



The President's Daily Brief

13 May 1971

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FOR THE PRESIDENT ONLY

THE PRESIDENT'S DAILY BRIEF

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PRINCIPAL DEVELOPMENTS

Taipei's foreign minister claims his government may not break ties "automatically" with all states recognizing Peking. *(Page 1)*

The monetary crisis is creating pressure for revaluation of the Japanese yen. *(Page 3)*

The Soviet economic delegation is trying to get the US to alter its trade control policy. *(Page 4)*

EC agricultural ministers are trying to cushion the impact of floating exchange rates on farmers. *(Page 4)*

At Annex we present an evaluation of Hanoi's recent "peace" initiative in Laos.

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NATIONALIST CHINA - US - JAPAN

On Tuesday, Foreign Minister Chow told Ambassador McConaughy that under certain--very limited--circumstances Taipei might not feel compelled to break ties automatically with any state recognizing Peking. Earlier,

[redacted] Taipei was willing to study a "dual representation" formula in the UN--which would permit the seating of both Communist and Nationalist China--as long as such a formula was combined with an Important Question resolution and preserved the Nationalist Security Council seat.

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These initiatives, which were not put forward as formal governmental positions, appear to be tactical moves on the part of more "realistic" Nationalist officials. Taipei hopes thus to prevent its two major supporters from moving further in the direction of Peking. Similar remarks have been made in the past by these and other Nationalist officials who have indicated that they were seeking a policy that was both viable and acceptable to Chiang Kai-shek.

There is no sign, however, that these proposals or the discussions themselves have been authorized by Chiang. The Generalissimo recently reiterated his determination to leave the UN if Taipei were unable to "fulfill its obligations"--a good sign that his position on this issue remains adamant.

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[redacted] According to Chow, Taipei could maintain ties only if Peking was not recognized as "sole legal government of China," "government of all Chinese people," or similar phrases; if Peking's claim to Taiwan was not included in the formula; and if Taipei continued to be accepted as the "government of the Republic of China." This rules out any formula likely to be acceptable to Peking.

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Moreover, governments willing to recognize Peking are most unlikely to countenance a Nationalist presence which would antagonize the Communists and thereby dissipate any diplomatic benefit to be derived from recognition. Relatively few states searching for a formula to seat both Chinas in the UN appear willing to fight for Nationalist retention of the Security Council seat.

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JAPAN

The international monetary crisis and the rapid buildup of Japanese foreign exchange holdings--over \$2 billion in the past six months--are creating pressure for a revaluation of the yen. Government leaders are reluctant to take this step, however, fearing unfavorable consequences such as reduced exports, losses to businesses with large dollar assets, and voter resentment. They prefer sticking to present efforts to reduce the payments surplus by removing highly restrictive import controls.

It is unlikely that merely liberalizing import controls will succeed in slowing down the reserve buildup in the near future. Although the recent monetary developments have not seriously affected the yen--because of Japan's tight exchange controls--the pressure for revaluing is certain to grow stronger if the present crisis atmosphere persists. Many non-Japanese observers have long considered the yen undervalued, giving Japan an unfair advantage in export markets. Some Japanese also would like to see their currency revalued because this would be anti-inflationary.

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NOTES

USSR-US: Since its arrival in the US on 5 May, the Soviet economic delegation (see The President's Daily Brief of 24 April) has been trying to persuade the US Government to alter its trade control policy against assisting the Soviet truck industry. It is talking with firms such as Mack Truck and Swindell-Dressler about playing major roles in the design and equipping of the Kama truck complex which, it is estimated, will eventually cost at least \$2 billion. As an inducement for the US to issue export licenses for truck technology and equipment, Moscow is offering to increase its exports of chrome ore. Moreover, several members of the delegation, including Deputy Minister of Foreign Trade Komarov, offered in talks with Commerce Department officials to purchase \$1 million worth of consumer goods. The delegation will spend the rest of the week in Chicago and Los Angeles talking to various firms, and is scheduled to spend Sunday at Disneyland and depart for home next Wednesday.

European Communities: The agricultural ministers of the European Community (EC) yesterday sanctioned measures to cushion the impact of floating exchange rates on German and Dutch farm incomes. The compromise avoids the degree of disruption that unilateral steps would have caused to the Common Agricultural Policy. It permits Bonn and The Hague to protect their markets from cheaper farm imports and to compensate their farmers for export losses should the values of the mark and guilder rise more than 2.5 percent above their parities. If the floating exchange rates stabilize just below this level, German and Dutch farmers would have an interest in pressing their governments to return the currencies to fixed parities.

Communist China - Pakistan:

Pakistan is seeking a \$100-million commodity credit from China. This would be over and above the \$200-million commitment China made last November to Islamabad's five-year plan. Although it is doubtful that Peking will supply as much additional aid as the Pakistanis desire, it professes willingness to play a prominent role in the economic reconstruction of East Pakistan.

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ANNEX

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LAOS

Hanoi has launched another "peace" initiative in Laos.

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Hanoi was broadcasting a "new proposal" designed to "speed up" the peaceful settlement of the Lao problem. This proposal,

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[Redacted] is essentially a boiled-down version of the Communists' statement of 6 March 1970. It demands an unconditional US bombing halt throughout Laos, after which both sides would "immediately realize a cease-fire." The Lao parties would then "immediately" discuss the formation of a provisional coalition government. Unlike last year's version, this one explicitly mentions a cease-fire, and, in its terseness, avoids polemics and any definition of what might constitute an "acceptable" provisional coalition government.

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Hanoi's proposal are clearly North Vietnamese handiwork. The North Vietnamese may be under some pressure from their tiring Lao comrades to get the Laos war returned to the back burner. Nonetheless, the continuing importance attached to a US bombing halt "throughout" Laos, suggests that Hanoi is still principally interested in protecting its assets in the Ho Chi Minh Trail.

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