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**Background Material for  
Premier Zhao's Visit  
to the United States,  
10-12 January 1984**



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Background Material for Premier Zhao's  
Trip to the United States  
10 - 12 January 1984 [REDACTED]

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

30 December 1983

Chinese Expectations for the Zhao Visit

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Summary

The Chinese leadership wants a successful Zhao visit to highlight recent gains in Sino-US relations, bolster China's prestige, and enhance Beijing's position in the Sino-US-USSR strategic triangle. Zhao probably also hopes to facilitate broader Sino-US economic ties--especially greater access to American technology--both to underscore China's continued commitment to its open door policy and to demonstrate the benefits of that policy. Zhao is likely to stress publicly China's adherence to an "independent foreign policy" and privately restate--in non-polemical terms--Chinese concerns over the Taiwan Relations Act and US arms sales to Taiwan. But we expect him to place greater emphasis in private on common strategic and economic interests in the hope of laying the foundations for a smoother relationship with the Reagan administration, which Beijing probably expects to win another four-year term.

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Importance of Symbolism

Beijing may attach more importance to the symbolism than the substance of the Zhao visit. It will be the first by a senior Chinese leader since Deng Xiaoping came to Washington in 1979 and the first ever by a Chinese premier. Beijing probably regards the timing of the visit as also important in underscoring how much the relationship has improved since last spring.

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This memorandum was prepared by the China Division of the Office of East Asian Analysis as background for the visit of PRC Premier Zhao Ziyang to the United States. Questions and comments on the memorandum are welcome and may be directed to the Chief, China Division

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Zhao almost certainly hopes to develop a better personal relationship with the President both to counteract Taiwanese influence and erase any residual strain left over from their first brief meeting at Cancun in 1981. Zhao is likely, therefore, to stress common interests--especially in countering Soviet expansionism and promoting stability in East Asia. In doing so he presumably will raise or be prepared to discuss recent North Korean overtures for talks. He probably hopes the US in turn will acknowledge in public the importance of China's contribution to stability in Northeast Asia. [REDACTED]

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Taiwan

Zhao will raise Taiwan as every Chinese leader has with senior US officials visiting China over the past year. Recently the Chinese have taken the line that continued US support for Taiwan, especially arms sales, encourages Taiwan to ignore Beijing's overtures for talks and thus undercuts China's policy of pursuing peaceful reunification. The Chinese may believe that, with a US President coming to China in an election year, they have greater leverage on this question now than later. If so, they may probe US willingness to play a more active role in helping to bring about a Beijing-Taipei dialogue. [REDACTED]

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At a minimum, Chinese leaders seem determined to drive home the message that mishandling this issue endangers Sino-US relations. Their strong reaction to both the Pell resolution and the amendment to the Asian Development Bank funding bill was intended in part to emphasize their concern that the Taiwan issue be handled in a way that does not:

- Publicly embarrass Beijing and force it to respond forcefully.
- Cast doubt on the administration's commitment to a one China policy.

A senior Chinese official, who will accompany Zhao, underscored this theme in a recent conversation with a US Embassy officer in Beijing. [REDACTED]

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Stabilizing Ties

Underlying their concern over Taiwan is, we believe, a genuine fear that Sino-US relations could deteriorate again, jeopardizing their strategic and economic interests. Although Beijing no longer is interested in pushing publicly for a "united front" against the USSR, we believe the Chinese still want a limited, more tacit security relationship with Washington that creates uncertainty in the Kremlin about the degree of support the US might lend China in response to an overt Soviet military threat. The Chinese interest in access to US dual technology, some US weaponry sales, and good political relations in general indicates the value they still attach to the US as a strategic

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counterweight to Soviet military power. Indeed, the Chinese have repeatedly insisted [redacted] neither their perception of the Soviet threat, nor their balance-of-power approach to containing the Soviets has changed. [redacted]

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Although the Chinese are unhappy with some of our economic policies (e.g. textiles), they remain very interested in promoting broader economic ties to facilitate their economic modernization drive. From all accounts, they especially prize American technology and continue to encourage foreign, and particularly American, investment in China. Zhao in particular is closely identified with the open door policy--and hence has a vested interest in demonstrating the benefits of this strategy.

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### Triangular Politics

[redacted]

At a minimum, Beijing does not want to lose ground in the triangle as the US presidential election campaign heats up. Judging by recent commentary in the Chinese media, Chinese leaders remain concerned that the administration might be tempted to try to enhance its reelection prospects by reaching an accord on INF with Moscow that would damage Chinese interests. [redacted]

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Because of current US-Soviet strains, on the other hand, the Chinese may see an opportunity to improve relations with both the US and USSR. If so, they may decide after the Zhao trip to adopt a more flexible position on, for example, confidence building measures during the next round of Sino-Soviet talks in March, hoping to move Sino-Soviet relations forward and increase their leverage with the US at the same time. [redacted]

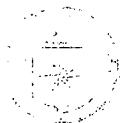
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DIRECTORATE OF INTELLIGENCE

30 December 1983

Zhao Ziyang--A Political Portrait [REDACTED]

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Summary

*Zhao Ziyang, at 64, is the youngest of six members on the Politburo Standing Committee, China's most powerful policymaking council, and formally ranks fourth in the Chinese Communist Party hierarchy, after Hu Yaobang, Ye Jianying and Deng Xiaoping. Together with party General Secretary Hu Yaobang, Zhao will preside over a transfer of power from the waning generation of old revolutionaries to a group of leaders who matured under the Communist system. Zhao has demonstrated both political skill and administrative expertise in his rapid ascent to national prominence, and he can be expected to play a leading role in the decade ahead.*

Sources of Influence

Zhao is in a key position to affect both the broad contours of policy and the details of implementation that give substance to general policy directives:

- Within the Chinese system, Zhao commands instant respect as a member of the party's top echelon. He participates in the highest policy deliberations within the Politburo Standing Committee and is an ex officio member of the party's Secretariat, which handles day-to-day party business. His views carry political weight exceeded only by that of a handful of party elders--notably Deng Xiaoping, Chen Yun and Peng Zhen.

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*This memorandum was prepared by the China Division of the Office of East Asian Analysis as background for the visit of PRC Premier Zhao Ziyang to the United States. Questions and comments on the memorandum are welcome and may be directed to the Chief, China Division [REDACTED]*

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- As Premier of the State Council, Zhao stands at the apex of the governmental apparatus. Below the critical policy threshold of the Politburo, he is the final administrative authority and has broad latitude in devising the specific details of policy implementation. The organizational resources at his disposal are formidable.
  - By most accounts, Zhao appears to enjoy the confidence of senior leaders normally suspicious of possible rivals and jealous of their prerogatives. They presumably find much to admire in Zhao's makeup: a quick study who is not intimidated by details; a model of sobriety, discretion, and tact; and party experience that includes the requisite degree of toughness--even ruthlessness--as a former land reform and party purge administrator in provincial assignments.

#### Zhao and the Leadership

Zhao appears to have the knack of pleasing his superiors and the corresponding gift of arousing few animosities among his peers. Unlike Hu Yaobang, he has placed relatively few supporters in positions of influence. For having spent a lifetime in the party, he has created no readily identifiable enemies while winning support of the powerful. His rapid climb to become China's youngest provincial first secretary in 1965 presumably had the approval of Mao Zedong and Deng Xiaoping, who was then party general secretary. His early rehabilitation following the Cultural Revolution bears the imprimatur of Zhou Enlai as well.

Although there may be no close personal ties between Zhao and Deng--such as exist, for example, between Deng and General Secretary Hu Yaobang--there is certainly mutual respect. Deng, China's single most powerful leader, was probably instrumental in transferring Zhao to Sichuan Province in 1975 and in providing him the freedom for economic experiments there that eventually became the national model. Zhao's rapid rise is inconceivable without Deng's sponsorship. Deng and Zhao have shown through their statements and actions that they agree on reforming China's party, government, and economy.

It is possible that Zhao's relative distance from Deng made him all the more acceptable to other, more conservative, members of the Politburo Standing Committee. Zhao appears to enjoy good relations with State President Li Xiannian, who has spent his career within China's economic bureaucracy, and with veteran economic policymaker Chen Yun--whom we believe is second only to Deng in prestige within the party. When opinions differ, Zhao seems to have no problem deferring to the views of elder party leaders.



[REDACTED]

Zhao also seems to have a stable working relationship with party General Secretary Hu. Their areas of responsibility are fairly well defined along party-government lines, with Hu the party chief having the acknowledged upper hand. Zhao projects the image of a team player and detail man who faithfully implements the party line, apparently modeling his behavior after that of Zhou Enlai, Mao's long-time lieutenant. Hu eventually may view as threatening Zhao's mastery of the details of economic administration and government organization. For now, however, there is no indication that this is the case.

### Policy Preferences

As with all but the most outspoken Chinese leaders, it is difficult to distinguish Zhao's own views from official positions. It has been Zhao's place as the government's principal spokesman to announce major political and economic initiatives. In the eyes of most Chinese, however, he is clearly identified with bureaucratic and economic reforms. Most observers, in fact, are impressed by Zhao's apparently deep commitment to economic reform. Almost certainly part of Zhao's early appeal as a candidate for the premiership was his unequivocal willingness to support the reform initiatives of Deng and his allies.

In particular, Zhao has strongly supported measures to decentralize some economic decisionmaking responsibilities, restructure and rejuvenate China's bureaucracy, and establish "special economic zones" to attract western capital and technology. Although they have achieved only limited success, these measures remain at the center of Beijing's program. In the case of economic decisionmaking, party policy continues to vacillate between relaxation and restoration of central controls.

In foreign policy Zhao has an important administrative role and, by virtue of his position on the Politburo Standing Committee, participates in policy deliberations. On most issues, he accurately reflects the party consensus established under Deng's leadership. While his public statements are often bland, in numerous private conversations Zhao has shown himself to be a strong proponent of China's opening to the West and the United States and convinced that China will ultimately derive economic advantages from improved political ties to Western nations.

Zhao's career also demonstrates that he is in tune with the senior party leadership on the question of party primacy, an underlying element in the current campaign against "spiritual pollution." Zhao and others of the so-called reform group within the party seek change, but only within a system that does not allow opposition to--or even implied reservations about--the party's leading position or the proclaimed superiority of socialism.

[REDACTED]

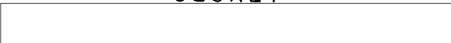
### The Decade Ahead

Zhao appears to have capably filled the office of premier, which makes heavy demands on its occupant. The premier must span the chasm between politics and administration, striking a workable balance between the need for bureaucratic routine and shifting political requirements. Zhao has demonstrated political flexibility and administrative firmness that have impressed Chinese and Western observers alike.

The problems complicating Beijing's ambitious policy agenda for the 1980s will, in our view, dampen the prospects for most economic and political initiatives. Such successes as are achieved should redound to Zhao's political advantage, improving his already favorable image.

Zhao's deportment in office and smooth relations with senior leaders lead us to conclude that his political durability surpasses that of any generational peer, including Hu Yaobang. Several Chinese observers have suggested that, should Hu falter as party leader, Zhao would be a logical replacement. We have no clear indication, however, of the extent of Zhao's ambitions. If he does not challenge for primacy within the party and is content to operate as China's businesslike manager of government, his importance will probably grow as political generations change.

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30 December 1983

China: Leadership Politics



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Summary

Zhao Ziyang will be visiting the US at a time when China's domestic political situation is complex and uncertain. No major personnel changes have been made at the top--Deng Xiaoping is more than ever China's paramount leader, and others in the Politburo Standing Committee, including Zhao, have maintained their positions. Nevertheless, subtle changes in the power and prestige of several senior leaders seem to have had an effect on the content and direction of China's domestic policies.



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A Transitional Year

For Beijing, 1983 was a year of ambitious initiatives. The reform group--led by Deng, General Secretary Hu Yaobang and Zhao--had brought off a successful 12th Party Congress, and seemed determined to deal simultaneously with a host of tough political problems--bureaucratic reorganization, ideological confusion, party rectification, official corruption, and a rise in street crime--while trying to maintain momentum in economic reform. Their record has been mixed at best, in part because of the growing influence of more conservative party elders--Deng's generational peers--who have questioned reforms with greater effect since mid-year.



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We believe that the elevation of Li Xiannian to State Presidency and of Peng Zhen to Chairmanship of the National People's Congress (NPC) Standing Committee at the June NPC

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session is symptomatic of the reassertiveness of party traditionalists, and helps explain the more conservative tone of Beijing's recent domestic policy pronouncements. Li and Peng draw their support from the dwindling but still influential old guard of the party, which is ideologically orthodox, suspicious of younger leaders, wary of reforms that diminish party controls over society, and unwilling to retire gracefully from power. Deng probably shares their views on some issues, such as party primacy. [redacted]

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#### Spiritual Pollution--A Confusing Departure

For reasons that are still unclear, the Chinese leadership recently undertook a new political campaign that has apparently baffled many party members by blurring the focus of China's entire political program. For years, Deng and his allies have insisted that Cultural Revolution era leftists who remained in positions of authority were the cause of most of China's problems and should be purged from the party and replaced with younger, better educated recruits. A Central Committee plenary meeting in October finalized plans for a three-year "rectification" of the party that would eliminate politically unreliable and incompetent members. [redacted]

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Deng's speech to the plenum, however, also set off a campaign against "rightist" phenomena: the spread of undesirable Western intellectual and cultural influences in China and of doubt over the party's ability and right to rule. Deng charged that some of the party's own propagandists had spread this "spiritual pollution" by publishing articles on humanism and "alienation in socialism," and that this attitude of "liberalism" had to be eliminated. While his remarks were generally consistent with ideas other party traditionalists have expressed before, the intensity and breadth of the campaign that has ensued have surprised most observers. [redacted]

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Perhaps the most visible result of the campaign against spiritual pollution has been the confusion it has provoked throughout China about the direction of domestic policies, especially reform. Since mid-November, the party has been trying to define the limits of the spiritual pollution campaign and prevent it from disrupting agricultural work, foreign trade, science and technology, and foreign relations. Zhao has not played a prominent role in the campaign/ [redacted]

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[redacted] Progress has been slow, however, in part because authoritative Politburo guidance still has not been issued. Until the line from Beijing becomes clearer, the negative effects of the campaign--such as local attacks on reform, confusion over policies and intellectual distrust of the party--will persist. [redacted]

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## Succession Politics

The campaign also has aroused speculation about political infighting within the Politburo. Some of the spiritual pollution commentaries have contained implicit criticism of Hu Yaobang, who has been associated with the "liberal" wing of the party, even though he is on record criticizing writers for the mistakes now under attack. There are rumors of high level dissatisfaction with Hu's judgment and leadership style. Some of the stories even suggested that Deng has found Hu lacking in the essential skills of leadership. The cumulative effect of this, plus his relatively low profile in the campaign, may have damaged Hu's image as the party's nominal leader. [REDACTED]

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Since early 1980, Deng has sought to nail down for Hu Yaobang a place as his political heir, and, more broadly, to establish procedures for orderly succession that would avert political instability. Zhao's appointment to the premiership also is part of this transition to a younger leadership. In contrast to Hu, Zhao has not suffered any visible damage from the recent turn of political events, despite his clear association with reform policies. [REDACTED]

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Were Deng to die today, his place as first among equals within the Chinese leadership would probably fall to one of his generational peers, such as Li Xiannian or Peng Zhen, rather than to Hu or Zhao. Hu would probably continue to preside over rather than actually lead the party, in much the same way as he has under Deng. Zhao, for his part, would almost certainly remain as China's Premier, as there seems a general consensus that he has performed capably in that role. As the party's old guard are Deng's age or older, Hu's best strategy would be to maintain his position and wait for them to fade. In this regard, he still has substantial advantages over potential rivals in his own or younger generations. The entire succession question, however, is still very much in Deng's hands. Still in good health, and with his political prestige at its highest ever, Deng seems not to be in any hurry to resolve this difficult problem. [REDACTED]

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China's Economy: An Overview [redacted]

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Summary

*In the economic realm, Zhao Ziyang faces two sets of issues: those familiar to most world leaders--inflation, unemployment, and budget deficits--and a second set of more fundamental economic problems that are the legacy of 20 years of Chinese mismanagement. These include chronic energy and transportation shortages, and a management system that encourages inefficient, wasteful operations. Over the past few years, stabilization policies aimed at curtailing inflation and reducing unemployment repeatedly have interfered with efforts to solve these more fundamental problems.* [redacted]

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The Chinese economy today clearly is in better shape than it was just a few years ago. Improvements are particularly evident in personal consumption and in agriculture. Beijing's "open door" policies with respect to foreign trade and investment have also contributed to the overall health of the economy. More important, there is a growing orderliness and direction in economic policymaking. [redacted]

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The Sixth Five-Year Plan (1981-85), which was not finally approved until late 1982, provides a reasonably well-defined policy framework. During the Cultural Revolution (1966-76) the state planning apparatus was dismantled. Now, the planning agencies have been reestablished and strengthened, and they have produced a plan that Beijing regards as its most complete, practical and realizable five-year plan since the early 1950s. [redacted]

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However, the Chinese economy is still very much in a recovery phase--recovering from 20 years of mismanagement. And the government repeatedly has set aside measures designed to speed up recovery when it felt that it had to deal with more immediate threats to economic stability--inflation, unemployment, and budget deficits. [redacted]

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Good Growth, But...

In general, the period since 1978 has been one of relatively high growth rates accompanied by continuing signs of imbalance. In 1982 economic growth was moderate-to-good with GNP and industrial production each rising by over 7 percent. In other areas:

- Energy production rose by 5.7 percent, easing severe energy shortages.
- Agricultural output, benefiting from favorable weather and a continuation of liberal policies, grew by 11 percent.
- Foreign exchange reserves rose to US \$ 11.3 billion as Chinese exports increased and imports continued to fall because of diminished needs for foreign grain and industrial materials and equipment.
- Personal income growth slowed, but consumer demand still outstripped commodity supplies.
- In the absence of high-quality, stylish goods, consumers continued to deposit large sums of money in savings accounts; and inventories of rejected merchandise continued to pile up.
- The inflation rate was at least 5 to 10 percent.
- Urban unemployment probably rose, to about 10 percent.

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Systemic problems persisted in 1982, despite the favorable overall picture:

- There was no improvement in the wasteful use of resources. More energy and raw materials were used per unit of output.
- Quality remained a serious problem, especially for consumer goods.
- Continuing high industrial costs resulted in state revenue shortfalls. [redacted]

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Ironically, management reforms aimed at reducing waste made it more difficult for China to complete urgently needed energy and transportation projects. Beijing's decision to allow enterprises to retain part of their profits, for example, led to heavy investment by enterprises in projects that the central government regarded as low priority. This stretched supplies of scarce building materials and made it impossible to guarantee cement, steel, glass, and other building materials to high priority projects. [redacted]

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1983 saw a continuation of these problems. Investment spending was reportedly up by over 10 percent, despite the leadership's efforts to hold it at the 1982 level. In response, the central government has ordered a review of the construction program; lower priority projects are to be halted or dropped. And new, tougher regulations pertaining to project review and approval have been issued. [redacted]

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Too-rapid growth in industry continues to thwart efforts to get managers to improve quality and cut costs. As a result, state revenue shortfalls--a result of enterprise losses--have reached unanticipated levels. The situation is so serious that Zhao has warned provincial leaders that failure to reduce the deficits could cost them their jobs. [redacted]

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#### Management Reforms: Mixed Results

Some of these difficulties are attributable to, or have been aggravated by, management reforms. The basic thrust of reforms has been to decentralize decisionmaking in an attempt to boost production and efficiency. Reforms in agriculture have shown the most success. Essentially, they entail a reduction of the government's role in production and marketing decisions. Now, the bulk of these decisions apparently are made by farm households. In industry, the reforms allow enterprises to retain a portion of their profits. But because of major irrationalities in China's price system, the changes have not produced the desired effects. For example, at current prices, managers and local officials find it more profitable to build a factory to produce cigarettes than to invest in a new mine or plant producing industrial raw materials--where, despite scarcities, the rate of return is low. [redacted]

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Currently, Beijing has adopted a more cautious approach to economic reform. Further, minor changes are being made in the hope of improving efficiency. But because there are so many day-to-day problems that demand attention, and because economic reform is complex--and politically risky--the leadership has postponed further major changes until, they say, sometime after 1985. [redacted]

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## Data on China's Economy

	Percent Growth		
	<u>1980</u>	<u>1981</u>	<u>1982</u>
GNP	5.2	3.0	7.4
Industry	8.8	4.1	7.7
Agriculture	3.9	5.7	11.0
Investment	6.6	-10.5	26.6
Retail Sales	18.9	9.8	9.4
Exports	40.2	13.9	9.3
Imports	33.6	-6.4	-7.4

	Output in Million Tons		
	<u>1980</u>	<u>1981</u>	<u>1982</u>
Grain	320	325	353
Oil	106	101	102
Coal	620	622	666



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