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ITEM NO=00308269
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ACTION: NONE INFO: ADDO/NA, DOMDS, DONOVA, NESA/IA/I, ODPB-B,
ODPD-D, ODPN-N, ODPS-S, ODPW-W, OPCTR/EASA, RF, SOV/ES/CI, SOV/RP/ELA,
SOV/SP, STATDICT, FILE, CO/EALA, DCEA/CO, EA/CI, EA/COIO, EA/CORR,
EA/OSS, EA/TP, EA/TTS, AVAD, D/FBIS-2, ICS/HC/AS, NCCH, NESA/SO,
NESA/SO/S, NICAG/CH, NIO/EA, NIO/ECON, NIO/USSR, ODI/ACIS-6, OSWR/TTC,
PPS/CLBC, PPS/CLBL, PPS/INSE, STG/TCB, (31/W)

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TOR: 150901Z NOV 87 STATE 352929

HEADER

PP RUEAIIB
ZNY SSSSS ZOC STATE ZZH
PP RUEHC
DE RUEHC #2929 3190840
ZNY SSSSS ZZH
P 121551Z NOV 87 ZEX
FM SECSTATE WASHDC
TO RUEHSDALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS PRIORITY
ZEN/ AIT TAIPEI FROM AIT WASHDC PRIORITY 5168-73
ZEN/AMCONSUL GUANGZHOU PRIORITY 4794-99
ZEN/AMCONSUL SHANGHAI PRIORITY 7697-02
ZEN/SUVA POUCH
ZEN/BANDAR SERI BEGAWAN POUCH
ZEN/PORT MORESBY POUCH
ZEN/XMT AMEMBASSY SUVA
ZEN/AMEMBASSY CANBERRA

ZEN/AMEMBASSY PORT MORESBY
ZEN/AMEMBASSY BANDAR SERI BEGAWAN BEGAWAY
BT

CONTROLS

SECRET STATE 352929

FOR COORDINATION WITH State

ORIGINALLY PROCESSED AS CDS 6824424
BEIJING ALSO PASS DAO, NOFORN

C O R R E C T E D C O P Y (TEXT PARAS D4 AND D6)

E.O. 12356: DECL: OADR

BODY

TAGS: XE, PINR, CH
SUBJECT: INR'S CHINA LIGHTS OCTOBER 18-31, 1987
REPORT NO. 119

NAZI WAR CRIMES DISCLOSURE ACT SECRET

Declassified and Approved for Release
by the Central Intelligence Agency
Date: 2005

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A. ZHAO'S REPORT TO 13TH CONGRESS EVOLUTION, NOT REVOLUTION

1. THE CHINESE COMMUNIST PARTY'S 13TH NATIONAL CONGRESS OPENED AS SCHEDULED OCTOBER 25, PRESIDED OVER BY A TAN AND FIT-LOOKING DENG XIAOPING. PREMIER AND ACTING PARTY CHIEF ZHAO ZIYANG DELIVERED A TWO-AND-A-HALF HOUR KEYNOTE ADDRESS WHICH STRONGLY REAFFIRMED DENG XIAOPING'S POLICIES AND LEADERSHIP OVER THE PAST NINE YEARS AND CALLED FOR FURTHER REFORM--BOTH ECONOMIC AND POLITICAL.

2. ZHAO SPECIFICALLY REAFFIRMED A PACKAGE OF MARKET-ORIENTED MEASURES THAT HAVE BEEN ENDORSED BEFORE AS WELL AS A NUMBER OF CONSENSUS IDEAS ON POLITICAL REFORM, INCLUDING RESTRUCTURING AND STREAMLINING THE BUREAUCRACY, REJUVENATING THE LEADERSHIP, INCREASING SPECIALISTS' INPUT INTO DECISIONMAKING, AND CRACKING DOWN ON MALFEASANCE. IDEAS FOR MORE CONTROVERSIAL SYSTEMIC

CHANGES WERE GENERAL IN TONE AND ZHAO IMPLIED THEY WOULD BE A LONG TIME IN COMING.

3. AS EXPECTED, ZHAO PROVIDED AN IDEOLOGICAL JUSTIFICATION FOR THE REFORM PROGRAM: NAMELY, THAT BECAUSE CHINA IS POOR AND IN THE "INITIAL STAGE" OF SOCIALISM, MODERNIZATION MUST TAKE PRECEDENCE OVER IDEOLOGICAL CONCERNS, AND ALMOST ANY MEASURES THAT CONTRIBUTE TO DEVELOPMENT ARE ACCEPTABLE.

4. ALTHOUGH ZHAO'S SPEECH CONTAINED MORE SPECIFICS THAN EXPECTED, IT DID NOT INCLUDE TIMETABLES FOR IMPLEMENTING FUTURE REFORMS, SUGGESTING THAT WRANGLING OVER INTERPRETATION AND IMPLEMENTATION WILL CONTINUE.

B. ATMOSPHERICS

1. DENG XIAOPING CALLED THE FIRST SESSION OF THE CCP'S 13TH NATIONAL CONGRESS TO ORDER OCTOBER 25. ALL TOP LEADERS WERE PRESENT; DENG LOOKED HEALTHY AND TAN, IN OBVIOUS CONTRAST TO ORTHODOX ELDER CHEN YUN. PREMIER AND ACTING PARTY CHIEF ZHAO ZIYANG ASSISTED CHEN TO HIS SEAT, AND CHEN SLIPPED AWAY FROM THE ROSTRUM IN THE MIDDLE OF ZHAO'S KEYNOTE ADDRESS. OUSTED GENERAL SECRETARY HU YAOBANG SAT WITH OTHER MEMBERS OF THE FIVE-MAN STANDING COMMITTEE: ZHAO, DENG, CHEN YUN, AND PRESIDENT LI XIANNIAN.

C. ZHAO'S ADDRESS

1. ZHAO'S REPORT--WHICH HAD BEEN CLOSELY REVIEWED BY TOP LEADERS DURING THEIR SUMMER VACATION HUDDLE AT BEIDAIHE

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AND HAS GONE THROUGH AT LEAST HALF A DOZEN DRAFTS--STRIKES US AS CONTAINING LESS COMPROMISE LANGUAGE ON ECONOMIC REFORM THAN WE THOUGHT MIGHT BE THE CASE GIVEN THE CONSERVATIVE RESURGENCE EARLIER THIS YEAR. THE SPEECH CONTAINED A STRONG REAFFIRMATION IN PRINCIPLE OF FURTHER REFORM OF CHINA'S CENTRALIZED ECONOMY AND SPECIFICALLY ENDORSED A NUMBER OF CONTROVERSIAL MARKET-ORIENTED MEASURES, BUT GAVE NO TIMETABLE FOR IMPLEMENTATION.

2. ALTHOUGH HE WARNED OF THE CONTINUED DANGERS OF "BOURGEOIS LIBERALISM" AND AFFIRMED THE CENTRAL ROLE OF THE "FOUR CARDINAL PRINCIPLES," ZHAO CRITICIZED LEFTISM AND "OSSIFIED THINKING" MORE HARSHLY THAN "RIGHT DEVIATION" AND "LIBERAL THOUGHT." HE STRONGLY ENDORSED ALLOWING PEOPLE TO BLAZE NEW TRAILS, EXPLORE NEW IDEAS,

ATR DIFFERENT VIEWS, AND BE COURAGEOUS IN DEVELOPING MARXISM.

3. "INITIAL STAGE OF SOCIALISM" PROVIDES IDEOLOGICAL FLOOR. AS EXPECTED, ZHAO'S SPEECH ASSERTED THAT CHINA IS IN THE "INITIAL STAGE" OF SOCIALISM. THIS MEANS THAT CHINA MUST BOTH PRESERVE THE BASICS OF SOCIALISM--WHICH THE REPORT DEFINED AS ASSURING THAT STATE OWNERSHIP OF THE MEANS OF PRODUCTION REMAINS PREDOMINANT AND THAT REMUNERATION ACCORDING TO WORK REMAINS THE PRINCIPLE BASIS OF INCOME--AND THAT ECONOMIC DEVELOPMENT IS CHINA'S PRIMARY TASK FOR THE FORSEEABLE FUTURE. MOREOVER, BECAUSE CHINA IS ATTEMPTING TO BUILD SOCIALISM ON AN ECONOMICALLY UNDERDEVELOPED FOUNDATION, "ALL THINGS ADVANTAGEOUS TO THE DEVELOPMENT OF PRODUCTIVE FORCES SERVE THE PEOPLE'S INTEREST AND ARE ALSO A DEMAND OF SOCIALISM OR ALLOWED BY SOCIALISM."

4. A NEW SLOGAN. ZHAO'S SPEECH ENSHRINED A NEW SLOGAN THAT REFORMERS WILL USE TO TRY TO REDUCE THE POWER OF CENTRAL PLANNERS AND MOVE TOWARD GREATER RELIANCE ON MARKETS. ZHAO'S NEW FORMULA: "THE STATE REGULATES THE MARKET, AND THE MARKET GUIDES THE ENTERPRISES." ZHAO ALSO REPEATED THE OLD FORMULA-- THAT CHINA IS BUILDING A "PLANNED COMMODITY ECONOMY"--WHICH HAS ALLOWED CONSERVATIVES TO HARP ON THE "PLANNED" NATURE OF SOCIALISM. ZHAO'S STRONG ATTACK ON CHINA'S PAST RELIANCE ON EXCESSIVELY CENTRALIZED PLANNING AND CONTROL OF THE ECONOMY SUGGESTS THAT HE AND HIS COLLEAGUES MAY SEEK TO SUPPLANT THE OLD SLOGAN WITH THE NEW FOMULATION. THIS WILL LIKELY BE THE CENTER OF A NUMBER OF FUTURE ACADEMIC AND PROPAGANDA BATTLES.

5. AFFIRMING THE CONTROVERSIAL. ONE SURPRISE IN ZHAO'S REPORT WAS THAT HE ENUMERATED A NUMBER OF HIGHLY CONTROVERSIAL PROPOSALS, AFFIRMING THAT THEY ARE

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ACCEPTABLE DURING THE "INITIAL STAGE" OF SOCIALIST DEVELOPMENT:

MANAGEMENT RESPONSIBILITY SYSTEMS UNDER WHICH ENTERPRISE MANAGERS SIGN CONTRACTS WITH THE STATE ASSURING THEIR PERFORMANCE. ZHAO SPECIFICALLY APPROVED OF EXPERIMENTS WITH LEASING SMALL AND MEDIUMSIZED STATE ENTERPRISES TO COLLECTIVES OR INDIVIDUALS.

-ESTABLISHING MARKETS NOT ONLY FOR COMMODITIES BUT FOR CAPITAL, LABOR, TECHNOLOGY, INFORMATION, REAL ESTATE, AND OTHER FACTORS OF PRODUCTION. ACCORDING TO A HIGH-RANKING

AGRICULTURAL OFFICIAL, WHO SPOKE AT A PRESS CONFERENCE ARRANGED TO COINCIDE WITH THE CONGRESS, CHINA WILL SOON PERMIT TRANSFER AND SALE OF USE RIGHTS TO FARMLAND.

PURSuing PRICE REFORM. ZHAO TROD CAREFULLY ON THIS POLITICAL LANDMINE, AFFIRMING THE IDEA IN PRINCIPLE, BUT WARNING THAT PROGRESS WILL-AND MUST BE-SLOW, AND MUST BE LINKED TO GRADUALLY RISING INCOMES.

-PERMITTING DIVERSE FORMS OF OWNERSHIP-INCLUDING STATE, COLLECTIVE, AND INDIVIDUAL ENTERPRISES-"AS LONG AS PUBLIC OWNERSHIP REMAINS PREDOMINANT. ZHAO SPECIFICALLY ENDORSED EXPERIMENTATION WITH VARIOUS TYPES OF STOCK ISSUANCE AND CALLED THE DEVELOPMENT OF PRIVATE OWNERSHIP BENEFICIAL TO CHINA'S ECONOMIC DEVELOPMENT.

-PERMITTING--INDEED, ENCOURAGING--INCOME DIFFERENTIALS, AND ALLOWING INCOME BASED ON MANAGERIAL, SCIENTIFIC, AND TECHNOLOGICAL TALENT AND RETURN ON RISK FOR INVESTORS, AS LONG AS DISTRIBUTION ACCORDING TO WORK REMAINS PREDOMINANT.

6. POLITICAL REFORM - EVOLUTION NOT REVOLUTION. IN RECENT WEEKS, TOP LEADERS DAMPENED EXPECTATIONS ABOUT HOW FAR THE CONGRESS WOULD GO IN ANNOUNCING POLITICAL REFORMS. DENG AND OTHERS ANNOUNCED THAT POLITICAL REFORM WOULD BE "ON THE CONGRESS' AGENDA," AND THE CENTRAL COMMITTEE PLENUM THAT IMMEDIATELY PRECEDED THE CONGRESS ENDORSED "IN PRINCIPLE" A SET OF "GENERAL IDEAS" ON POLITICAL REFORM FOR DISCUSSION BY THE FULL BODY.

7. AFTER THIS LOW-KEY BUILDUP, THE CAREFULLY CRAFTED POLITICAL REFORM SECTIONS OF ZHAO'S REPORT WENT FARTHER THAN MIGHT HAVE BEEN EXPECTED. HE STRONGLY CRITICIZED "SOME MAJOR DEFECTS" IN CHINA'S POLITICAL SYSTEM, ENDORSED IN PRINCIPLE A NUMBER OF CONTROVERSIAL IDEAS--WHILE SUGGESTING THAT THEIR IMPLEMENTATION WOULD BE FAR IN THE FUTURE--AND ANNOUNCED MORE SPECIFIC PLANS TO MOVE AHEAD WITH LESS CONTROVERSIAL MEASURES.

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8. ZHAO LAID OUT A TWO-PHASED PLAN FOR POLITICAL REFORM. "THE IMMEDIATE OBJECTIVE IS LIMITED," HE SAID, CONSISTING MAINLY OF IMPROVING BUREAUCRATIC EFFICIENCY AND STRENGTHENING DIALOGUE BETWEEN LEADERS AND EXPERTS, MINORITIES, OTHER POLITICAL PARTIES, AND THE GRASSROOTS. IMMEDIATE GOALS OF POLITICAL REFORM INCLUDE:

BUREAUCRATIC STREAMLINING AND REJUVENATION. ZHAO CALLED ON THE STATE COUNCIL TO PREPARE BY SPRING A PLAN FOR REORGANIZING THE GOVERNMENT APPARATUS; SHRINKING ITS ROLE IN ADMINISTERING ECONOMIC ENTERPRISES; ENHANCING ITS ROLE IN MONITORING AND GUIDING THE ECONOMY THROUGH SUCH INDIRECT MEANS AS TAX AND MONETARY POLICY; AND IMPROVING ITS ABILITY TO FERRET OUT MALFEASANCE AND INEFFICIENCY.

-SEPARATING THE FUNCTIONS OF PARTY AND STATE. ZHAO TERMED THIS THE "KEY" TO POLITICAL REFORM.

(A) WHILE HE DID NOT ANNOUNCE PLANS TO REMOVE PARTY COMMITTEES FROM ENTERPRISES--A MEASURE ESPOUSED BY HIS MORE RADICAL ADVISORS--HE REVEALED PLANS GRADUALLY TO DO AWAY WITH SUCH COMMITTEES IN CENTRAL MINISTRIES.

(B) HE ALSO ANNOUNCED THAT, IN FUTURE, PARTY COMMITTEES CANNOT DESIGNATE AS SECRETARY OR STANDING COMMITTEE MEMBER IN CHARGE OF GOVERNMENT WORK SOMEONE WHO HOLDS NO GOVERNMENT POST, A MEASURE DESIGNED TO ASSURE THAT KEY PARTY OFFICIALS UNDERSTAND AND HAVE SOME EXPERIENCE IN GOVERNMENT AFFAIRS.

(C) ZHAO ANNOUNCED THAT CONTROL OVER PARTY COMMITTEES IN ENTERPRISES WILL GRADUALLY BE TRANSFERRED FROM THE PARTY COMMITTEE AT THE NEXT HIGHEST LEVEL IN THEIR ADMINISTRATIVE HIERARCHY TO THE LOCAL PARTY COMMITTEE, A MEASURE DESIGNED TO BREAK THE STRANGLEHOLD OF CENTRAL MINISTRIES, ENHANCE LOCAL AUTHORITY, AND ENCOURAGE GREATER FLEXIBILITY IN POLICY IMPLEMENTATION.

(D) ZHAO ALSO ANNOUNCED THAT PARTY DISCIPLINE INSPECTION COMMISSIONS--OFTEN BASTIONS OF ORTHODOX DETRACTORS OF REFORM--WILL NOT BE AUTHORIZED TO INVESTIGATE BREACHES OF THE LAW OR ADMINISTRATIVE REGULATIONS. THIS WILL BE LEFT TO THE NEWLY ESTABLISHED MINISTRY OF SUPERVISION--HEADED BY A ZHAO APPOINTEE AND ITS LOCAL EQUIVALENTS.

-DECENTRALIZATION. ZHAO CALLED FOR GREATER DELEGATION OF POWERS TO CITIES AND ENTERPRISES. OTHER, MORE ORTHODOX FIGURES HAVE CALLED FOR DEVOLUTION OF AUTHORITY TO LOCAL GOVERNMENTS RATHER THAN ENTERPRISES.

--ESTABLISHMENT OF A CIVIL SERVICE SYSTEM. ZHAO OUTLINED A TWO-PART CIVIL SERVICE SYSTEM, WITH "ADMINISTRATIVE

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FUNCTIONARIES"--I.E., POLITICAL OFFICIALS--SUBJECT TO THE SUPERVISION OF THE PARTY AND "MASSES" AND HELD ACCOUNTABLE TO THE CONSTITUTION AND A NEW LAW OUTLINING

THEIR RESPONSIBILITIES AND FUNCTIONS. SUCH OFFICIALS WOULD SERVE LIMITED TERMS IN OFFICE. "PROFESSIONAL FUNCTIONARIES" I.E., CAREER CIVIL SERVANTS--WOULD BE SUBJECT TO A SEPARATE LAW THAT WOULD DETAIL PROCEDURES FOR PROMOTION AND DEMOTION, TRAINING, PAY, WELFARE, AND RETIREMENT.

-ZHAO CALLED FOR GREATER COORDINATION WITH NON-COMMUNIST PARTIES AND MASS ORGANIZATIONS, BUT EXPLICITLY ESCHEWED WESTERN-STYLE SEPARATION OF POWERS AND MULTI-PARTY DEMOCRACY.

9. KEEPING THE OPEN DOOR OPEN. ZHAO SAID THAT CHINA SHOULD "ENTER THE WORLD ECONOMIC ARENA MORE BOLDLY," IMPROVE ITS LEGAL INFRASTRUCTURE AND INVESTMENT ENVIRONMENT, AND "FIRMLY AND GRADUALLY" REFORM THE FOREIGN TRADE SECTOR. HE CALLED FOR "PRUDENT" BORROWING AND A "RATIONAL DEBT STRUCTURE," AND SAID THE OPEN POLICY WILL BE GRADUALLY EXTENDED FROM THE COAST TO THE INTERIOR.

10. FOREIGN POLICY. EXCEPT FOR AN AFFIRMATION OF THE OPEN DOOR POLICY, ZHAO'S SPEECH--AS EXPECTED--SAID LITTLE ON FOREIGN POLICY. IT NOTED APPROVINGLY PROGRESS TOWARD AN INF AGREEMENT, BUT TERMED IT "MERELY A FIRST STEP TOWARD DISARMAMENT," AND REMARKED THAT "NOT A SINGLE HOT SPOT HAS BEEN REMOVED" WHILE "THERE EXISTS THE DANGER OF ESCALATION IN SOME REGIONAL CONFLICTS. (CONFIDENTIAL) (CCLARKE)

D. REUNIFICATION PROGRESS BRINGS EMBARRASSMENT TOO

1. CHINA'S SUCCESS IN ATTRACTING OVERSEAS CHINESE, TAIWANESE, SELF-EXILED TIBETANS, AND OTHER ABSENT "COMPATRIOTS" TO VISIT THE MAINLAND HAS BOOSTED BEIJING'S IMAGE OF MODERATION AND REASONABLENESS. IT HAS ALSO CREATED SIGNIFICANT EMBARRASSMENT. FOLLOWERS OF THE DALAI LAMA WHO VISITED TIBET SINCE 1980 REPORTED A DISCOURAGING LACK OF MATERIAL PROGRESS AT HOME BUT A CONTINUED RELIGIOUS COMMITMENT AND LOYALTY TO THE DALAI AMONG TIBETANS AT HOME. TWO TAIWAN REPORTERS WHO RECENTLY VISITED THE MAINLAND WERE ALSO HIGHLY CRITICAL OF CHINA'S LOW STANDARD OF LIVING AND LACK OF DEMOCRACY.

2. LEADERS IN BEIJING, WHO COMPARE CHINA'S CURRENT SITUATION TO THE POVERTY AND POLITICAL CHAOS OF THE CULTURAL REVOLUTION PERIOD, ARE JUSTIFIABLY PROUD OF THE PROGRESS THEY HAVE MADE DURING THE LAST NINE YEARS. BUT THE LESS THAN ENTHUSIASTIC REACTION OF SOME RETURNING

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COMPATRIOTS MAY LEAVE THEM BOTH CONFUSED AND ANNOYED. DESPITE THE EMBARRASMENTS, BEIJING IS FIRMLY WEDDED TO THE "OPEN DOOR," AND NO CHANGE IN POLICY IS EXPECTED.

3. REUNIFICATION APPEALS. THE PRC HAS PERIODICALLY PLAYED ON THE INTENSE CHINESE CULTURAL ATTACHMENT TO THE HOMETLAND TO ENCOURAGE OVERSEAS CHINESE TO RETURN--FOR A VISIT OR TO LIVE--TO SEND MONEY TO RELATIVES, INVEST IN THEIR HOME VILLAGE, OR CONTRIBUTE TO CHINA'S MODERNIZATION BY GIVING ADVICE, LECTURING, SUPPORTING RELATIVES WHO ARE STUDYING ABROAD, OR BROKERING BUSINESS DEALS. THOUSANDS OF CHINESE--INCLUDING MANY OF THE PRC'S TOP SCIENTISTS--RETURNED DURING THE 1950S, BUT BEIJING'S APPEAL WORE VERY THIN DURING THE GREAT LEAP AND CULTURAL REVOLUTION.

4. SINCE IT BECAME POSSIBLE TO DO SO IN THE EARLY 1970S, THOUSANDS OF OVERSEAS CHINESE--INCLUDING MANY FROM THE US--HAVE RETURNED TO CHINA FOR VARYING PERIODS OF TIME. MANY VISIT RELATIVES WHO, AS INTELLECTUALS OR "CAPITALISTS," WERE TREATED VERY HARSHLY UNDER MAO AND ARE NOW ENJOYING GREATER PROSPERITY AND FAVOR. GENERALLY SPEAKING, THESE VISITORS HAVE NOT BEEN PUBLICLY VERY CRITICAL OF DEVELOPMENTS IN THE PRC. HOWEVER, A GROWING NUMBER OF MORE SKEPTICAL--AND MORE CRITICAL--OVERSEAS CHINESE ARE NOW TRAVELING TO THE MAINLAND AS A RESULT OF CHINA'S DECADE OF POLITICAL STABILITY, PROGRESS TOWARD MODERNIZATION, AND "ONE COUNTRY, TWO SYSTEMS" APPROACH. THIS HAS BEGUN--AND WILL CONTINUE--TO CREATE EMBARRASSING INCIDENTS.

5. TIBETANS. AFTER MORE THAN 20 YEARS OF HOSTILITY--INCLUDING PERIODIC ARMED CLASHES--TIBETAN EXILES BEGAN TO RETURN HOME FOR VISITS IN 1979. CHINA HOPED ITS NEW OPENNESS WOULD DEFUSE EXILE CRITICISM, ENCOURAGE EXILES TO RETURN PERMANENTLY, AND LEAD TO A RECONCILIATION WITH THE DALAI. INSTEAD, EXILES FOUND A DISCOURAGING LACK OF MATERIAL PROGRESS, AN OPPRESSIVE HAN (CHINESE) CIVILIAN AND MILITARY PRESENCE, AND MASSIVE DESTRUCTION OF TIBETAN CULTURE. AT THE SAME TIME, THEY WERE SURPRISED TO FIND THAT RELIGIOUS FERVOR--AND DEVOTION TO THE DALAI--STILL RUN HIGH. THE RESULT WAS A HARDENING OF THE EXILES' POSITION, RESULTING IN STALLED TALKS WITH THE DALAI AND INCREASED DEMANDS FOR AUTONOMY/INDEPENDENCE.

6. TAIWAN. SINCE THE DEATH OF MAO, BEIJING HAS BEEN TRYING TO ENCOURAGE RESIDENTS OF TAIWAN TO VISIT RELATIVES AND SEE WITH THEIR OWN EYES THE FRUITS OF DENG XIAOPING'S POLICY. QUITE A FEW HAVE DONE SO THROUGH HONG KONG. TAIPEI'S NEW RULES ON HUMANITARIAN VISITS, HOWEVER, PROMISE TO TURN A TRICKLE INTO A STREAM. BEIJING HOPES ITS OVERSEAS COUSINS WILL BE IMPRESSED, BUT

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THE HIGHLY CRITICAL REPORTS BY TWO TAIWAN JOURNALISTS WHO RECENTLY TOURED THE PRC SUGGEST MANY TAIWANESE MAY ALSO BE DISMAYED AT POOR LIVING STANDARDS AND RELATIVE LACK OF FREEDOM.

7. STEADY ON COURSE. LEADERS ARE LIKELY PUZZLED--AND POSSIBLY SOMETIMES VERY ANNOYED--AT THE LESS THAN LAUDATORY REMARKS OF SOME OF THEIR VISITING COMPATRIOTS, BUT BEIJING HAS FULLY COMMITTED ITSELF TO ITS "OPENING TO THE OUTSIDE" AND IS HIGHLY UNLIKELY TO STALL OR REVERSE COURSE. (CONFIDENTIAL/NOFORN) (CCLARKE)

E. SINO-JAPANESE TENSIONS EASE A BIT

1. CHINA HAS SOFTENED ITS TONE WITH JAPAN IN RECENT WEEKS, APPARENTLY HOPING THAT LEADERSHIP CHANGES ON BOTH SIDES WILL PROVIDE A FRESH OPPORTUNITY TO BREAK THE CURRENT DIPLOMATIC IMPASSE. AS OF MIDSEPTEMBER, PRC LEADERS REPORTEDLY HAD EASED THEIR DEMAND FOR AN EARLY SOLUTION--I.E., BEFORE PRIME MINISTER NAKASONE LEFT OFFICE--TO THE KOKARYO DORMITORY CASE, AND NOW SEEM TO BE HOPING THAT PRIME MINISTER TAKESHITA, WITH NAKASONE'S BACKING, WILL FIND A WAY OUT OF THE DEADLOCK.

2. SYMBOLICALLY, DENG XIAOPING'S FIRST MEETING WITH A FOREIGNER AFTER THE 13TH PARTY CONGRESS WAS WITH JAPANESE INDUSTRIALIST RYOICHI SASAKAWA. DENG SENT HIS CONGRATULATIONS TO THE NEW PRIME MINISTER AND EXPRESSED HOPE THAT SINO-JAPANESE RELATIONS WILL IMPROVE AFTER NOBORU TAKESHITA TAKES OFFICE. SIMILARLY, NEWLY CONFIRMED PARTY GENERAL SECRETARY ZHAO MADE SOOTHING TONES ABOUT THE RELATIONSHIP DURING A POST CONGRESS PRESS CONFERENCE.

3. DESPITE THE SOMEWHAT LESS STRIDENT TONE, BEIJING REMAINS DISPLEASED WITH THE JAPANESE OVER A SERIES OF CURRENT IRRITANTS AND LONGER-TERM SOURCES OF BILATERAL FRICTION. BEIJING IS LIKELY TO TRY TO KEEP TOKYO ON THE DEFENSIVE, AND IF THE "HONEYMOON PERIOD" UNDER NEW LEADERSHIP IN BOTH COUNTRIES DOES NOT PROVIDE RELATIVELY RAPID SOLUTIONS TO SOME OF THESE PROBLEMS, TO RESUME MORE STRIDENT RHETORIC.

4. THE DORMITORY DISPUTE. THROUGH THE SUMMER AND EARLY FALL, BEIJING STEPPED UP THE PRESSURE ON TOKYO TO TRY TO FORCE PRIME MINISTER NAKASONE TO SOLVE THE DORM CASE BEFORE HE LEFT OFFICE; NAKASONE'S DEMURRAL AND THE FOREIGN MINISTRY'S HARD-LINE STANCE LEFT BEIJING FRUSTRATED. CONTINUED PRESSURE APPEARED TO BE DESIGNED TO PUT NAKASONE'S SUCCESSOR--AT THAT TIME STILL UNCERTAIN--ON NOTICE THAT CHINA WOULD NOT LET THE ISSUE GO AWAY. ALTHOUGH SEEMINGLY IRRITATED WITH NAKASONE'S ARGUMENT THAT HE COULD NOT INTERVENE IN THE CASE BECAUSE

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OF JAPAN'S CONSTITUTIONAL SEPARATION OF POWER, BEIJING APPRENTLY FELT THAT NAKASONE WANTED AN AMICABLE SETTLEMENT OF THE ISSUE.

5. THE CHINESE WOULD PROBABLY HAVE PREFERRED THAT FINANCE MINISTER KIICHI MIYAZAWA SUCCEED NAKASONE. MIYAZAWA WAS INSTRUMENTAL IN RESOLVING THE 1982 TEXTBOOK CONTROVERSY, IS VIEWED AS "DOVISH" ON MILITARY ISSUES, AND LACKS STRONG TIES TO JAPAN'S TAIWAN LOBBY. DURING THE BILATERAL MINISTERIAL SESSION LAST JUNE, DENG XIAOPING CONSPICUOUSLY SINGLED OUT MIYAZAWA FOR PERSONAL ATTENTION, WALKING TO HIS SEAT AND SHAKING HIS HAND. BUT TAKESHITA'S TIES--AND DEBT--TO NAKASONE LIKELY HAVE ENCOURAGED BEIJING TO HOPE THAT THE NEW GOVERNMENT WILL FIND A MUTUALLY ACCEPTABLE FORMULA FOR SOLVING THE DORM CASE.

6. COCOM. THE CHINESE TOOK GREAT UMBRAGE AT THE IDEA OF BEING INCLUDED IN JAPAN'S TIGHTENING OF EXPORTS OF HIGH TECHNOLOGY TO COMMUNIST COUNTRIES AND THE IMPOSITION OF A ONE-YEAR BAN ON SUCH SALES BY THE TOSHIBA COMPANY, AND HAVE COMPLAINED THAT THE BAN WOULD HURT CHINA MORE THAN THE SOVIET UNION AND RESULT IN CHINESE LOSSES RUNNING INTO THE MILLIONS OF DOLLARS. TOKYO HAS DENIED THAT IT INTENDS TO TIGHTEN RESTRICTIONS ON EXPORTS TO CHINA. MITI HAS STATED THAT SPECIFICALLY IT WILL NOT PUT CHINA-BOUND DEFENSE-RELATED HIGH TECHNOLOGY UNDER TIGHTER SCRUTINY AND HAS EXEMPTED MOST MACHINE TOOLS FROM SUCH RESTRICTIONS. MITI OFFICIALS HAVE ALSO SAID THAT JAPAN PLANS FURTHER TO LIBERALIZE ITS CONTROLS OVER EXPORTS TO CHINA AND TO INCREASE ITS EXPORT CONTROL STAFF TO SPEED UP HANDLING OF APPLICATIONS UNDER EXPORT CONTROL REGULATIONS.

7. AFTER MUCH SOUL SEARCHING, TOKYO ALSO REPORTEDLY HAS OFFERED EITHER TO SUBSTITUTE OTHER COMPANIES' GOODS FOR THE BANNED TOSHIBA PRODUCTS OR HAVE TOSHIBA PAY THE CHINESE A PENALTY AND DELIVER THE GOODS AT THE END OF THE

BAN. AS A RESULT OF CONTINUED CHINESE DISSATISFACTION, JAPAN MAY ALSO DECIDE TO ALLOW TOSHIBA TO FULFILL AT LEAST SOME OF THOSE CONTRACTS WITH THE PRC THAT CANNOT BE SUPPLIED BY OTHER COMPANIES.

8. THE RECENT US DECISION TO POSTPONE FORMAL MULTILATERAL DISCUSSION OF FURTHER LIBERALIZATION OF COCOM RESTRICTIONS BECAUSE OF CHINESE SALES OF SILKWORM MISSILES TO IRAN WILL LIKELY CREATE CONSIDERABLE CONFUSION IN BOTH TOKYO AND BEIJING, AND COULD COMPLICATE JAPAN'S EFFORTS TO RESOLVE THIS MAJOR BILATERAL IRRITANT.

9. TRADE DEFICIT DOWN, LOANS UP. STEADY REDUCTIONS IN THE BILATERAL TRADE DEFICIT THROUGHOUT THE YEAR AND A

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JAPANESE OFFER OF A NEW 700 MILLION DOLLARS LOAN MAY ALSO LIE BEHIND BEIJING'S RECENTLY LESS STRIDENT TONE. FROM JANUARY-JULY, CHINA'S DEFICIT DROPPED BY MORE THAN HALF-FROM 4.1 BILLION DOLLARS TO 2.0 BILLION DOLLARS--COMPARED WITH THE SAME PERIOD LAST YEAR, AS CHINA SIGNIFICANTLY REDUCED IMPORTS FROM JAPAN AND MODESTLY EXPANDED EXPORTS. IN JULY, TOKYO AND BEIJING SIGNED A 580 MILLION DOLLARS DEVELOPMENT LOAN AGREEMENT THAT DENG RATHER CHURLISHLY IMPLIED WAS AN EFFORT TO BUY CHINA OFF WITH RESPECT TO THE DORM ISSUE. BY CONTRAST, PREMIER AND ACTING PARTY CHIEF ZHAO ZIYANG WAS REPORTED AS EXPRESSING THANKS TO NAKASONE FOR A 700 MILLION DOLLARS EXPORT PROMOTION LOAN-- 500 MILLION DOLLARS OF LOW-INTEREST OFFICIAL CREDITS AND 200 MILLION DOLLARS IN EXIM LOANS--ANNOUNCED IN EARLY OCTOBER.

10. "MILITARISM" THE ISSUE THAT WON'T GO AWAY. CHINESE ANNOYANCE AND CONCERN OVER "RESURGENT JAPANESE MILITARISM"--FOCUSSED ON INCREASED JAPANESE DEFENSE SPENDING--REMAINS A CONSTANT THEME IN CHINESE STATEMENTS, DESPITE THE RECENT MORE MODERATE TONE. CONCERN ABOUT THIS ISSUE RUNS ESPECIALLY DEEP WITHIN THE CHINESE MILITARY AND AMONG PARTY ELDERS WHO HAVE RECENTLY BEEN CELEBRATING THE 50TH ANNIVERSARY OF THEIR LEADERSHIP OF THE COMMUNIST PARTY'S WAR EFFORT AGAINST JAPAN. BEIJING CAN PROBABLY TAKE LITTLE COMFORT ON THIS ISSUE FROM TAKESHITA'S APPOINTMENT AND NAKASONE'S CONTINUED BEHIND-THE-SCENES INFLUENCE.

11. LOOKING AHEAD: MATTERS MAY HAVE REACHED A PLATEAU. TAKESHITA, RENOWNED FOR HIS CAUTIOUS, SLOW-MOVING STYLE, WILL BE IN NO HURRY TO RISK A CONSTITUTIONAL CRISIS BY TRYING TO CIRCUMVENT THE JUDICIARY IN THE KOKARYO CASE. MOREOVER, LIKE NAKASONE, HE WILL PROBABLY FOCUS HIS

FOREIGN AFFAIRS EFFORTS ON IMPROVING RELATIONS WITH THE US. FOR THEIR PART, THE CHINESE SEEM TO BE COMING RELUCTANTLY TO ACCEPT THE REALITY OF JAPAN'S SEPARATION OF POWERS. BUT, THE CHINESE WILL CONTINUE TO REACT FORCEFULLY WHEN THEY FEEL THAT THE FUNDAMENTAL SPIRIT UNDERLYING CHINA-JAPAN RELATIONS--THAT THE PRC IS THE ONLY LAWFUL GOVERNMENT OF CHINA--SEEMS IN JEOPARDY.
(SECRET NOFORN) (CCLARKE) SHULTZ

ADMIN
END OF MESSAGE

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