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China's Growing Relations With the USSR: Beijing's Agenda



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An Intelligence Assessment

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*EA 87-10009
March 1987*

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An Intelligence Assessment

This paper was written by 
 the Office
of East Asian Analysis. Comments and queries are
welcome and may be directed to the Chief, China
Division, OEA 

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**China's Growing Relations
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Scope Note

This paper examines only a portion of the complex Sino-Soviet relationship, and only from Beijing's perspective. It focuses on those areas where we have seen significant movement in the last two years and offers an assessment of China's motivations and behavior. [Redacted]

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**China's Growing Relations
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Key Judgments

*Information available
as of 9 March 1987
was used in this report.*

Although China continues to insist that political relations with the Soviet Union cannot improve until Moscow reduces its threat to Chinese security (the so-called three obstacles), the last two years have seen a sharp growth in economic and scientific-technological ties.

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Sino-Soviet economic ties are showing the greatest growth. Sino-Soviet trade has doubled in the last two years to reach \$2.4 billion in 1986, and three Soviet economic delegations met with senior Chinese in 1986. Recent agreements to exchange trade exhibitions, build additional rail links, and open reciprocal trading and shipping offices could help boost Sino-Soviet trade to a \$3 billion average annual figure for the rest of the term of a five-year trade agreement that extends to 1990. Although this is sufficient to raise the Soviet Union to the position of China's sixth-largest trading partner, Moscow's nearly 4-percent share of total trade falls well behind the shares of Japan (27 percent), Hong Kong (22 percent), and the United States (11 percent).

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China's scientific and technical contacts with the Soviet Union are also increasing, although less rapidly than in the trade sphere. In 1986 the Soviets agreed to renovate 17 factories and construct seven new facilities, most in northeastern China. Several hundred Soviet technicians ultimately will be sent to China for these and other industrial programs and an equal number of Chinese personnel will be sent to the USSR for training. In our judgment, Beijing will seek greater Soviet assistance over the next few years, particularly in the energy and heavy-industry sectors, where Soviet technology is often on a par with that available from the West. Nonetheless, Sino-Soviet projects number fewer than 30 and will continue to be dwarfed by thousands of major contracts for Western assistance—involving more than 10,000 Western technicians in China over the past two years—signed by the Chinese since 1979.

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Even in the political arena, where movement is not as striking, changes are evident. The number of venues and levels of contact suggest that, although Moscow and Beijing continue to have sharp disagreements, the sessions are no longer the "dialogue of the deaf" described by a Chinese diplomat early last year. We see signs, moreover, that China has decided to maintain an atmosphere conducive to greater contacts and to pass up opportunities to score propaganda points on the Soviet Union. Beijing, for example, did not play up a shooting incident between Soviet and Chinese patrols in July 1986 or the errant landing, probably in China, of an unarmed Soviet submarine-launched missile the following September, even after the incidents were

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widely publicized in the Western press. Moreover, the Chinese have not reacted to Soviet reconnaissance flights over the Yellow Sea since October 1986 or publicized a recent Soviet violation of Chinese airspace. [redacted]

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We do not believe China has changed its assessment that the Soviet Union poses a long-term military threat to China. Articles in China's restricted publications argue that Moscow is attempting to reform its economy to confront China and the United States more effectively early in the next century. China continues to devote great resources to improving its military forces along the Sino-Soviet border, and Beijing has shown no indication of backing away from its relationship with Washington. Indeed, it is most interested in expanding US-China military ties. [redacted]

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What has changed, in our judgment, is how China has chosen to manage the Soviet threat. We believe a number of things account for Beijing's decision to move forward without real Soviet concessions on the three obstacles. Among them are China's need for reduced tensions as it reforms and modernizes, the obvious economic and S&T benefit to China, and China's belief that some improvement in Sino-Soviet relations increases its leverage in Washington and creates tension in Soviet-Vietnamese relations. Perhaps more important, we believe Beijing is reacting to the rise of General Secretary Gorbachev, his interest in Asia, and his different style. Chinese leaders apparently believe that Gorbachev sincerely desires better relations, and we see the expansion of the political venues, in particular, as an effort to probe the limits of Gorbachev's flexibility. Finally, deeper, more visible US ties increase the pressure on Beijing to demonstrate to the Third World—by increasing ties to Moscow where it can—that, despite appearances, it pursues an independent foreign policy. [redacted]

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We believe Sino-Soviet relations are entering a period that will see additional movement in the trade and S&T areas, and the political dialogue will also broaden. Progress is likely to be unsteady, and affected by two factors:

- China's perception of Gorbachev's motives and power.
- The reaction in the West, particularly in the United States. Continued stress on the three obstacles, vigorous criticism of Soviet foreign policy, and repeated assurances by Chinese leaders of the permanence of China's opening to the West suggest that concern about a negative US reaction will act as a brake on the development of Sino-Soviet ties. [redacted]

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**China's Growing Relations
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Introduction

China continues to insist that there can be no fundamental improvement in relations with the Soviet Union until Moscow reduces its threat to Chinese security. Specifically, China is demanding a reduction of the Soviet military presence along its border to 1950s' levels, an end to Soviet support for Vietnam, and a Soviet withdrawal from Afghanistan. Not mentioned specifically, but of evident concern as well— [Redacted]

[Redacted] is the continuing Soviet naval buildup in the Pacific and Moscow's warming relations with P'yongyang. [Redacted]

While continuing to press Moscow to address its security concerns, Beijing nonetheless has permitted a significant expansion of Sino-Soviet contacts over the last two years as part of its efforts to assuage the tensions in the relationship. Trade and scientific and technological exchanges have expanded the most, but even political contacts have grown, although the Chinese do not characterize them positively. [Redacted]

Growing Trade Ties

Trade is the most active area in China's evolving relations with the Soviet Union. Trade with Moscow accounts for less than 4 percent of Beijing's total trade, but the dollar value has doubled in the last two years (see table). Under the goods exchange and payments agreement that began in 1986, bilateral trade is set to total \$14 billion for the five-year period ending in 1990. We estimate that the total trade for 1986 was slightly above the average annual rate of increase implicit in the \$14 billion goal. Moreover, we believe an increasing level of border trade and the

[Redacted]

recent moves toward technical cooperation will further accelerate trade growth and the five-year target will be easily met. [Redacted]

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Diversification in the composition of trade to include new categories of goods is also an indication of the expanding bilateral trade relationship. In 1982 chemicals and crude materials represented more than four-fifths of Chinese imports from the Soviet Union. By 1985, however, manufactured products and machinery and transportation equipment represented two-thirds of total Soviet exports to China. At the same time, Chinese exports to the Soviet Union shifted from being heavily weighted toward crude materials to being almost 50 percent food and live animals. [Redacted]

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More significant for the atmosphere, in our judgment, is the growth in high-level economic exchanges. In 1985, Chinese Vice Premier Yao Yilin led an economic delegation to Moscow, reciprocating a visit in late 1984 by Soviet First Deputy Premier Ivan Arkhipov; both visits resulted in new trade agreements. In 1986 the Soviets sent three separate economic delegations to Beijing and in each case met with senior Chinese economic officials, including Premier Zhao Ziyang, who has since become General Secretary of the Chinese Communist Party as well:

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- In January, Soviet First Vice Minister of Foreign Trade G. K. Zhuravlev headed a transport and trade delegation to Beijing, and met with Vice Premier Li Peng and Minister of Foreign Economic Relations and Trade Zheng Tuobin.
- In March, Arkhipov visited Beijing to cochair the inaugural session of the Joint Commission on Trade, Economics, Science, and Technology, created to manage overall economic contacts. According to the

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Sino-Soviet Trade*US Million \$*

Year	Chinese Exports to the USSR	Chinese Imports From the USSR	Total	Percent of PRC Trade
1950	190	135	325	26.9
1951	305	445	750	39.5
1952	415	550	965	51.1
1953	475	690	1,165	50.8
1954	550	720	1,270	54.0
1955	645	748	1,393	45.9
1956	745	715	1,460	46.8
1957	750	545	1,295	42.4
1958	881	634	1,515	40.2
1959	1,100	954	2,054	47.9
1960	848	817	1,665	41.7
1961	551	367	918	30.4
1962	516	233	749	28.1
1963	413	187	600	21.6
1964	314	135	449	13.9
1965	226	192	418	10.8
1966	143	175	318	7.5
1967	57	50	107	2.7
1968	37	59	96	2.5
1969	29	28	57	1.5
1970	22	25	47	1.1
1971	76	78	154	3.3
1972	134	121	255	4.4
1973	136	136	272	2.8
1974	139	143	282	2.1
1975	150	129	279	2.0
1976	179	238	417	3.2
1977	178	162	340	2.3
1978	257	242	499	2.4
1979	241	268	509	1.8
1980	230	294	524	1.4
1981	132	116	248	0.6
1982	143	165	308	0.8
1983	308	340	648	1.5
1984	625	575	1,200	2.3
1985	994	937	1,931	2.7
1986 ^a	1,100	1,300	2,400	3.8

^a Estimated.

Source: China: International Trade Quarterly.

[Redacted]

Soviet Embassy in Beijing, a special committee to examine transportation problems and the obstacles they present to increased trade was created. The visit also included meetings with Zhao Ziyang, Li Peng, and Vice Premier Wan Li.

- In September, Soviet First Deputy Premier and Chairman of the State Planning Committee Nikolay Talyzin met with Chinese officials in Beijing and signed a cooperation agreement providing a formal framework for trade, commercial, and technical exchanges that will take place through 1990. Accompanying Talyzin were the Chairman of the Soviet State Committee for Foreign Economic Relations, the Minister of Timber, and Deputy Foreign Minister Igor' Rogachev. The Soviets met with Zhao Ziyang, Yao Yilin, Li Peng, Vice Foreign Minister Qian Qichen, and head of the Chinese State Planning Commission Song Ping. [Redacted]

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The visits have led to new economic agreements (see inset "Recent Sino-Soviet Economic Exchanges"). In addition to those noted above, China and the Soviet Union agreed to set up a committee to guide planning for the comprehensive use of the water resources of the Argun and Amur Rivers (Ergun and Heilong Rivers in Chinese). In March 1986, Moscow was allowed not only to open an economic office in Beijing, but also to locate it outside the Soviet diplomatic compound—the first time since the Sino-Soviet rift. According to the US Embassy, the office is ably staffed and taking a businesslike, outgoing approach that contrasts sharply with traditional Soviet practices in developing Sino-Soviet contacts. The two sides also resumed cooperation in commodity shipping, opening shipping offices in Shanghai and Odessa. [Redacted]

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And, for the first time in more than three decades, Beijing and Moscow in 1986 exchanged trade and industry exhibitions under a new protocol calling for reciprocal exhibitions through 1990. The Chinese exhibition in Moscow featured a model of China's Long March 3 space booster, communications satellites, computers, televisions, textiles, and handicrafts,

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When Did the Thaw Begin?

Zhao Ziyang receives Soviet First Deputy Premier Arkhipov in Beijing, December 1984. [redacted]

The new economic relationship is an outgrowth of Beijing's reassessment of its foreign policy strategy during the period 1980-82. The Chinese—disturbed by differences with the United States over Taiwan and other issues and seeking to increase China's room to maneuver in the strategic triangle—proclaimed an "independent" foreign policy and in 1982 agreed to open "consultative talks" with Moscow. Visits by Soviet and Chinese deputy/vice premiers in 1984 and 1985 set the stage for the expansion of economic ties:

- *December 1984. Arkhipov visited Beijing and signed a significantly expanded trade agreement plus new agreements on economic cooperation and exchanges in culture and science and technology. Originally scheduled for May 1984 but delayed because of a Chinese military attack on Vietnam, this was the highest ranking direct Sino-Soviet contact in 15 years.*
- *March 1985. Chinese Vice Premier Li Peng represented China at the funeral for Soviet General Secretary Konstantin Chernenko. Li personally conveyed to new General Secretary Gorbachev the congratulations of Chinese General Secretary Hu Yaobang on being elected General Secretary.*
- *July 1985. Chinese Vice Premier Yao Yilin reciprocated the Arkhipov visit of December 1984 with a visit to Moscow. Yao signed a goods-and-payments agreement for the period 1986-90 as well as a separate agreement on technical cooperation and was received by Soviet Premier Nikolay Tikhonov.*
- *December 1985. Li Peng, on his way home from Eastern Europe, stopped over in Moscow at Gorbachev's invitation. Xinhua reported that the two discussed "bilateral relations and some international issues."* [redacted]

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while the Soviet show in Beijing displayed models of a Tokamak 15 nuclear fusion reactor, a Salyut orbital space station, and a Vega scientific satellite, in addition to the latest automobiles, aircraft, and other sophisticated hardware. [redacted]

Trade Constraints

Sino-Soviet trade is constrained by two major factors. First, the cumbersome barter arrangement requires trade to be balanced and involves arduous and prolonged negotiations. Although both sides acquire needed goods without drawing down foreign reserves,

Chinese and Soviet officials admit that first priority goes to earning hard currency and the barter system gets the leftovers, according to the the US Embassy in Beijing. Often this means that both sides approach the barter negotiations with the intent to dump their second-rate goods on one another, while saving their best export commodities for Western and Japanese markets. Some barter sales to the Soviet Union have

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Recent Sino-Soviet Economic Exchanges



Yao Yilin visits Moscow's Likhachev Motor Works, July 1985.



Soviet Premier Ryzhkov visits Chinese exhibition in Moscow, August 1986.

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July 1985

- Agreements on trade and economic cooperation for the period 1986-90 signed. The goods exchange and payments agreement—under which two-way trade is to total \$14 billion over the five-year period—establishes the framework for negotiating annual trade protocols. The cooperation agreement, the first in more than 25 years, permits China to pay over a multiyear period for imports of capital goods and technical assistance acquired under that pact. The agreements specify that all payments for both trade and technical cooperation will be in barter.

January 1986

- Annual trade protocol for 1986 signed.
- Summary signed of talks on transport of foreign trade for the period 1986-90.

- Exchange of letters initiating border trade between China's Xinjiang Autonomous Region and the Soviet republics of Kazakh, Kirgiz, Tadzhik, Turkmen, and Uzbek, as well as the Krasnoyarsk Oblast and Altay Kray.

March 1986

- Accord boosting bilateral trade and technical cooperation signed at the close of the first meeting of the Joint Commission on Trade, Economics, Science and Technology.

April 1986

- Delegations representing foreign trading companies from Heilongjiang Province and the Nei Mongol Autonomous Region visit a trade and industry exhibition held in Khabarovsk at which trade organizations from the Soviet Far East exhibit a wide range of commodities available for export to China.

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- *Agreements signed to facilitate the use of border rivers and ports for trade.*
 - *Chinese officials acknowledge to US Embassy officers that direct talks between the Chinese and Soviet national airlines are planned.*

May 1986

- *Soviets sign an agreement with the Ocean Shipping Agency in Beijing that permits Soviet and Chinese shipping offices to be set up in Odessa and Shanghai, respectively. Accord also stipulates that logistic services for Soviet merchant vessels will be initiated in all Chinese ports and that Soviet merchant ships' nonproductive berthing time in Chinese ports will be greatly reduced.*

August 1986

- *Protocol on exchanges of trade exhibitions signed at the opening of the Beijing trade and industry exhibition in Moscow.*
- *A Xinjiang trade delegation visits Alma-Ata in the Soviet Union to stage a trade fair for the first time. Over 3,000 products displayed, mostly consumer goods. Agreement on the export and import of commodities signed.*

September 1986

- *Cooperation accord signed between the Chinese and Soviet state planning commissions that establishes*

a framework for and an endorsement of the program drawn up for trade and technical exchanges during 1986-90.

- *Agreement to liberalize cross-border trade signed, allowing border provinces to trade directly in locally made goods.*

October 1986

- *Agreement signed establishing a committee to oversee joint development of the Argun and Amur Rivers where they form the boundary between China and the Soviet Union. Projects will include joint planning for cooperation in power generation, flood prevention, navigation, and water utilization.*
- *Protocol signed calling for scientific research cooperation in a number of fields, including agriculture, energy, machine building, metallurgy, and transportation. A meeting of experts will be convened in the first half of 1987 to decide on specific projects.*

December 1986

- *Soviet trade and industry exhibition opened in Beijing.*

March 1987

- *Protocol for 1987 trade signed in Moscow.*



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proved disadvantageous to Beijing. [redacted]

We expect border trade will continue to rise and could offer a significant new source of trade growth if China's relatively less-developed western provinces—which cannot compete with the exports of the coastal cities—take full advantage of increased trading autonomy.² Border trade is still relatively small—accounting for approximately 3 percent of total trade—but has grown rapidly since it was permitted to resume in 1982. Reciprocal trading offices opened in Heilongjiang Province and Siberia in 1985 and will help expand the trade and—despite an apparent impasse—additional offices in Xinjiang Autonomous Region and Kazakhstan appear to be in the offing.

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The second major constraint is the poor transportation infrastructure at the major border transshipment points in the northeast and the west. To alleviate this, the two sides are cooperating on railroad projects. Construction on the extension of the railroad in Heilongjiang Province northward to Heihe on the Soviet border is scheduled for completion next year, and the railroad ending at Urumqi in the Xinjiang Autonomous Region is also being extended west to the Soviet border (see figure 1). [redacted]

Trade Outlook

These problems notwithstanding, we expect China's trade with the Soviet Union to grow over the next three years, perhaps reaching 5 percent of China's total trade. Fueling the growth will be China's desire to offset potential market losses as a result of growing protectionism in the West and new policies that allow Chinese enterprises to use countertrade to acquire Soviet technology. According to US Consulate officials in Shanghai, enterprises there that export to the Soviet Union can even earn foreign exchange allocations on the basis of the amount of hard currency saved. [redacted]

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In the next few years, we believe China may look outside the barter mechanism in its trade with the Soviet Union if it encounters difficulty supplying the enormous volume of goods—at quality and prices acceptable to Moscow—that will be needed to pay for both trade and planned Soviet technical assistance. Although theoretically balanced, the recent growth in Sino-Soviet trade provided Beijing with a surplus until 1986, when imports of Soviet goods outweighed Chinese exports to the Soviet Union by an estimated \$200 million. The planned import of capital goods and technical assistance most likely will continue this trend. Although the current five-year goods exchange and payments agreement permits Beijing to balance the import of capital goods and technical assistance over a multiyear period, the Chinese approached Talyzin during his September visit about the possibility of obtaining Soviet concessionary loans. According to Soviet Deputy Counselor for Economic Affairs A. V. Goryunov, the Soviet side responded that, although in principle such loans are possible, they could only be discussed in a specific context. [redacted]

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[redacted] these countertrade arrangements are often very profitable, with Chinese-manufactured products selling for three to four times the value they could command on the international market. Moreover, the US Embassy in Beijing reports that in some cases China appears to have been able to mesh its barter trade with hard currency trade to gain advantages from both sides. Some traders in Beijing believe that China has been able to get such a good rate on the soybeans that it exports to the Soviet Union that it has been able to justify hard currency imports of soybeans from the United States.

² Border trade represents trading over and above that controlled by the annual bilateral agreements. During Talyzin's visit in September 1986, both sides agreed to liberalize border trade to allow trade of locally produced goods. Previously, most trade was channeled through central trade organizations that concentrated on delivering manufactured goods from factories in the interior areas. Now, according to the Soviet Embassy in Beijing, border areas are allowed to trade directly at the provincial/autonomous region level. Provinces not on the border are also permitted to trade goods through the border provinces. [redacted]

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Figure 1
Planned Railroad Extensions to the Soviet Border



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Sino-Soviet Trade in Perspective

We estimate that Sino-Soviet trade reached \$2.4 billion in 1986, sufficient to raise the Soviet Union to the position of China's sixth-largest trading partner. Moscow's nearly 4-percent share of total trade still falls well behind the shares of Japan (27 percent), Hong Kong (22 percent), and the United States (11 percent), however. China's share of total Soviet trade is even lower; in 1985 it amounted to slightly over 1 percent. [redacted]

Under annual trade protocols, the Chinese exchange nonferrous metals, agricultural goods, textiles, and light industrial products with the Soviets for other nonferrous metals, steel, pig iron, urea, automobiles, logs, aircraft, and helicopters. The Soviets, presumably with low-priced equipment, are now entering the extremely competitive market for locomotive sales to China. A Soviet official told US Embassy officers in Beijing that China recently agreed to buy 200 Soviet electric locomotives for about \$250 million. [redacted]

Sino-Soviet trade is conducted almost entirely on a barter basis. Negotiators from both sides meet annually at yearend to determine any imbalances in trade, which must then be settled by the end of the first quarter of the subsequent year. [redacted]

Expanding Scientific and Technical Cooperation

China is also increasing its science and technology contacts³ with the Soviet Union, although movement in this sphere has been less rapid than in the trade area. Many of the bilateral S&T activities are also managed by the Joint Commission on Trade, Economics, Science, and Technology (JCTEST)—the same commission that oversees Sino-Soviet trade—but negotiators have had more difficulty agreeing on the scope and direction of technical and scientific exchanges than on commodity trade. An indication of

³ Chinese statements use the term technology loosely, generally referring to both the knowledge and equipment used in production processes—separately referred to as technology software and hardware, respectively. [redacted]

the strong prospects for bilateral S&T activities, however, is the separate Soviet office opened in Beijing in March 1986 to oversee technical cooperation projects between the two countries. The office, headed by Deputy Counselor for Economic Affairs A. V. Goryunov, has a staff of eight and may be expanded to 20 as technical cooperation develops. In discussions with US Embassy officials, Goryunov sharply distinguished his office's activities from those of the Soviet Embassy Trade Representative's Office, which handles bilateral barter trade. [redacted]

The Soviets have also beefed up the staff of the science section of their Embassy, which generally handles cooperation between the Soviet and Chinese Academies of Science and between the countries' State Science and Technology Commissions. Moscow increased the number of officers in the science section from three to seven, and reportedly intends to further enlarge the staff to 10 persons when space and housing become available. Even more significant, Moscow dispatched a new Science Counselor to head the section. The counselor, A. N. Bykov, has impressive educational credentials (including work at Massachusetts Institute of Technology and Columbia University) as well as important connections in the Soviet bureaucracy; he has pushed the evolving Sino-Soviet S&T relationship much more energetically than his predecessor, according to the US Embassy in Beijing, and appears to be targeting areas for future cooperation that will yield scientific as well as political benefits for Moscow. [redacted]

Beijing and Moscow signed a broad agreement on technical cooperation through 1990 during Yao's visit, and subsequent contacts have filled in the specifics:

- During Arkhipov's visit in March 1986, Soviet and Chinese officials discussed general sectors rather than specific projects in which the Soviets would provide equipment and technical advice for the renovation of 17 Chinese factories and the construction of seven new facilities.

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- In September 1986, during Talyzin's trip to Beijing, specific projects were tentatively agreed upon, according to Goryunov. According to the Soviet diplomat, details, timetables, and locations have been worked out for all but 10 of the projects. Most are in energy or heavy industry and are located in north-east China.

According to the Soviet Embassy in Beijing, Talyzin also discussed the possibility of Sino-Soviet joint ventures directly between enterprises, rather than managed by the two governments. Although no specific projects were raised, the scope for such joint ventures appears limited to Soviet provision of raw materials for the Chinese to process into finished goods for reexport to the Soviet Union, according to the US Embassy in Beijing. [redacted]

Apart from the technical cooperation covered by the 1985 accord, Beijing and Moscow have agreed to several other joint projects. In the largest Sino-Soviet contract in recent years, China is buying 10 Soviet coal-fired thermal power generators for \$500 million for use in four power stations. Two other projects may be independent of the accord as well: a coal mine in Heilongjiang and an electric transmission line along the Beijing-Tianjin corridor. According to Goryunov, 100 Soviet technicians have been sent to China for the latter project.⁴ [redacted]

Cooperation in the nuclear energy field, however, has not materialized, although the Soviets continue to play up the possibility. In June 1986, Chinese nuclear energy officials visited Moscow to discuss possible bilateral activities. The trip, agreed to in March 1986, did not yield any concrete accords, no doubt reflecting diminished Chinese interest following the Chernobyl' accident. [redacted]

Progress was also made in 1986 in planning for future cooperative scientific exchanges and joint research:

- In June, the Chinese and Soviet Academies of Science signed a five-year cooperation agreement that provides for exchanges of research personnel

⁴ The Soviets and the Chinese are discussing technical cooperation in up to 28 projects in such sectors as energy (15), metallurgy (5), transportation (1), chemicals (3), and general industry (4). [redacted]

and publications in the natural and physical sciences. The Soviet Science Counselor in Beijing mentioned biotechnology as one area of cooperative activities, according to US Embassy reporting.

- In October, at the first meeting of the S&T Cooperation Subcommittee of the JCTEST, the Soviet and Chinese State Committees for Science and Technology signed a protocol specifying fields for S&T cooperation under the general agreement signed during Arkhipov's trip in December 1984. Scientists from the two countries will work together on agriculture, fisheries, meteorology, nonferrous metallurgy, petrochemicals, machine building, oil and natural gas, and railways. The protocol made no mention of joint research in two areas earlier proposed by the Soviets—space sciences and seismology—indicating Chinese rejection. Bilateral scientific exchanges had been taking place for several years before they were formalized in the protocol; press reports indicate that the two countries exchanged nearly 30 groups of specialists between 1982 and 1985.

- In October, the Soviet Chamber of Commerce and Industry and the Chinese Center for International S&T Exchanges signed a memorandum outlining future exchanges of information on inventions and patents. [redacted]

Several of the trade agreements signed in 1986 will also contribute to the expansion of S&T exchanges between the two countries. In March, during Arkhipov's visit, a countertrade agreement was signed that included a provision for China—for the first time in 30 years—to repair Soviet merchant and scientific research ships in Chinese shipyards. Trade exhibits have also provided a forum for exchanges of scientific and technical information; the Soviet exhibit in Beijing in December included a series of lectures for Chinese technical audiences even though the Chinese exhibit in Moscow several months earlier had not. Finally, the agreement to set up a committee to examine the use of common waterways provided a framework for technical feasibility studies for possible joint projects such as power generation, flood prevention, and pollution control, according to a Chinese diplomat. [redacted]

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S&T Cooperation in Context

Sino-Soviet cooperation in industrial technology is dwarfed by Chinese cooperation with the West in this field. The 24 to 28 Sino-Soviet technical cooperation projects represent only a fraction of a percent of China's foreign technology-assisted projects. Since 1979 central Chinese trading corporations alone have signed approximately 2,500 major contracts for Western equipment and technical assistance; together with those signed by provincial and municipal authorities, technology import contracts exceeded 13,000. [redacted]

Sino-Soviet technical cooperation also involves a comparatively small number of technical personnel. Several hundred Soviet technicians will probably work in China on the new projects; more than 10,000 Western technicians have supervised China's use of imported Western technology in the last two years alone. [redacted]

In dollar terms, however, Sino-Soviet technical cooperation may be more significant. In 1986 the Soviet Union became China's fourth-largest technology supplier, after France, Japan, and the United States, according to Ministry of Foreign Economic Relations and Trade Statistics. The value of Sino-Soviet technology contracts signed in 1986 reached \$512 million and accounted for 11.5 percent of China's total technology contracts. If Soviet estimates are correct and the USSR supplies China with more than \$2 billion worth of equipment and technical services under the 1985 accord by the end of the decade—and

if additional contracts outside the accord are signed—Soviet technology will account for roughly 10 percent of China's technology imports through 1990. [redacted]

Sino-Soviet scientific cooperation is similarly dwarfed by China's formal S&T cooperation with Western countries. Beijing has signed 27 S&T protocols with the United States alone, covering such fields as telecommunications, nuclear safety, high-energy physics, and seismology. China has similarly extensive bilateral S&T protocol arrangements with the United Kingdom, West Germany, Sweden, and many other Western countries. [redacted]

Although recent agreements on Sino-Soviet technical cooperation are a major upswing from the bilateral economic relationship of the last 25 years, they remain modest by 1950s' standards. During the heyday of Sino-Soviet cooperation, the Soviets assisted in the construction of several hundred Chinese industrial and energy facilities, in contrast with the 24 to 28 planned over the next five years. Similarly, between 1950 and 1960, Moscow sent 11,000 technicians to work or teach in China, compared to the several hundred likely to assist with Chinese projects over the next five years; Beijing sent nearly 30,000 scientists, technicians, and workers to the USSR during the 1950s, but will probably send only several hundred for current projects. [redacted]

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Future Growth

We believe scientific and technical cooperation will grow as these agreements are implemented. According to a Soviet diplomat, roughly one-third of the value of Sino-Soviet trade from 1986 through 1990 will be related to technical cooperation. Bilateral technical cooperation will probably involve several hundred Soviet advisers sent to China and an equal number of Chinese technicians sent to the USSR for training. [redacted]

In our judgment, Beijing will be particularly interested in Soviet technology in the energy and heavy industry sectors. In some areas—for example thermal power, open pit mining, hydroelectric generation, and long-distance electric transmission—Soviet technology is on a par with that available from Western countries. Beijing also is likely to seek Soviet assistance in modernizing Soviet-designed heavy industry facilities where it has been unable to attract Western investment. Water resource management is another area where joint activities are likely to develop. [redacted]

Beijing and Moscow will probably continue to sign contracts for bilateral technical cooperation projects outside of the 1985 accord. Moscow will probably reiterate its interest in joint ventures directly between Chinese and Soviet enterprises, but we believe Beijing will want Sino-Soviet technical cooperation to remain subject to government oversight. [redacted]

Exchanges of research literature and patent information will grow as a result of the agreement concluded in 1986, and China may pursue additional areas of

[redacted]

A Soviet consular official in December 1986 anticipated his country would send 2,000 technicians by 1990. And a Western newspaper citing Soviet sources indicated 100 Soviet experts would be sent to China over the next few years. We believe this latter figure is conservative, especially if the Soviet diplomat's contention that 100 Soviets are already working on construction of the electric transmission line is true. More moderate Soviet estimates have suggested that 500 to 600 Soviet technicians will go to China, with the bulk going in the period 1988-89. Beijing has said only that it expects "several hundred" Soviet technicians to be involved in the technical cooperation program. [redacted]

scientific cooperation. Beijing has, for example, expressed interest in Soviet mathematics, physics, and geophysics. We believe, however, that Beijing will continue to refuse Soviet overtures to cooperate in the space sciences and seismology, areas in which military and civilian research are intertwined. Similarly, China will closely monitor the exchange of scientists to ensure that Soviet experts are kept away from sensitive areas. [redacted]

Constraints. In our opinion, two other factors will constrain cooperation in the S&T area. First, China is reevaluating its policy on the import and use of foreign technology, becoming more selective in the process.⁶ Beijing still prefers Western technology, and considers Soviet technology not only inferior, but also no easier to absorb in cases where it is incompatible with Western equipment introduced in recent years. [redacted]

Second, China does not want to create concern in the West about Sino-Soviet cooperation in this area. China calculates that such fears would jeopardize its access to the technology it seeks and delay, if not reverse, the gradual easing of US and multilateral export controls. To allay concerns in the West, China has been careful to restrict Soviet access to sophisticated Western hardware it already has.⁷ [redacted]

In the Political Arena

Movement in this area has not been as striking as the growth of trade and S&T ties, but we believe that atmospheric changes are taking place here as well. The number of venues and the level of contact suggest that, although Moscow and Beijing may be agreeing on very little, the sessions are no longer quite the "dialogue of the deaf" that a Chinese diplomat

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Figure 2. Soviet and Chinese Foreign Ministers meet at the United Nations in New York. [redacted]

described following the frosty eighth round of normalization talks in Moscow in April 1986. Although both parties have an interest in keeping Washington uncertain about where their relationship is going (without, however, disrupting relations with client states and important friends), more than posturing seems to be going on. [redacted]

Old Venues

The Chinese and Soviet Foreign Ministers have held annual consultations at the opening of the United Nations General Assembly in September for the past three years. At the most recent session, Chinese Foreign Minister Wu Xueqian reportedly surprised Soviet Foreign Minister Shevardnadze by proposing and authorizing the announcement of a resumption in February 1987 of border talks suspended in 1978. Wu's move followed Gorbachev's unprecedented public statement in Vladivostok of Moscow's willingness to use the main channel of the Heilong/Amur River as the line of demarcation along one stretch of the border. The vice foreign ministerial-level border talks are expected to be protracted and difficult, because of differences over defining main channels for the Heilong/Amur and Wusuli/Ussuri Rivers, resolving ownership of the islands at the confluence of the rivers opposite the Soviet city of Khabarovsk, and deciding which ridge in the Pamir Mountains was agreed to as the border in a 19th-century treaty. Beijing's proposal to resume the talks despite the absence of progress on the three obstacles, however, suggests the Chinese have decided at least to appear flexible to encourage additional Soviet concessions. [redacted]

Gorbachev's hints of flexibility in his Vladivostok speech of 28 July 1986, plus the announcement of plans to unilaterally withdraw one division along with some smaller units from Mongolia, breathes new life into the normalization talks, which after eight rounds had become stale. At the ninth round, held in Beijing in October 1986, the new Soviet chief negotiator, Deputy Foreign Minister Rogachev, agreed to place the Cambodian obstacle on the agenda for the first time, but no progress was made as Moscow insisted that the Chinese must take the matter up with the Vietnamese directly. We do not expect any significant developments in the 10th round, which begins in April 1987 in Moscow, but the talks are now the prime venue at which Beijing can probe the limits of Soviet flexibility in eliminating the first of the three obstacles [redacted]

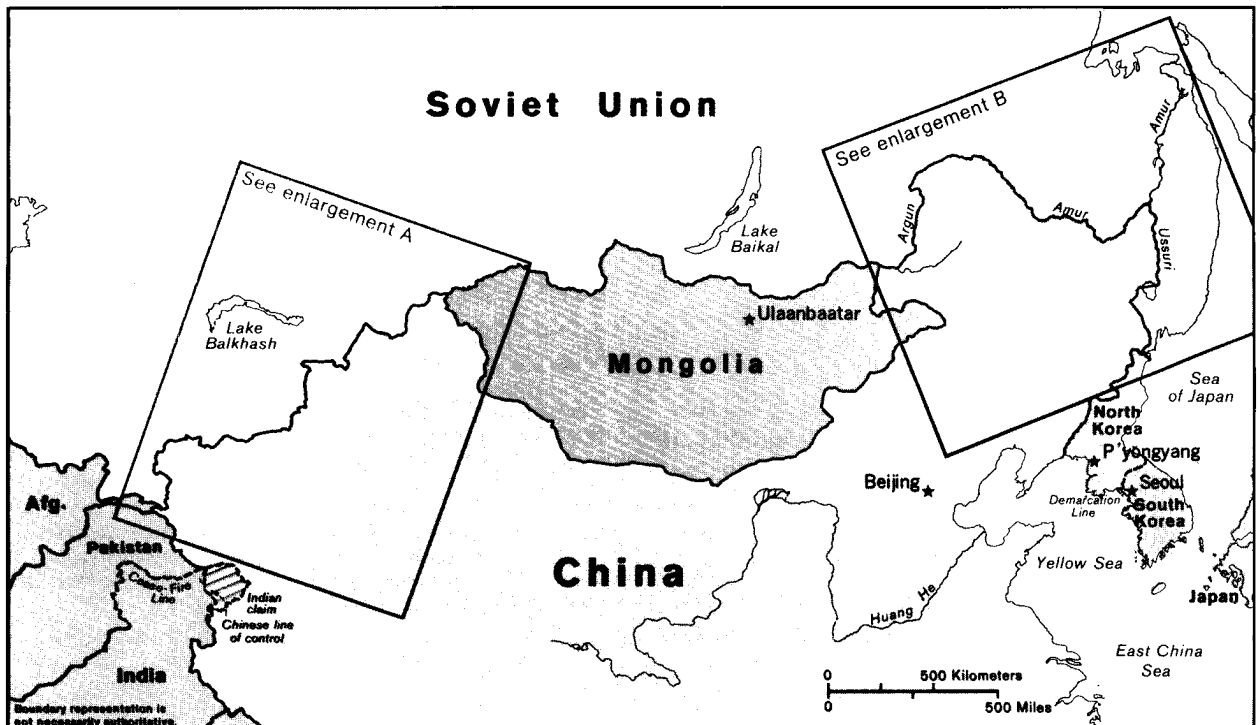
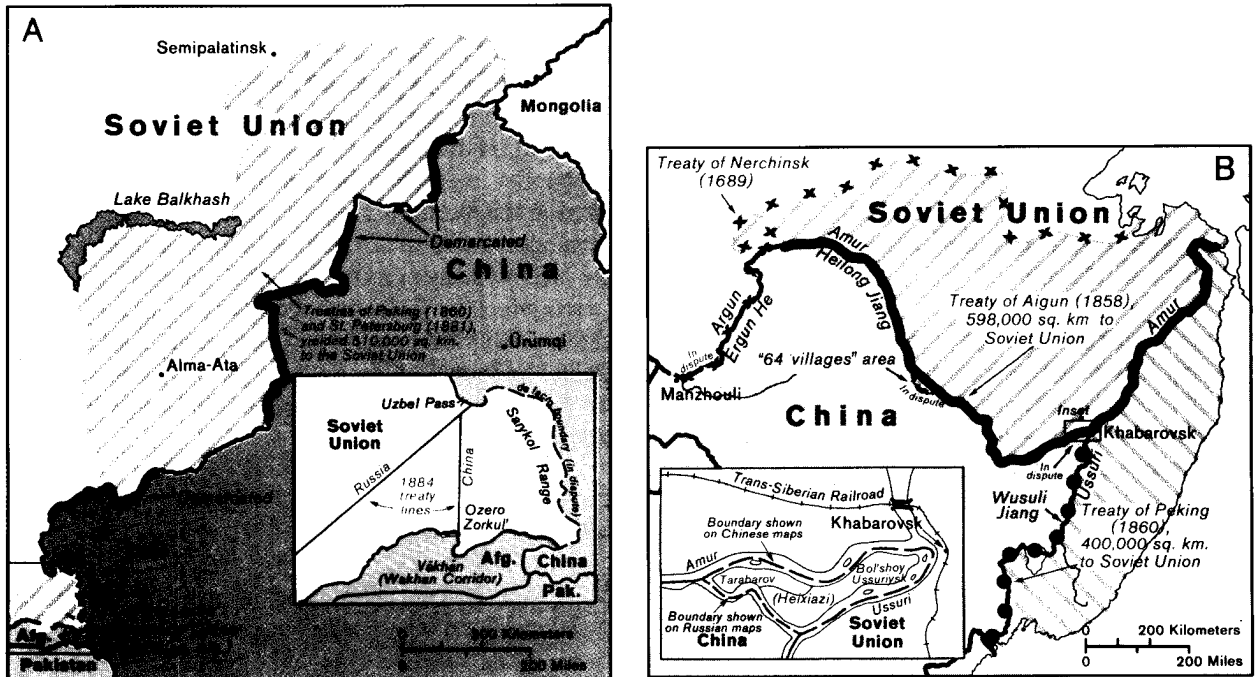
New Wrinkles

These two developments are supplemented by three others. In September 1986, China and the Soviet Union concluded the first new consular agreement since 1962, when each side closed all its consulates in the other country. The agreement paved the way for the reopening in December of consulates in Leningrad and Shanghai. It also set the stage for negotiations to improve visa reciprocity and better protection for the rights of Soviet citizens in China—both of which should make life easier for Soviet technicians assigned to help with Chinese development projects. Beijing will probably allow Moscow to open a new consulate in the northeast in 1988 (with China opening a consulate in the Soviet Far East in return), but is tying Soviet requests to reopen its consulate in Guangzhou to a general improvement in political relations. China has refused even to discuss Moscow's request to reopen its old post in Urumqi. [redacted]

In May 1986, China and the Soviet Union signed a two-year cultural cooperation agreement calling for exchanges in the fields of science, education, culture, [redacted]

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Figure 3
Disputed Areas Along the Sino-Soviet Border



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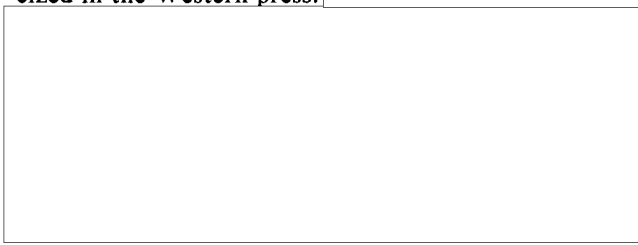
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art, information, radiobroadcasting, and television. Under this accord, the two nations' official news agencies, Xinhua and TASS, concluded a journalistic exchange agreement in December. In addition, reciprocal visits by special touring groups of friendship, medical, theatrical, cinematic, and musical officials have picked up over the past year. The two sides in 1987 plan to exchange 200 students, the same number as in 1986. The cultural exchanges will probably increase, and the heightened concern in Beijing about the spread of Western values in China may lead to some increase in the number of students sent to the Soviet Union. [redacted]

Perhaps the most interesting development is the expanding bilateral dialogue. For the first time, high-level Soviet officials in 1986 visited Beijing—on three separate occasions—to present Moscow's position on US-Soviet arms control negotiations. The Chinese subsequently informed the US Embassy in Beijing that the first two briefings were "empty and long," and characterized the third as not overly informative. At the same time, however, the Chinese took care to say that both US and Soviet briefings have been useful. This characterization of the briefing may have been offered to encourage Washington to expand its own briefing program for China. Meanwhile, the Chinese have noted to the US Embassy that both Rogachev and new Soviet Ambassador Oleg Troyanovskiy are more open—but no more flexible—than their predecessors. [redacted]

According to Chinese foreign ministry officials speaking to US Embassy officers in Beijing, the Chinese and Soviets have held "frank" discussions of regional issues and—as recently as January 1987—consultations on the Middle East at the senior working level. The director of Moscow's Institute of the USA and Canada (IUSAC) and Beijing's Institute of Contemporary International Relations (ICIR) lectured at one another's institutes in October 1985 and September 1986, respectively, in an exchange of visits. The deputy director of IUSAC subsequently visited Beijing in November 1986, and we expect ICIR's deputy director to reciprocate. The Chinese, however, have expressed reservations about collaborating on a regular basis. [redacted]

We believe Beijing has also decided to maintain an atmosphere conducive to its broadened contacts, passing up opportunities to blacken the Soviet eye. For instance, Beijing chose not to play up either the killing of a Chinese officer in a shooting incident between Soviet and Chinese patrols in July 1986 on the Soviet border with Xinjiang Autonomous Region or the errant landing of an unarmed Soviet submarine-launched missile near the Heilong/Amur River in September, even after the incidents were widely publicized in the Western press. [redacted]



What Has Changed

All of these developments over the last two years raise questions about whether Beijing has changed or is changing its assessment that the Soviet Union poses the principal threat to China. For a variety of reasons beyond the frequent reassurances offered by top leaders, we believe it is not.¹⁰ [redacted]

Beijing believes the Soviet Union is concentrating on rebuilding its economy and defending the gains it made in the 1970s before resuming the offensive early in the next century. At that time, Moscow will once again increase the military pressure on China to bend Beijing's policies to Moscow's will. This Chinese



¹⁰ The turmoil in the Chinese leadership caused by the forced resignation of General Secretary Hu Yaobang, moreover, is unlikely to lead to a reassessment of Soviet policy. The charges against Hu include that his rash statements complicated relations with Japan and the United States and that he was pro-Soviet. Whatever the merit of these accusations, they indicate that Beijing still does not see its strategic interests running parallel with Moscow, and China will continue to share with the United States a common view of the Soviet threat in Asia. [redacted]

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*A US Ace: Growing Defense Cooperation
With Beijing*



US naval port call at Qingdao, November 1986.

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No single element better exemplifies the qualitative difference in Sino-Soviet and Sino-US relations than the deepening military ties between Beijing and Washington:

- *Senior Soviet and Chinese military exchanges ended in 1958, whereas, since 1983, the Chinese have hosted two visits by the US Secretary of Defense and sent their Minister of Defense in 1984 and Chief of General Staff in 1986—as well as numerous lower ranking officers—to visit Washington and tour the United States.*
- *The last Soviet naval port call to China occurred in 1956; whereas, US and Chinese warships steamed together in January 1986, Beijing hosted its first US port call at Qingdao in November 1986 and the Chinese Navy may pay its first American port call to Honolulu in 1988.*
- *Beijing buys a few military transport helicopters from the Soviet Union each year but recently contracted its first major Foreign Military Sales (FMS) purchases from the United States, signing a \$500 million deal for 55 avionics packages for China's F-8 fighter aircraft and a \$62 million contract for artillery-locating radars.*

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judgment is given substance in Beijing's continuing and determined military modernization program designed to meet the long-term Soviet threat.¹¹ Moreover, China has shown no indication of backing away from its relationship with the United States, which is deeper and growing faster than Sino-Soviet ties. Indeed, it is the military relationship with Washington—and its attendant military technology transfer component—that Beijing is most interested in expanding.¹² [redacted]

What has changed is how China has chosen to manage the threat posed by the Soviet Union. We think a number of things account for Beijing's decision to move forward without real Soviet concessions on the three obstacles. Underlying everything, of course, is Beijing's judgment that its reform program, including the ambitious military modernization drive, cannot succeed unless tensions with Moscow are lowered and China is left free to concentrate on rebuilding the country. Thus the recent growth is to some degree an attempt to manage tensions by allowing movement in selected areas while continuing to improve China's military capabilities against the Soviet Union. On another level, there is also obvious economic and S&T benefit to China in expanding relations in these areas. And, we believe China calculates that measured improvements in Sino-Soviet relations increases leverage with Washington in the strategic triangle, and, perhaps more important, creates tension in Soviet-Vietnamese relations by feeding existing fears in Hanoi about Soviet reliability. [redacted]

In our opinion, these reasons do not adequately explain the changes we have seen in the last two years, and we believe there are more powerful explanations. We believe China is reacting to the rise of Gorbachev and his interest in Asian issues and his new style. Under Brezhnev and Gromyko, China knew there was

little prospect for improvement, and Soviet style and behavior made it easy to rebuff Moscow without appearing to be intransigent. Gorbachev's style calls for a different tactic, but Chinese leaders also believe that Gorbachev sincerely desires better relations. We believe the expansion of the political venues, in particular, represents a Chinese effort to probe the limits of Gorbachev's flexibility. [redacted]

The other force that we believe is driving Sino-Soviet relations is the expansion of US-China relations, particularly the growth of military ties. It does so in two ways. More visible, deeper Sino-US relations increase the pressure on Beijing to demonstrate to the Third World that it truly pursues an independent foreign policy. Beijing does so by roughly balancing US and Soviet visits, and increasing ties to Moscow where it can. And, we believe, China calculates that the bounds of what is permissible in Sino-Soviet relations also grow as the Sino-US ties deepen. [redacted]

For all these reasons, we believe Sino-Soviet relations are entering a period that will see additional movement. In particular, we would expect to see further growth in economic relations, and the political dialogue may also broaden. As with China's relations with the West, progress is likely to be uneven and unsteady. We believe China's perception of Gorbachev, his motives, and power will be a key factor in how Sino-Soviet relations unfold. [redacted]

Perhaps even more important in this regard will be China's perception of the reaction in the West and the United States in particular. Repeated efforts by Chinese leaders to reassure Washington that Beijing continues to view Moscow as a threat indicate to the United States that Chinese concern about a possible negative US reaction inhibits Sino-Soviet relations. Deng Xiaoping, for example, chose to air his hardline response to Gorbachev's Vladivostok initiatives on American television in an interview with Mike Wallace, and expressions of concern about Sino-Soviet relations made by US Congressmen have made an impression on Chinese leaders. Vigorous criticism of Soviet foreign policy and the continued stress on the three obstacles are also meant to reassure the West that China's view of the Soviet threat has not changed. [redacted]

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