);

(b) relax control on use of dollars (Dollar Controls, Option A, page 24);

(c) when appropriate, but not necessarily in this order, relax controls on bunkering except to or from designated countries (Bunkering, page 26); permit US flag carriers to carry PRC cargoes to and from ports outside the PRC (Shipping, Option B, page 30); permit US-owned foreign flag carriers to call at PRC ports (Shipping, Option C, page 31);

(d) if a firm offer materializes, approve the sale of used American aircraft (Step 3, page 23);

(e) If circumstances warrant (e.g. a positive PRC response to our trade relaxation moves), invite a PRC trade delegation or propose an exchange of trade delegations (Step 6, page 27);

(f) when some experience has been accumulated with more restricted controls, the Committee will review the possibility of reducing US controls on exports to the PRC to the approximate level of the USSR.

Principal Advantages

Spacing moves would lessen adverse impact on the GRC while we are trying to persuade the GRC to acquiesce in any new approach to the Chinese representation issue. Would minimize the risk of sale of commodities which might have a strategic significance for the PRC.

Principal Disadvantages

Adopting successive steps would diminish the possible favorable impact a combined package might have upon the PRC, and would run the risk of receiving successive scornful responses from the PRC. Successive notifications as the recommendations are implemented would repeatedly irritate the GRC.

B. Implement most recommendations as one package.

(1) Relax controls on direct exports to the PRC, but not to the extent that would place the PRC on parity with the USSR (Exports, Option B, page 16), and place imports on the same basis as the USSR (Imports, Option A, page 20);

(2) Relax dollar controls (Dollar Controls, Option A, page 24);

(3) Remove bunkering controls except for carriers going to and from designated countries (Bunkering, page 26);

(4) Permit US carriers to carry PRC cargoes to and from ports outside the PRC and permit US-owned foreign flag carriers to call at ports in the PRC (Shipping, Options B, page 30, and C, page 31).

Authorization of sale of used American aircraft (page 23) and proposal of trade delegations, (page 27) would follow when appropriate.

Principal Advantages

Would have maximum favorable impact on the PRC. Would get major restrictions out of the way at one time, avoiding the necessity of repeated notifications to the GRC.

Principal Disadvantages

Would probably seriously complicate our efforts to persuade the GRC to acquiesce in any new approach to the Chinese representation issue.

SECRET/NODIS

APPENDIX TO NSC - U/SM 91

TRAVEL AND TRADE WITH COMMUNIST CHINA

Scenario for Congressional Notification

We believe that essentially the same scenario as was followed in December 1969 should be used in the current instance. At that time it was agreed, in consultation with the White House, to limit the number of persons notified to a few Congressional leaders and important committee staff members, and to keep the notifications in low key. With this in mind, we have suggested notifying Congress of whichever moves we are making at the same time we notify foreign governments. We suggest that the Department's Office of Congressional Relations, in consultation and coordination with Mr. Timmons's office at the White House, inform the following:

Senate Leadership

Senator Mansfield
Senator Scott

Senate Foreign Relations Committee

Senator Fulbright
Senator Aiken

House Leadership

Speaker Albert
Congressman Ford

House Foreign Affairs Committee

Chairman Morgan
Congressman Mailliard

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Senate Banking and Currency Committee

Dudley L. O'Neal, Jr., Staff Director and
General Counsel (Majority)
John R. Evans, Minority Staff Director

House Committee on Banking and Currency

Paul Nelson, Staff Director (Majority)
Orman S. Fink, Professional Staff Member
(Minority)

Senate Finance Committee

Thomas Vail, Chief Counsel
Robert K. Wolthius, Legislative Assistant
to Senator Bennett

House Ways and Means Committee

John M. Martin, Jr., Chief Counsel

February 22, 1971



Department of State

Mrs. D. J. [Signature]

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JOINT STATE/USIA MESSAGE

REF: STATE 62771

1. THE PRESIDENT'S ANNOUNCEMENT ON PRC BY SPOKESMAN ZEIGLER ON APRIL 14 DESIGNED TO "CREATE BROADER OPPORTUNITIES FOR CONTACTS BETWEEN THE CHINESE AND AMERICAN PEOPLES" IS PART OF A CONSISTENT, STEADY POLICY OF THE ADMINISTRATION TO TRY TO ESTABLISH A MEANINGFUL DIALOGUE WITH PEKING AS EXPRESSED IN THE PRESIDENT'S FOREIGN POLICY REPORT OF FEB 25, 1971.

2. THESE STEPS INVOLVE CERTAIN RELAXATIONS ON DIRECT TRADE WITH PRC. THEY FOLLOW OTHER STEPS TAKEN DURING THE PAST TWO YEARS:

A) IN JULY 1969 WE PERMITTED TOURISTS TO IMPORT IN THEIR ACCOMPANIED LUGGAGE UP TO DOLS 100 WORTH OF MAINLAND

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CHINESE GOODS.

- B) IN DECEMBER 1969 WE REMOVED RESTRICTIONS ON THE AMOUNT AND METHOD OF IMPORT OF NON-COMMERCIAL GOODS BY INDIVIDUALS AND NON-PROFIT INSTITUTIONS.
- C) AT THE SAME TIME WE AUTHORIZED FOREIGN SUBSIDIARIES OF AMERICAN FIRMS TO CONDUCT NON-STRATEGIC TRADE WITH THE PRC.
- D) IN APRIL 1970 WE ANNOUNCED THAT WE WOULD PERMIT THE EXPORT OF CERTAIN TYPES OF AMERICAN-MADE COMPONENTS TO BE INCORPORATED IN FOREIGN-MADE COMMODITIES TO BE SHIPPED TO THE PRC.
- E) IN AUGUST 1970 WE AUTHORIZED BUNKERING FREE WORLD SHIPS CARRYING NON-STRATEGIC CARGOES WITH NON-US ORIGIN PETROLEUM PRODUCTS.

3. THE PRESIDENT'S ANNOUNCEMENT FOLLOWS HIS REVIEW OF RECOMMENDATIONS SUBMITTED BY THE UNDER SECRETARIES COMMITTEE OF THE NATIONAL SECURITY COUNCIL EARLIER THIS YEAR. IT IS UNRELATED TO US POLICY WITH RESPECT TO CHINESE REPRESENTATION IN THE UNITED NATION. IT DOES NOT AFFECT OR IMPAIR OUR FRIENDSHIP WITH OR COMMITMENTS TO THE PRC.

4. WE DO NOT YET KNOW WHAT THE CHINESE RESPONSE WILL BE TO THE PRESIDENT'S LATEST MOVES ON TRAVEL AND TRADE BUT WE HOPE IT WILL BE POSITIVE.

5. THE ANNOUNCEMENT SHOULD BE PLAYED IN A STEADY, LOW-KEYED FASHION AS PART OF A POLICY CONTINUUM. IN THIS CONTEXT, COMPARISON BETWEEN OUR POLICIES TOWARD CHINA AND THOSE TOWARD THE USSR SHOULD BE AVOIDED. IF THIS SUBJECT SHOULD ARISE IN FUTURE DEPARTMENTAL OR WHITE HOUSE PRESS BRIEFINGS, CARE SHOULD BE TAKEN BY POSTS NOT TO GO BEYOND WHAT IS SAID IN THOSE BRIEFINGS. FURTHER GUIDANCE MAY BE SUPPLIED ON BASIS OF THESE BRIEFINGS.

6. IMPLEMENTING REGULATIONS WILL BE WORKED OUT BY THE DEPARTMENTS OF STATE, COMMERCE, TREASURY AND OTHER INTERESTED AGENCIES. UNTIL THEN, SPECIFIC QUESTIONS SHOULD BE HANDLED WITHIN THE CONFINES OF STATEMENTS BY WHITE HOUSE AND DEPARTMENT OF STATE SPOKESMEN. GP-3. IRWIN

CONFIDENTIAL



Department of State

Nixon
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92-80
ORIGIN TRSY-11

INFO OCT-01 EA-15 AID-28 CIAE-00 COM-08 E-15 FRB-02 INR-08
NSAE-00 RSC-01 TRSE-00 XMB-06 OPIC-12 CIEP-01 NSC-10
SS-20 STR-08 VOE-00 SCA-01 ARA-12 LL-04 HL-02 PH-03
PRS-01 USIA-12 IO-16 EUR-20 /217 RI

66636
DRAFTED BY: WRWEBER
APPROVED BY: JOHN M. HENNESSY, DEPUTY ASSISTANT SECRETARY
ALAN B. WADE, DEPUTY ASST. SECY. (PUBLIC AFFAIRS)
SPECIAL CHARGE: TX387

----- 028759

P 150006Z APR 71
FM SECSTATE WASHDC
TO AMEMBASSY SINGAPORE PRIORITY

UNCLAS STATE 063314

ATTENTION: J. R. PETTY, HEAD
U. S. DELEGATION, ASIAN DEVELOPMENT
BANK MEETING

THE FOLLOWING WAS PREPARED PRIOR TO THE ANNOUNCEMENT
MADE AT NOON, APRIL 13, 1971:

THE PRESIDENT ANNOUNCED THIS MORNING THAT PURSUANT TO
A STUDY AND RECOMMENDATIONS FORWARDED TO HIM BY THE NSC UNDER
SECRETARIES COMMITTEE, HE HAD DECIDED TO CHANGE REGULATIONS
IN ORDER TO CREATE OPPORTUNITIES FOR CERTAIN TYPES OF DIRECT
TRADE AND OTHER CONTACTS BETWEEN THE PEOPLES OF THE UNITED
STATES AND MAINLAND CHINA. STEPS ARE BEING TAKEN TO

- EXPEDITE VISAS FOR VISITORS OR GROUPS OF VISITORS FROM THE PEOPLE'S REPUBLIC OF CHINA,
- RELAX CONTROLS ON THE USE OF DOLLARS IN CURRENT TRANSACTIONS,

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- PERMIT FUELING BY U.S. FIRMS OF CHINESE CARRIERS EXCEPT THOSE BOUND TO OR FROM NORTH VIETNAM, NORTH KOREA OR CUBA,
- RELAX CONTROLS ON CARRYING CHINESE CARGOES AND PERMITTING U.S.-OWNED FOREIGN FLAG CARRIERS TO VISIT PRC PORTS, AND
- PERMIT LIMITED DIRECT TRADE WITH THE PRC. THIS WOULD INCLUDE BOTH DESIGNATED IMPORTS AND CERTAIN TYPES OF NON-STRATEGIC EXPORTS.

THE DEPARTMENT OF STATE IS NOW ENGAGED IN IMPLEMENTING THE PRESIDENT'S DECISIONS IN COORDINATION WITH THE OTHER DEPARTMENTS CONCERNED.

Q. WHAT IS THE SIGNIFICANCE OF THE PRESIDENT'S STATEMENT WITH RESPECT TO SINO-U.S. RELATIONS?

A. THE PRESIDENT'S DECISION IS A FURTHER INITIATIVE TO REDUCE BARRIERS AND CREATE OPPORTUNITIES FOR INCREASED CONTACTS BETWEEN THE CHINESE AND AMERICAN PEOPLES. IN MAKING THESE MOVES WE HOPE THAT THE CLIMATE FOR AN IMPROVEMENT OF SINO-U. S. RELATIONS WILL BE ENHANCED OVER THE LONG RUN.

Q. WHAT DO WE ANTICIPATE WILL BE PEKING'S REACTION?

A. I WOULD NOT WANT TO PREDICT WHAT PEKING'S REACTION WILL BE. NATURALLY WE WOULD HOPE FOR A POSITIVE RESPONSE IN PRACTICAL TERMS.

Q. ARE THESE STEPS JUSTIFIED SIMPLY ON THE BASIS OF AN INVITATION TO OUR TABLE TENNIS TEAM?

A. THE PRESIDENT'S DECISION WAS MADE ON RECOMMENDATIONS WHICH WERE THE RESULT OF EXTENSIVE DELIBERATIONS OVER THE PAST SEVERAL MONTHS IN THE U. S. GOVERNMENT. YOU WILL RECALL THAT IN HIS MESSAGE TO CONGRESS THE PRESIDENT ANNOUNCED THAT HE WOULD BE REDUCING NEEDLESS OBSTACLES TO CONTACTS BETWEEN THE CHINESE AND AMERICAN PEOPLES. WHILE WE CERTAINLY WELCOME THE CHINESE INVITATION TO THE U.S. TABLE TENNIS TEAM, THE PRESIDENT'S DECISIONS WERE FORMULATED IN A LARGER CONTEXT.

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Q. WHAT SIGNIFICANCE DOES THE PRESIDENT'S STATEMENT HAVE FOR THE U.S. POSITION ON CHINESE REPRESENTATION IN THE UN? ARE WE PREPARED TO FAVOR PRC ENTRY INTO THE UN?

A. THESE MOVES ARE UNRELATED TO THE ISSUE OF CHINESE REPRESENTATION IN THE UN.

Q. WHAT WILL BE THE GOVERNMENTAL MECHANISM FOR CARRYING OUT THE PRESIDENT'S ANNOUNCED STEPS?

A. THE DEPARTMENT OF STATE IS CONSULTING WITH COMMERCE AND TREASURY AND OTHER INTERESTED DEPARTMENTS ON THE MANNER OF IMPLEMENTING THE PRESIDENT'S DECISIONS. THE NECESSARY CHANGES IN COMMERCE AND TREASURY REGULATIONS WILL BE ANNOUNCED OR PUBLISHED BY THE APPROPRIATE AGENCIES WHEN THEY HAVE BEEN FORMULATED.

Q. HOW DO WE ASSESS THE LIKELIHOOD OF A WARSAW MEETING IN THE LIGHT OF RECENT DEVELOPMENTS?

A. I WOULD NOT WANT TO SPECULATE ON THAT. WE ARE, OF COURSE, PREPARED TO CONTINUE OUR DIALOGUE AT WARSAW AT ANY TIME.

Q. HAVE OTHER GOVERNMENTS BEEN INFORMED IN ADVANCE?

A. YES. CERTAIN OTHER GOVERNMENTS HAVE BEEN INFORMED.

Q. IS THE PRC BEING INFORMED OTHER THAN THROUGH THIS ANNOUNCEMENT?

A. I THINK THE ANNOUNCEMENT SPEAKS FOR ITSELF.

Q. WILL YOU CHARACTERIZE OUR TRADING PATTERN WITH THE PRC UP TO NOW?

A. THERE HAS BEEN AN EMBARGO ON TRADE WITH THE PRC SINCE 1950. IN THE PAST TWO YEARS WE HAVE TAKEN SEVERAL STEPS TO REDUCE OUR CONTROLS ON TRADE BETWEEN AMERICANS AND THE PRC OVERSEAS, WHILE RETAINING THE EMBARGO ON DIRECT U.S.-PRC TRADE.

-- IN JULY 1969 WE PERMITTED TOURISTS TO IMPORT IN THEIR ACCOMPANIED LUGGAGE \$100 WORTH OF MAINLAND

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Department of State

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CHINESE GOODS.

- IN DECEMBER 1969 WE REMOVED RESTRICTIONS ON THE AMOUNT AND METHOD OF IMPORT ON NON-COMMERCIAL GOODS BY INDIVIDUALS AND NON-PROFIT INSTITUTIONS.
- AT THE SAME TIME WE AUTHORIZED FOREIGN SUBSIDIARIES OF AMERICAN FIRMS TO CONDUCT NON-STRATEGIC TRADE WITH THE PRC.
- IN APRIL 1970 WE ANNOUNCED THAT WE WOULD PERMIT THE EXPORT OF AMERICAN-MADE COMPONENTS TO BE INCORPORATED IN CERTAIN NON-STRATEGIC FOREIGN-MADE COMMODITIES TO BE SHIPPED TO THE PRC.
- IN AUGUST 1970 WE AUTHORIZED BUNKERING FREE WORLD SHIPS CARRYING NON-STRATEGIC CARGOES WITH NON-U.S.-ORIGIN PETROLEUM PRODUCTS.

BECAUSE OF THESE RELAXATIONS OF RESTRICTIONS, TRADE BETWEEN THE PRC AND AMERICAN FOREIGN SUBSIDIARIES, TOURISTS, AND MAKERS OF COMPONENTS MAY HAVE EXCEEDED \$3.5 MILLION IN 1970.

Q. WHERE DOES THIS LEAVE US IN TERMS OF TRADE CONTROLS APPLIED TO OTHER COMMUNIST COUNTRIES? DOES THIS PLACE TRADE AT THE SAME LEVEL OF CONTROL AS WITH THE SOVIET UNION?

A. UNTIL THE DEPARTMENT OF COMMERCE COMPLETED A REVIEW OF ITS COMMODITY CONTROL LIST IT WILL NOT BE POSSIBLE TO MAKE USEFUL COMPARISONS WITH OTHER COMMUNIST COUNTRIES.

Q. SOME DETAILS PLEASE, OR EXAMPLES.

A. I WILL HAVE TO LEAVE THAT TO THE EXPERTS IN THE COMMERCE DEPARTMENT TO COMMENT ON AFTER THEY HAVE HAD A CHANCE TO CONDUCT THEIR REVIEW.

Q. WHO WILL CONSIDER ITEMS FOR THE LISTS? WILL THEY BE PUBLISHED?

A. ANNOUNCEMENTS CONCERNING APPROVED ITEMS AND PUBLICATIONS OF LISTS ARE THE RESPONSIBILITY OF THE DEPARTMENT OF

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COMMERCE. COMMERCE WILL MAKE RULINGS UNDER THE AUTHORITY OF THE EXPORT ADMINISTRATION ACT AFTER CONSULTATION WITH STATE, DEFENSE, AND OTHER INTERESTED DEPARTMENTS.

Q. HOW DOES THE STEP TO BE TAKEN ON BUNKERING CONTROLS DIFFER FROM THE PRESENT REGULATION?

A. THE PREVIOUS RELAXATION APPLIED ONLY TO FREE WORLD VESSELS AND NON-U.S.-ORIGIN PETROLEUM PRODUCTS. THIS CHANGE PERMITS BUNKERING PRC VESSELS AND AIRCRAFT, INCLUDING THE USE OF AMERICAN-ORIGIN PETROLEUM PRODUCTS, EXCEPT WHEN THEY ARE ENROUTE TO OR FROM NORTH KOREA, NORTH VIET-NAM AND CUBA.

Q. WHAT IS MEANT BY EXPEDITING VISAS?

A. IT WOULD MEAN THAT WE WOULD SPEED UP THE MACHINERY FOR VISA ISSUANCE AND WOULD GIVE SYMPATHETIC AND EXPEDITIOUS CONSIDERATION TO VISA APPLICATIONS.

Q. HOW ARE PRESENT CURRENCY CONTROLS APPLIED? WHAT IS THE MEANING OF THE WORD "RELAX"? DOES THIS MEAN THAT SOME CONTROLS IN THE USE OF DOLLARS ARE STILL BEING APPLIED?

A. CONTROLS ON U.S. DOLLAR TRANSACTIONS ARE APPLIED BY THE OFFICE OF FOREIGN ASSETS CONTROL IN TREASURY. THE PRESENT CHANGE DOES NOT CHANGE TREASURY CONTROLS ON PREVIOUSLY BLOCKED ACCOUNTS, IT MERELY PERMITS THE USE OF U.S. DOLLARS IN PAYMENTS AND OTHER NORMAL TRADE TRANSACTIONS.

Q. HOW ARE IMPORTS LIMITED OR DESIGNATED?

A. LICENSING OF IMPORTS WOULD BE OPERATED BY THE TREASURY DEPARTMENT.

Q. DO YOU HAVE ANY INDICATION WHAT "ADDITIONAL" STEPS THE PRESIDENT HAS IN MIND?

A. NO. IRWIN

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NATIONAL SECURITY COUNCIL

WASHINGTON, D.C. 20506

SECRET

April 13, 1971

National Security Decision Memorandum 105

TO: The Secretary of State
 The Secretary of Defense
 The Director of Central Intelligence
 The Attorney General

SUBJECT: Steps Towards Augmentation of Travel and Trade
 Between the People's Republic of China and the
 United States

The President has reviewed the recommendations forwarded by the Under Secretaries Committee on steps to increase personal and commercial contacts between the People's Republic of China and the United States, and has directed that the following moves be undertaken:

- Issuance of a public statement offering to expedite visas for groups of visitors from the People's Republic of China to the U. S.
- Relaxation of currency control to permit Chinese use of dollars.
- Ending restrictions on American oil companies providing bunkers except on Chinese owned or chartered carriers bound to or from North Vietnam, North Korea, or Cuba. This relaxation covers ships as well as planes, but would not affect our existing controls on entry to PRC carriers into U. S. ports.
- Granting permission to U. S. vessels to carry Chinese cargoes between non-Chinese ports, and for U. S. -owned foreign flag vessels to call at Chinese ports.
- Commencement of a relaxation of controls on direct trade between the U. S. and China by placing individual items under general license for direct export to the PRC after item-by-item interagency review to determine if they are of strategic significance. The Under Secretaries Committee is to be charged with the

SECRET

responsibility of determining which items should be placed on general license, and should forward a report within 30 days requesting approval of these determinations. Upon the commencement of these limited direct exports, direct imports from China of a similar and correlated nature will be allowed.

The President has also directed that the Under Secretaries Committee review and report to him after a period of four months the results of the steps taken. The report should include an assessment of the reactions to these steps by the PRC and the GRC. The President will then determine whether implementation of additional steps recommended by the Under Secretaries Committee may be warranted.


Henry A. Kissinger

cc: Secretary of the Treasury
Secretary of Commerce
Chairman, Joint Chiefs of Staff
Director, United States Information Agency

NATIONAL SECURITY COUNCIL

SECRET

May 6, 1971

MEMORANDUM FOR:

DR. KISSINGER

FROM:

ERNEST JOHNSTON *E.J.*

SUBJECT:

May 7 Agency Announcements on
Implementation of Some Parts of
the President's China Decisions

In his memorandum of May 3 Fred Bergsten informed you that Secretary Connally had instructed Treasury to postpone until his return its proposed announcement last Saturday on the freeing of the China foreign assets controls. This is one of the steps to implement the President's China decisions. Connally is now prepared to go ahead and Treasury plans to make its announcement on May 7. On the same day Commerce and Transportation will announce changes in the regulations on bunkering, shipping and cargoes. These are the elements, marked on the attached decision memorandum which did not need further referral to the President. A cable is going to the Asian posts prior to the agency announcements.

The Decision Memorandum does, however, require that the Under Secretaries Committee prepare for the President a series of options on items to be allowed in the US/China export and import trade. These will require further Presidential decisions prior to implementation. That paper is now being put into final shape and should arrive in the next few days.

Attachment

NSDM - 105Clearance: Holdridge *DAD*SECRET

MEMORANDUM

THE WHITE HOUSE
WASHINGTONSECRET

April 19, 1971

MEMORANDUM FOR:

MR. PETER FLANIGAN

FROM:

HENRY A. KISSINGER *HK*

SUBJECT:

Sale of Older Jet Planes to China

You asked about the possibility of selling American second hand jet planes to China. This general subject was included in the package to the President on relaxation of our regulations on and travel between the U. S. and China, on which he has just made a decision and which was announced on April 15. (NSDM 105 is attached.)

The package suggested three groups of steps the President could take. The sale of planes would be included in the second step, which however would not be implemented until after we had assessed reactions to the first step over a period of several months.

However, you might also wish to suggest that the sale of older planes be judged on its own merits, including the commercial considerations which you cite, which might be possible with fewer political overtones than if it were done as part of an additional broad package as now envisaged. I could conceive of such planes being approved for general license under the procedures cited in NSDM 105, or via specific licenses on an ad hoc basis. In either case, of course, the fundamental consideration would have to be our overall policy effort toward China and how such sales would fit into it.

SECRET

Dispatched 4/19/71

SECRET

April 13, 1971

National Security Decision Memorandum 105

TO: The Secretary of State
 The Secretary of Defense
 The Director of Central Intelligence
 The Attorney General

SUBJECT: Steps Towards Augmentation of Travel and Trade
 Between the People's Republic of China and the
 United States

The President has reviewed the recommendations forwarded by the Under Secretaries Committee on steps to increase personal and commercial contacts between the People's Republic of China and the United States, and has directed that the following moves be undertaken:

- Issuance of a public statement offering to expedite visas for groups of visitors from the People's Republic of China to the U. S.
- Relaxation of currency control to permit Chinese use of dollars.
- Ending restrictions on American oil companies providing bunkers except on Chinese owned or chartered carriers bound to or from North Vietnam, North Korea, or Cuba. This relaxation covers ships as well as planes, but would not affect our existing controls on entry to PRC carriers into U. S. ports.
- Granting permission to U. S. vessels to carry Chinese cargoes between non-Chinese ports, and for U. S. -owned foreign flag vessels to call at Chinese ports.
- Commencement of a relaxation of controls on direct trade between the U. S. and China by placing individual items under general license for direct export to the PRC after item-by-item interagency review to determine if they are of strategic significance. The Under Secretaries Committee is to be charged with the

SECRET

responsibility of determining which items should be placed on general license, and should forward a report within 30 days requesting approval of these determinations. Upon the commencement of these limited direct exports, direct imports from China of a similar and correlated nature will be allowed.

The President has also directed that the Under Secretaries Committee review and report to him after a period of four months the results of the steps taken. The report should include an assessment of the reactions to these steps by the PRC and the GRC. The President will then determine whether implementation of additional steps recommended by the Under Secretaries Committee may be warranted.



Henry A. Kissinger

cc: Secretary of the Treasury
Secretary of Commerce
Chairman, Joint Chiefs of Staff
Director, United States Information Agency

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

SECRET

April 5, 1971

TO: HENRY A. KISSINGER

FROM: PETER M. FLANIGAN

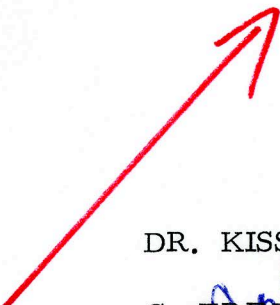



A major problem of the domestic airlines which are currently in dire financial straits, is excess capacity. This excess capacity is to some extent made up of older 4-engine jet aircraft which cannot economically be retrofitted to meet modern air pollution standards.

One of the major potential markets for these planes could well be Communist China.

In light of the recent Presidential statement against the expansion of trade with Communist countries, could an exception be made under which these surplus airplanes could be sold to Communist China. The benefits would be (a) a great financial relief to our hard-pressed airlines and (b) a big step towards noise and exhaust pollution control. May I have your answer in the very near future as this is an immediate problem.

SECRET


 April 14, 1971
 
SECRET

MEMORANDUM FOR:

DR. KISSINGER

FROM:

C. FRED BERGSTEN

SUBJECT:

Sale of Airplanes to China


Peter Flanigan has written that the current financial plight of our domestic airlines could be helped if they were permitted to sell some of their old jet planes to China. He asks if he could receive an answer from you promptly on the subject.

This is one of the issues which was included in your general memorandum to the President on trade and travel relations with China, and which is not to be pursued at this time as a general matter.

Such sales could, however, be effected if the category were approved for general license after the interagency review called for in NSDM 105. They could also be effected via a specific request for specific sales even if the category were not approved for general license. The memo for Flanigan at Tab A therefore suggests that he might want to raise these possibilities as a specific step separate from the "group" measures now envisaged.

RECOMMENDATION:

That you sign the memorandum for Flanigan at Tab A.

Concurrence: JHoldridge 

SECRET

NSC CORRESPONDENCE PROFILE

DOC SOURCE/CLASS/DESCRIPTION

TO: PRES _____ FROM: ELIOT _____ U _____ LOG IN/OUT ONLY _____
 KISSINGER **XXX** _____ ROGERS, W _____ LOU _____ NO FORN _____ NODIS _____
 HAIG _____ LAIRD, M _____ C _____ EYES ONLY _____ LIMDIS _____
FLANIGAN, Peter S **XX** _____ CODE WORD _____ RES DATA _____
 TS _____ SENSITIVE _____

SUBJECT: Sale of older four engine jet aircraft to Communist China.

REFERENCE: S/S _____ OTHER _____ NOT XEROXED _____

APP'TS: PRES _____ HAK _____ TALKER _____ MEMCON _____ DATE REQ. _____

SECRETARIAT DISTRIBUTION/ACTION

INTERNAL ROUTING AND DISTRIBUTION				ACTION REQUIRED	
	ACTION	INFO	REC CY FOR		
ADVANCE CYS TO HAK/HAIG				MEMO FOR HAK	(XXX)
STAFF SECRETARY				MEMO FOR PRES.	()
FAR EAST		XXX	<input checked="" type="checkbox"/>	REPLY FOR _____ SIGNATURE	()
SUB-SAHARAN AFRICA				FOR DISTRIBUTION/DISPATCH	()
NR EAST/NORTH AFRICA				MEMO _____ TO _____	()
EUROPE/CANADA				RECOMMENDATIONS	()
LATIN AMERICA				JOINT MEMO	()
UNITED NATIONS				REFER TO STATE	()
ECONOMIC	XXX		<input checked="" type="checkbox"/>	ANY ACTION NECESSARY	()
SCIENTIFIC				CONCURRENCE	()
LR PLANNING				DUE DATE: 9 April	
PROGRAM ANALYSIS				COMMENTS: (Including Special Instructions)	
NSC PLANNING					
CONGRESSIONAL					

INTERNAL/INTERIM ROUTING

DATE	FROM	TO	S	ACTION REQUIRED	CY TO
04 14	BERG	HAK	X	Sign Memo to Flanigan (copy)	
4/16				HAK signed memo to Flanigan	

DISPOSITION

CROSS REF WITH _____ NOTIFY _____ DATE _____
 SEE LOG _____ DISPATCH: LETTER/MEMO _____
 JOINED BY LOG _____ COPIES: (AS MARKED ABOVE) _____
 SPECIAL FILE RQMT: _____ SA, _____ HP, _____ HM
 SPECIAL DISPOSITION COMMENTS: _____
 SUSPENSE CY ATTACHED: YES _____ NO _____

MICROFILM DATA

DO _____
 INIT _____
 DATE **4/21**
 ORIG) NSC _____
 TO) PAF _____
 WHC _____
 SUBF



OFFICE OF THE DEPUTY ATTORNEY GENERAL
WASHINGTON, D.C. 20530

SECRET

February 12, 1971

Mr. Arthur A. Hartman
Staff Director
NSC Under Secretaries Committee
Department of State
Washington, D.C. 20520

Dear Mr. Hartman:

This is in response to your request of February 2, 1971 for the comments of this Department on the Under Secretaries Committee's draft memorandum to the President and attached report on the proposed steps to relax restrictions on travel to and trade with Communist China.

Intelligence information available indicates that it is Communist China's intention to direct its intelligence efforts against the United States, given the opportunity. The Chinese Intelligence Service is known to have sought to gather intelligence data in the United States and Canada. In fact, once having established an Embassy in Havana, Communist Chinese trade, technological and cultural missions fanned out across Latin America. Members of these missions were trained agents, who engaged in intensive subversive activities in some of the Latin American countries visited. As the FBI pointed out its experience with trade and similar delegations entering the United States from Communist countries indicates continued use of such groups for intelligence purposes.

The FBI has also observed that there are in the United States individuals and groups in full agreement with the Maoist ideological concepts of the inevitability of class conflict and world revolution. These individuals are among the advocates of domestic violence in this country. Leading figures in the revolutionary movement in the United States have traveled to China. This appears particularly troublesome today in light of the Vietnam war and the hostility towards this country displayed by an increasing number of young militants.

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- 2 -

Removal of restrictions on travel by United States citizens to Communist China could open the door to an intensification of existing Red Chinese intelligence efforts against the United States, according to the Bureau. United States citizens who travel to Communist countries are regularly evaluated and assessed by hostile Intelligence Services with a view toward recruitment for intelligence purposes. Furthermore the Communist Chinese would be presented with opportunities for close clandestine contacts with United States citizens who actively support the Maoist ideology.

Finally, with respect to the Committee's comment that our attempted restrictions on travel to Communist China, North Korea, North Vietnam and Cuba are unenforceable, we call your attention to the fact that this Department with the concurrence of the State Department, has strongly recommended, the prompt enactment of legislation designed to empower the Secretary of State to place effective controls on the travel of American citizens to restricted countries and areas.

In light of the foregoing considerations this Department remains opposed to the draft proposals, which would relax the current travel restrictions in effect with regard to Communist China.

Sincerely,

Richard G. Kleindienst
RCM

Richard G. Kleindienst
Deputy Attorney General

SECRET



THE UNDER SECRETARY OF STATE
WASHINGTON

S/S 7102316

NSC UNDER SECRETARIES COMMITTEE

SECRET/SENSITIVE

February 23, 1971

MEMORANDUM FOR THE PRESIDENT

Subject: Steps Towards Augmentation of Travel and Trade between the People's Republic of China and the United States

You have asked for recommendations for steps to carry out your policy of increasing personal and commercial contacts between the People's Republic of China (PRC) and the United States as a step toward improvement of relations between our two governments. After a review based on NSDM 17 and the current studies under way in NSSM 106, the Under Secretaries Committee* recommends two steps to facilitate personal contacts by relaxing restrictions on travel by American and PRC citizens, as well as steps in seven areas which would provide the basis for development of more normal commercial relations. All of the recommended steps can be implemented without new legislation.

I enclose a study containing a full review of the various issues and action possibilities considered by the Committee. The following is a summary of our action recommendations, with appropriate page references to the full study.

* The Committee was augmented for the purpose of this study by representatives of the Departments of Commerce, Treasury, Justice and Agriculture.

SECRET/SENSITIVE

Travel

In the field of travel, the Committee recommends removal of all passport restrictions on travel to the PRC when they expire on March 15 (Travel, Option B, page 4). The Department of Justice opposes this proposal because it would afford the PRC better opportunities for intelligence acquisition, permit close clandestine contacts between American Maoists, advocates of domestic violence and the PRC, and make it easier for the PRC to recruit sympathetic intelligence agents (see Annex). The remainder of the Committee believe the potential gains outweigh the risks.

The Secretary of State, under whose authority the passport regulations are issued, concurs in recommending that controls on the use of passports for travel to the PRC be dropped on March 15, while continuing them on travel to North Viet-Nam, North Korea, and Cuba. This would eliminate the last formal passport barrier on our part to travel by American citizens to the PRC. Because of court decisions, and in keeping with our policy since 1969 of granting exceptions to the passport restrictions on travel to the PRC for broad categories of travelers, the barrier has in any event had little practical effect.

Approve _____ Disapprove _____

Additionally, it appears to us desirable to make a public statement offering to expedite visas for groups of visitors from the People's Republic of China to the U.S. (Travel, Step 2, page 6), in order to establish our willingness to facilitate on a reciprocal basis a flow of persons between the two countries. Justice opposes because such groups would probably include trained subversive agents (see Annex).

Approve _____ Disapprove _____

SECRET/SENSITIVE

-3-

Trade

The United States relaxed some of its controls affecting trade between the PRC and third countries in December 1969, in April 1970, and again in August 1970 by a minor move on bunkering non-communist ships. The Committee believes that we should now commence relaxation of our controls on direct Sino-US trade, eventually to accord the PRC approximate parity with the Soviet Union. The closer our treatment of trade with the PRC approaches that applied to the Soviet Union, the more seriously our assertions of willingness to improve relations with the PRC will be believed, and the more likely it becomes that Peking will eventually respond favorably to our initiatives.

Timing

The trade steps could be accomplished separately or in a single package. The single package would probably have the most favorable effect on the PRC, while gradualism runs a greater risk of inviting scornful responses from Peking.

However, implementing these measures on a steady phased basis, in an undramatic fashion, would minimize an adverse effect on Taipei in general and on our limited ability to influence the GRC on the sensitive Chirep issue in particular. In fact a first step in this process, if not too dramatic, might well be helpful in making clear to the GRC that while we are anxious to help preserve its position in the UN, our purpose of seeking improved relations with the mainland is still firm and something which it would do well to take seriously. The timing of steps beyond the initial one would depend on a number of considerations, including the climate of US-GRC relations and the evolution of our Chirep position. For these reasons the Committee makes no recommendations on precise timing after the first step.

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SECRET/SENSITIVE

-4-

To sum up, therefore, the Committee recommends approval of all the steps described below, in deliberately spaced stages, and in an undramatic fashion, starting in the near future with authorization of direct export trade (Timing, Option A, page 33). The Committee is prepared to supervise the implementation of your decision with the aim of completing the program at or near the end of 1971.

Approve phased approach _____

Approve package approach _____

Exports

The Committee's objective is ultimately to place exports to the PRC on the same footing as the Soviet Union, but the Committee believes it is necessary to review experience with a more restricted level of exports before moving all the way to that goal. Specifically, therefore, the Committee recommends at this time the authorization of exports to the PRC under general license of all commodities currently under general license to the USSR except those which, after item-by-item interagency review, are deemed to be of strategic significance to the PRC (Exports, Option B, page 16).

Approve _____ Disapprove _____

Imports

The Committee recommends that later this year direct commercial imports from the PRC be authorized on essentially the same basis as the Soviet Union (Imports, Option A, page 20). It is important that this move be correlated with exports, preferably as one of the first steps subsequent to the initial export step.

Approve _____ Disapprove _____

SECRET/SENSITIVE

Aircraft Sales

A gesture in the trade field which would enhance the political impact of relaxation of export and import controls would be a decision to permit the export to China of used American passenger aircraft not under COCOM restrictions (i.e. of a type which has been operating in normal civil use for more than one year), providing certain strategic equipment on board the aircraft is first removed. We have in the past approved the sale of British-made aircraft containing American-made components, after strategic equipment was removed.

A large number of older American aircraft are owned by airlines which would like to sell them to get capital to buy new American aircraft--which would be much welcomed by our industry. A case in point is a proposal by Pakistan International Airlines to sell to the PRC three of its used Boeing 720B passenger aircraft, after certain strategic equipment aboard them is removed (Aircraft Sales, page 23). If the PRC makes a firm offer to PIA, we recommend approval. We would accord the same treatment on a case-by-case basis to proposed transactions concerning similar used passenger aircraft of American manufacture, after certain strategic equipment is removed.

Approve _____ Disapprove _____

Currency Controls

The Committee also recommends relaxation later this year of our currency controls to permit Chinese use of dollars (Currency Controls, Option A, page 24). This would be important in conjunction with a decision to permit direct trade, especially imports, but could also be put into effect independently.

Approve _____ Disapprove _____

Bunkering

An irritation to the PRC and to American oil companies could be removed by changing bunkering controls (including those on petroleum products of US origin) to permit fueling Chinese-owned or chartered carriers--surface as well as air--(except those bound to or from North Viet-Nam, North Korea or Cuba) as well as non-communist and Eastern European carriers bound to or from China (Bunkering, page 26). The Committee recommends this relaxation of bunkering controls before the end of this year. (This relaxation would not affect our existing controls on entry of PRC carriers into US ports.)

Approve _____ Disapprove _____

Trade Delegations

A step in the trade field which would integrate closely with efforts to spur travel between the U.S. and the PRC would be to propose an exchange of trade delegations if circumstances warrant (e.g. a positive PRC response to our trade relaxation emerges) (Trade delegations, page 27). The Committee recommends that this step be authorized as a means of getting the proposal on record with the PRC. (Justice opposes; see Annex).

Approve _____ Disapprove _____

Chinese Port Entry and Cargoes

Finally, the Committee recommends adoption of two steps to permit (i) U.S. vessels to carry Chinese cargoes between non-Chinese ports and (ii) U.S.-owned foreign flag vessels to call at Chinese ports (Shipping, Options B and C, pages 30 and 31). We make no recommendation on

amending current regulations to permit U.S. vessels and aircraft to call at Chinese ports at this time.

We note, however, that a decision in the export field to permit grain sales to the PRC--a major importer of grain--would raise the question of whether to allow more favorable treatment of the PRC than the USSR by not requiring that 50 percent be shipped in American bottoms. (The Department of Commerce expects shortly to refer a case to the White House involving grain sales to the USSR which is stymied because of the cost of shipping 50 percent in American bottoms.) If we do extend the 50 percent requirement to apply to the PRC as well, we might defeat the purpose of permitting sales of grain to the PRC because of high shipping costs. Moreover, regulations would have to be amended to permit U.S. ships to call at PRC ports.

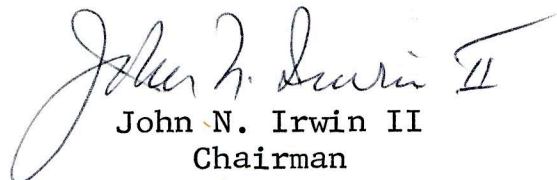
Approve (i) above _____

Disapprove _____

Approve (ii) above _____

Disapprove _____

We recommend these steps, not in the expectation of any substantial immediate increases in travel or trade, but because their adoption would be designed to show the genuineness of our desire to improve relations and eventually to develop significant trade.


John N. Irwin II
Chairman

Enclosures:

1. Annex: Department of Justice letter.
2. NSC - U/SM 91.



NSC # 26482

THE ASSISTANT SECRETARY OF COMMERCE
Washington, D.C. 20230

MAR 5 1971

SECRET

Honorable Henry A. Kissinger
Assistant to the President for
National Security Affairs
The White House

Dear Dr. Kissinger:

This will record with you an exception I feel I must take to one aspect of the Memorandum and Report addressed to the President from the Under Secretary of State on NSC-U/SM 91 (Travel and Trade with Communist China). The Memorandum indicates that the NSC Under Secretaries Committee agreed that "the Committee's objective is ultimately to place exports to the PRC on the same footing as the Soviet Union, but the Committee believes it is necessary to review experience with a more restricted level of exports before moving on the way to that goal." This statement does not reflect the position of the Department of Commerce.

Our position is that the Committee should recommend to the President the adoption of Option B which, in brief, calls for relaxing controls on exports to Mainland China on a selective basis after an item by item interagency review establishes that the items to be decontrolled would have no strategic significance to the Chinese. More restrictions would be retained for China than for the USSR. We opposed in Committee calling on the President to decide now that the China controls should be further relaxed in the latter part of 1971 (as State then recommended) to put them on essentially a parity with the controls to the USSR (Option A.) We are in agreement with DOD that the effect of relaxation under Option B should be reviewed before deciding whether or not to relax further. We do not believe that at this point in time we are in a position to say with certainty that our goal is to put Mainland China and the Soviet Union on the same footing as far as U.S. trade controls are concerned.

The position we took at the Under Secretaries' meeting on February 11th can be properly expressed by making the following changes in the Memorandum to the President:

a) On page 3, in the first paragraph, delete the phrase starting on line 7 with the word "eventually" and ending on

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GROUP 1

Excluded from automatic
downgrading and
declassification

SECRET

2.

line 8 with "the Soviet Union."

b) On page 4 under Exports, delete the initial part of the paragraph through the word "therefore" on line 6.

c) On page 17 of the Study accompanying the Memorandum, in the partial paragraph at the head of the page, delete the parenthetical sentence following the underlined portions of the paragraph.

Sincerely,



Robert McLellan
Assistant Secretary for Domestic
and International Business

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26167

J Waldridge



THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

1 MAR 1971

Dr. Henry A. Kissinger
Assistant to the President
for National Security Affairs
The White House
Washington, D.C. 20501

Dear Henry:

I regret that I must inform you that the Memorandum and Report which the President received from the Under Secretary of State on USM-91 (Travel and Trade with Communist China) was in error. Specifically, the Memorandum states that the Committee agreed that "The Committee's objective is ultimately to place exports to the PRC on the same footing as the Soviet Union, but the Committee believes it is necessary to review experience with a more restricted level of exports before moving all the way to that goal." The Department of Defense specifically did not agree to this. In fact, it is the stated goal of Option A which the Committee considered and rejected.

It is the Defense Department's position that the only change in our export policy should be to place individual items under general license for the PRC after interagency review to determine if they are of strategic significance to the PRC but that there should remain a significant differential in the levels of control over strategic items for PRC and the USSR because of their different levels of industrial and technological development. This step is in itself a large and important one. After a year or two of experience, the policy should then be reviewed to determine whether the US national interest could be served by taking further steps to liberalize our export policy toward the PRC. Perhaps at that time we might be in a position to decide that our ultimate goal should be to place these two communist countries on the same footing. I was under the impression that the Commerce and Justice Department's representatives at the USC meeting of 11 February 1971 took the same position.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dane".

cc: HAR

SECRET

Sec Def Cont Nr. X-1002

MEMORANDUM

NATIONAL SECURITY COUNCIL

26167

SECRET

ACTION

(For Signature 3/18/71)

March 18, 1971

MEMORANDUM FOR: DR. KISSINGER

FROM: JOHN H. HOLDRIDGE
FRED BERGSTEN
HELMUT SONNENFELDT

SUBJECT: Steps Towards Augmentation of Travel and Trade
Between the Peoples Republic of China and the
United States

*JHH/M Dick -
See memo separately*

The NSC Under Secretaries Committee has completed the study requested by the President (Tab F).

We find it a thorough document fully consistent with the President's Foreign Policy Report on this subject and alert to the advantages and disadvantages of either continued gradualism or a package move in this area.

With the exception of Justice opposition to any increase in travel by Americans and Chinese between the two countries, and Defense and Commerce opposition to setting as a policy the putting of trade with China on approximately the same level as trade with the USSR, all members of the Committee agreed on all recommendations and on the statements of options for the President. These are as follows:

--Travel. To end restrictions on travel to the PRC when the regulations must be extended on March 15 (already implemented), and to publicly announce our willingness to admit Chinese visitors. Justice opposed this because it would afford the PRC better opportunities for intelligence acquisition, permit close clandestine contacts between American Maoists, advocates of domestic violence and the PRC, and make it easier for the PRC to recruit intelligence agents. The formal CIA position favors increased travel between the U. S. and China as a means of inserting its agents into China, although General Cushman did not support this at the Under Secretaries meeting. Commerce favored increased travel as necessary to exploit commercial opportunities. State, Defense and the other agencies felt that the fabric of American society was sufficiently strong to withstand the additional strains which might be put upon it by ending these restrictions.

--Trade. The draft which came before the Under Secretaries Committee from the Working Group favored reducing the restrictions on our trade with the PRC down to the level of those on trade with the USSR as soon as practicable. State vigorously defended the need for a policy decision along these lines. Defense and Commerce have dissented saying that each proposed decision to reduce restrictions should be examined separately on the basis of experience and information derived

from preceding reductions.

The specifics of these travel and trade relaxations, to be implemented in phases, are contained in your memorandum to the President at Tab A. Your memorandum lays out the proposed phased actions and insures that the President will be consulted before each group of actions is undertaken.

Should we decide to adopt some new approach to the Chirep question at the UN, such as dual representation or universality, we would benefit from these initiatives by allaying suspicions that we were trying to devise yet another set of tactics to keep Peking out of the UN. Elimination of the trade and travel restrictions remaining from the Korean War would serve to remove suspicions about the sincerity of our intentions to bring Peking into the world community via the UN and therefore strengthen our ability to gain vitally-needed supporters for Taipei's continued participation.

At the same time, as we get into difficult negotiations with Chiang Kai-shek over Chirep tactics later this spring, he will certainly put pressure on us not to undertake any further initiatives towards Peking on the grounds that these would give "a wrong signal" to wavering GRC supporters about the earnestness of U. S. support, and Chiang will find receptivity for this view in some parts of the U. S. Government.

You should know that the Committee including Defense and Commerce unanimously recommended the opening of direct trade with the PRC. In addition, State argued for a policy decision to put China on approximate parity with the USSR under our trade restrictions as evidence of our desire to lessen tensions with Communist China. Agriculture favored such a policy decision on commercial grounds.

Deputy Secretary of Defense Packard (Tab D) and Assistant Secretary of Commerce for Domestic and International Business McLellan have written you (Tab E) changing Defense and Commerce's position in regard to relaxation of controls on trade with Communist China. These changes in position do no alter the options presented to the President in your memorandum. The Defense and Commerce positions are identical to your Group I Recommended Option:

"Approve placing of individual items under general license for direct export to the PRC only after interagency review to determine if they are of strategic significance. "

John Holdridge and Herbert Levin were both at the Under Secretaries' Committee Meeting and noted Defense and Commerce's positions as originally stated in Mr. Irwin's memorandum covering USC/M 91. It is a tribute to the vigor of the Defense bureaucracy that they have been able to get both Mr. Packard and Mr. McLellan to reverse their agreement to State's request that the President be asked to decide that putting our trade with China on approximately the same level

as with the Soviet Union is a desirable policy goal.

Letters have been prepared for your signature (Tabs B and C) assuring Mr. Packard and Mr. McLellan that their Agencies' position will be accurately presented to the President.

RECOMMENDATIONS:

That you sign the letters to Mr. Packard and Mr. McLellan (Tabs B and C).
That you sign the attached memorandum to the President at Tab A.

MEMORANDUM

NSC 26167

THE WHITE HOUSE

26167

WASHINGTON

SECRET

ACTION

March 25, 1971

MEMORANDUM FOR: THE PRESIDENT *THE PRESIDENT HAS SEEN...*

FROM: HENRY A. KISSINGER *HK*

SUBJECT: Steps Towards Augmentation of Travel
and Trade Between the Peoples Republic
of China and the United States

As you requested, I have asked the NSC Under Secretaries Committee to produce some suggested changes in the U. S. trade and travel regulations with respect to Communist China with a view toward implementing additional relaxations in our present controls. These steps would be intended to further your policy of broadening communications between the U. S. and the Peoples Republic of China by removing obstacles to personal and commercial contacts.

The Under Secretaries Committee went all out and developed a large package of proposals which set a workable course in the direction which you desire. The Committee did so not in the expectation of any substantial immediate increases in trade or travel, but because the adoption of these proposals would show the genuineness of our desire to improve relations and possibly eventually develop significant trade. No new legislation or negotiations with the Chinese would be required.

At the same time, however, the Committee's proposals would, if fully implemented, put a severe strain on our relations with the GRC and perhaps cause a crisis in U. S. -GRC relations. There would also be implications for our relations with the USSR. It therefore appears that a balance will need to be struck between furthering your objectives with respect to Communist China on the one hand, and the desirability of minimizing U. S. - GRC strains, and keeping a watch on Soviet reactions on the other. The questions of timing and the extent to which we should go in our approaches to Peking will clearly need to be carefully considered.

Accordingly, I have broken down the large package from the Under Secretaries Committee into three segments which we could carry out sequentially after an assessment of the results attained (including the Chinese Communist, GRC and Soviet responses) following each of the preceding segments. After assessing these results, we could then consider whether to go on to the next segment.

SECRET

(Actually, in effect there were originally four segments, of which the first was the non-extension of U. S. passport restrictions on travel to the Peoples Republic of China after these restrictions expired on March 15. You have already approved this step on the basis of the position put forward by State, Defense, and other agencies -- over the opposition of the Department of Justice -- that the fabric of American society was strong enough to resist the additional strains which removal of the passport restrictions might put upon it via increased contacts between U. S. radicals and PRC intelligence agents.)

Group I - For Implementation Within the Near Future

Our purpose in this Group would be to show significant movement in the direction of easing travel and trade restrictions with Communist China while not going so far as to antagonize or alarm the GRC unduly nor complicate our relations with the USSR.

-- Entry of Chinese. Following the expiration of the restrictions against using U. S. passports to travel to Communist China, in order to establish our willingness to facilitate on a reciprocal basis a flow of people between the two countries, the Committee recommends a public statement by the U. S. Government offering to expedite visas for groups of visitors from the Peoples Republic of China to the U. S. This would implement your references to removing needless obstacles to broader opportunities for contacts in your Foreign Policy Report. Justice opposes this because it would afford the PRC better opportunities for intelligence acquisition, permit close clandestine contacts between American Maoists, advocates of domestic violence and the PRC, and make it easier for the PRC to recruit intelligence agents. Commerce favored increased travel as necessary to exploit commercial opportunities. State, Defense and the other agencies felt that the American people were sufficiently resilient to resist any added subversive burdens which the presence of Chinese Communist travelers might introduce. Very few Chinese are likely to apply in the foreseeable future.

-- Currency Controls. Relaxation of our currency controls to permit Chinese use of dollars would be essential in conjunction with a decision to permit direct trade with China (discussed below), but could also be put into effect independently.

-- Bunkering. The Committee recommends the ending of restrictions on American oil companies providing bunkers except on Chinese owned or chartered carriers bound to or from North Vietnam, North Korea, or Cuba. This relaxation covers ships as well as planes, but would not affect our existing controls on entry of PRC carriers into U. S. ports.

-- Shipping. The Committee recommends granting permission to U. S. vessels to carry Chinese cargoes between non-Chinese ports, and U. S. -owned foreign flag vessels to call at Chinese ports.

All of the foregoing moves involve relatively minor adjustments on our part and would inspire little or no reaction from the GRC and the USSR. The main GRC objection would be regarding the admission of Chinese Communists into the U. S. , and we could anticipate receiving an official GRC expression of concern at the Ambassadorial level. The totality of our moves would of course bother the GRC, but probably not to a point where real trouble would ensue. The Soviets would be suspicious of our intent and also suspect some behind-the-scenes U. S. -Chinese contacts, but are not likely to make much of an issue out of the individual moves.

There is, however, a more complex proposal in Group I which deserves special attention:

-- Trade. The Committee recommends that we should now commence relaxation of our controls on direct trade between the United States and China. With Defense and Commerce dissenting, it observes that, "The closer our treatment of trade with the PRC approaches that applied to the Soviet Union, the more seriously our assertions of willingness to improve relations with the PRC will be believed, and the more likely it becomes that Peking will eventually respond favorably to our initiatives." Defense and Commerce take the position that we should not set in advance a policy of bringing our trade controls with China into line with those affecting the USSR. In fact, a public policy of placing China trade on a par with Soviet trade would be galling to both the GRC and the Soviets. The Soviets would take the equal treatment of China with them as an intentional slight, and would profess to believe that this signified U. S. intentions to go further in the political field. Even though many of the trade measures would obviously be in the U. S. commercial interest, the Soviets would not accept such explanations. The GRC's view would be that a stated policy of putting China trade on the same basis as that with the USSR, when added to the totality of the other moves in Group I, indicated a definite U. S. intention of downgrading GRC interests in favor of improving relations with Communist China. In the formal sense, the GRC's response would probably be to lodge a diplomatic protest, but we might in addition expect GRC non-cooperation in other matters of joint concern such as Chirep tactics.

Nevertheless, the recommendation for commencing relaxation of our controls on direct trade was unanimous, and the upshot was to leave as an accepted course the approach favored by Defense and Commerce: to place individual

items under general license for direct export to the PRC only after interagency review to determine if they are of strategic significance. No material adverse reaction would be anticipated from either the USSR or the GRC, although a pro-forma protest from the latter could be expected.

Once direct trade of a limited nature is on the books, the Committee would then favor direct imports from China of a similar and correlated limited nature.

Group II

A reasonable period after implementation of Group I, and following an evaluation of the results and the PRC, GRC, and Soviet reactions, the Under Secretaries Committee would report to you the effect of these moves on our relations with Moscow, Taipei, and Peking, and request approval to implement additional moves, as set forth below. In making these moves, we would be going beyond steps of a limited and still quasi-symbolic nature and working toward the development of substantial two-way trade. With the Group I steps already on the books, we would be making it plain that the relationship we seek with the Chinese is one of substance and not just show.

-- Exports. Approve export to the PRC of all commodities currently under general license to the USSR except those deemed to be of strategic significance to the PRC.

-- Imports. Authorize direct commercial imports into the U.S. from the PRC on essentially the same basis as the Soviet Union in a manner correlated with allowing direct exports.

-- Aircraft Sales. End the restriction against the sale of American and foreign airlines of older American civil aircraft not under COCOM restrictions, on a case-by-case basis, after strategic equipment is removed. This would provide the airlines with the capital to buy new American aircraft -- which would be much welcomed by our industry.

With the Group II moves we would be coming close to placing trade with China and the USSR on much the same basis, and both the Soviets and the GRC would, for the reasons outlined above, be disturbed. They on balance would both probably live with the situation, however, though we could anticipate a strong protest from the GRC coupled with the difficulty already noted in obtaining its cooperation in matters such as Chirep. If we did succeed in getting its cooperation, the price would almost surely be considerably higher than would have been the case otherwise.

I might note that the question of the sale of older American civil aircraft to China could become an active issue, since Pakistan International Airways is

attempting to dispose of some Boeing 720s to the Chinese. This issue, if it actually arises (there has been no firm Chinese offer), could be handled as a separate item from the other steps with fewer repercussions and problems.

Group III

A reasonable period after implementation of Group II, the Under Secretaries Committee would report to you the effect of these moves on our relations with Moscow, Taipei, and Peking, and request approval to implement a final group of steps. These would make it very evident that we would be willing to go a considerable distance in improving relations with the Chinese Communists, and to this end would be prepared to accept a large measure of Soviet and GRC displeasure.

-- Trade Delegations. The Committee recommends authorization of a proposal to the PRC to exchange trade delegations if circumstances warrant. Justice opposes for the same reasons cited under the travel option (Group I). The Chinese delegation would by the very nature of the regime be an official one, and ours would probably assume something of an official character in the public eye.

-- Grain Sales. The Committee notes that a decision in the export field to permit grain sales to the PRC -- a major importer of grain -- would raise the question of whether to allow more favorable treatment of the PRC than the USSR by not requiring that 50 percent be shipped in American bottoms. If we do extend the 50 percent requirement to apply to the PRC, we might defeat the purpose of permitting sales of grain to the PRC because of high shipping costs. Moreover, regulations would have to be amended to permit U.S. ships to call at Chinese ports.

Waiving the 50 percent shipping requirement would constitute more favorable treatment for China than for the USSR in a historically sensitive area, and might be misunderstood politically abroad. In addition, the longshoremen and other unions have vehemently opposed any relaxation of the shipping requirement for the USSR; they would presumably be at least equally vociferous against Communist China, for both commercial and ideological reasons. The unions would maintain their opposition against the USSR if we were to relax on both to avoid a discrimination in favor of China.

If we were to take this step, you would be taking on a major domestic political battle. Since previous relaxations would have placed our trade with China and the USSR under approximately the same level of restrictions, I see no need to allow the PRC more favorable treatment by exempting grain exports from the 50 percent American bottom shipping requirement. However, Agriculture vigorously favors this move.

