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CONTROLS

C O N F I D E N T I A L BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR

TEXT

TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF
SUBJECT: FAREWELL AND HAIL

REF: BEIJING 3855

1. (CONFIDENTIAL - ENTIRE TEXT.)
2. I DEPART BEIJING TOMORROW WITH BOTH A SOLID SENSE OF PROGRESS AND AN AWARENESS OF FRESH CHALLENGES IN THE RELATIONSHIP BETWEEN THE UNITED STATES AND THE PEOPLE'S REPUBLIC OF CHINA. THESE ARE THE THEMES SOUNDED IN MY FAREWELL MEETINGS WITH CHINA'S TOP LEADERSHIP, NOTABLY AN APRIL 19 TRIPLEHEADER WITH THE PRESIDENT, THE PREMIER AND THE GENERAL SECRETARY. MUCH OF THE PROGRESS IS DUE TO WORLD EVENTS, WASHINGTON POLICIES, USUN EFFORTS, THE PRIVATE SECTOR OR JUST PLAIN SERENDIPIITY. THE CHINESE, OF COURSE, HAVE MADE THEIR OWN GREAT EFFORTS. THIS EMBASSY AND OUR CONSULATES, I BELIEVE, HAVE ALSO PLAYED THEIR PART. THE CHALLENGES -- AND INDEED SOME TENSION -- WILL BE PERPETUAL AS BEFITS TWO SUCH CONTRASTING NATIONS. BUT SOME OF OUR NEW PROBLEMS FLOW FROM PAST SUCCESS. AND THEY WILL BE RESOLVED OR MANAGED IF THE CHINESE AND WE ACT WISELY, RECOGNIZING THAT OUR COMMON INTERESTS CLEARLY OUTWEIGH OUR INEVITABLE DIFFERENCES.
3. THIS MESSAGE WILL FOCUS ON THE CONCRETE AND PROGRAMMATIC IN OUR BILATERAL RELATIONS. FOR MY ANALYSIS OF CHINA'S FOREIGN POLICY AND DOMESTIC SCENE, I REFER THE INTERESTED READER TO THE

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PERSONAL SCENESETTER I WROTE FOR PRESIDENT BUSH'S FEBRUARY VISIT (REFTEL). IN THAT PAPER, I STATED THAT CHINA WAS PROSPERING IN THE WORLD WHILE FLOUNDERING AT HOME. THREE WEEKS FROM NOW GORBACHEV AND DENG WILL CLASP HANDS. IN A FEW HOURS AS I HEAD FOR THE AIRPORT THERE WILL BE A MEMORIAL SERVICE FOR HU YAOBANG NEAR TIANAMEN SQUARE, FILLED FOR DAYS WITH PROTESTING STUDENTS.
PROGRESS

4. SINCE NOVEMBER 1985 SINO-AMERICAN RELATIONS HAVE GREATLY ADVANCED AND FURTHER MATURED. THE FOUNDATIONS HAVE BEEN BROADENED AND DEEPENED IN A WIDE VARIETY OF FIELDS. HIGHLIGHTS AND RECOMMENDATIONS INCLUDE THE FOLLOWING.

5. VISITS.

A STEADY TWO-WAY STREAM OF HIGH-LEVEL AND WORKING-LEVEL VISITORS, MOST NOTABLY PRESIDENT BUSH, HAS PROVIDED IMPETUS, ENRICHED PERSPECTIVES, NURTURED PERSONAL LINKS, AND STRENGTHENED DOMESTIC SUPPORT FOR A POSITIVE RELATIONSHIP. SUCH EXCHANGES, INCLUDING DISTINGUISHED PRIVATE CITIZENS, WILL REMAIN CRUCIAL. IN PARTICULAR WE SHOULD CONTINUE TO ENCOURAGE CONGRESSIONAL DELEGATIONS, GIVEN THE MANY ISSUES INVOLVING CAPITOL HILL.

6. POLITICAL DIALOGUE.

OUR DISCUSSIONS WITH BEIJING ON INTERNATIONAL TOPICS HAVE CHANGED THE PRC POSITION ON SILKWORMS, GENERATED GREATER CHINESE RESPONSIBILITY ON BALLISTIC MISSILES, AND SUBSTANTIALLY MODIFIED THEIR APPROACH TO THE KHMER ROUGE IN CAMBODIA. THE CHINESE, IN TURN, (ALONG WITH JAPAN AND SOUTH KOREA) HELPED TO IMPROVE OUR POSTURE ON THE INF AGREEMENT. WE HAVE CLOSELY COMPARED NOTES ON THE SOVIET UNION AND PROVIDED MUTUAL REASSURANCE. WE HAVE ENHANCED COLLABORATION OR
C O N F I D E N T I A L SECTION 02 OF 10 BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR

TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF
SUBJECT: FAREWELL AND HAIL

COMPREHENSION IN OTHER AREAS SUCH AS AFGHANISTAN, THE GULF WAR, AND KOREA, WHERE THE CHINESE HAVE FACILITATED OUR DIALOGUE HERE WITH THE NORTH KOREANS. THE CHINESE HAVE SOMEWHAT MODERATED THEIR THIRD WORLD RHETORIC AND BECOME MORE COOPERATIVE AT THE UNITED NATIONS. THEY HAVE RELAXED THEIR POSITIONS

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TOWARD SOME OF OUR FRIENDS, SUCH AS ISRAEL AND SOUTH KOREA. ON CENTRAL AMERICA BEIJING HAS BEEN MORE SENSITIVE TO OUR CONCERNS AND EVEN TOSSED A BOUQUET AT OUR LATEST INITIATIVE. WE HAVE SUCCESSFULLY MANAGED THE TAIWAN QUESTION.

7. IN SOME AREAS, OF COURSE, IT HAS BEEN HARD GOING OR WORSE. PROMINENT EXAMPLES INCLUDE TIBET, POPULATION POLICY, AND HUMAN RIGHTS GENERALLY. ON OTHERS THERE ARE PROMISING BEGINNINGS, SUCH AS DRUGS AND ARMS CONTROL, OR POTENTIAL FOR INITIATING EXCHANGES, SUCH AS ON TERRORISM AND THE ENVIRONMENT.

8. OVERALL, AS THE PRESIDENT AND CHINESE LEADERS RECENTLY AGREED, WE NEED TO MAKE OUR DIALOGUE ON INTERNATIONAL TOPICS EVEN MORE SYSTEMATIC AT THE WORKING LEVEL.

9. ECONOMIC COOPERATION.

NOWHERE HAS OUR GROWTH BEEN MORE IMPRESSIVE. ANNUAL TRADE HAS LEAPT 100 PERCENT THE PAST THREE YEARS, EXCEEDING \$14 BILLION IN 1988. AGRICULTURAL SALES HAVE RISEN FROM NEGLIGIBLE LEVELS TO \$1.2 BILLION LAST YEAR; CHINA WILL PROBABLY BE OUR LARGEST OUTLET FOR WHEAT THIS YEAR. WE ARE CHINA'S SECOND LARGEST EXPORT MARKET AND, WITH \$3.4 BILLION COMMITTED, THE LEADING INVESTING COUNTRY. OUR EXPORT CONTROLS ON TECHNOLOGY HAVE BEEN SIGNIFICANTLY EASED IN RECENT YEARS AND YESTERDAY WE REACHED AGREEMENT THAT WILL INCLUDE CHINA IN OUR DISTRIBUTION SYSTEM. WE HAVE CONTINUED TO IMPLEMENT THE TRADE DEVELOPMENT PROGRAM, OVER 25 PERCENT OF WHOSE BUDGET HAS BEEN DEDICATED TO FEASIBILITY STUDIES FOR MAJOR CHINESE PROJECTS. DURING THE PAST THREE YEARS WE HAVE FORGED NEW AGREEMENTS ON CIVIL AVIATION, TAXES, TEXTILES AND MARITIME COOPERATION.

10. THE RECORD IS MIXED AT BEST ON OTHER ECONOMIC FRONTS. THE INVESTMENT CLIMATE HAS BEEN SUBSTANTIALLY IMPROVED SINCE 1985, SYMBOLIZED BY OPENING CEREMONIES I HAVE ATTENDED RANGING FROM ONE OF THE WORLD'S LARGEST COAL MINES TO THE WORLD'S LARGEST KENTUCKY FRIED CHICKEN. BUT MAJOR OBSTACLES AND FRUSTRATIONS REMAIN FOR AMERICAN BUSINESS. THE CURRENT CREDIT AND LIQUIDITY CRUNCH OF DOMESTIC RETRENCHMENT IS HAVING A SIGNIFICANT ADVERSE IMPACT. LONGER TERM PROBLEMS INCLUDE CHINESE PRACTICES, SOFT LOANS FROM OUR COMPETITORS, AND RESIDUAL TECHNOLOGY CONTROLS. WE HAVE GOTTEN NOWHERE ON A BILATERAL INVESTMENT TREATY. IN THE PAST YEAR WE HAVE MOVED INTELLECTUAL PROPERTY RIGHTS FROM ALMOST FOOTNOTE STATUS TO THE VERY TOP OF OUR BILATERAL ECONOMIC AGENDA. WE HAVE BEEN INTENSIFYING OUR EDUCATION CAMPAIGN. THE CHINESE REMAIN SERIOUS VIOLATORS;

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Page 4

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AND THIS ISSUE COULD BE AMONG OUR MOST TROUBLESOME
NEAR-TERM PROBLEMS IN BILATERAL RELATIONS. WE
HAVE CONSULTED THOROUGHLY ON CHINA'S
GATT APPLICATION, BUT ITS TRADE REFORMS MUST BE
C O N F I D E N T I A L SECTION 03 OF 10 BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR

TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF

SUBJECT: FAREWELL AND HAIL

ADVANCED IN ORDER TO AVOID A HEAVILY SAFEGUARDED
ADMISSION. WE NEED TO REINVIGORATE THE JCCT AND
JEC. ON THE FORMER WE HAVE NOW AGREED WITH THE
CHINESE TO FLESH OUT OUR PROPOSAL FOR WORKING GROUPS
TO EFFECT MORE CONCRETE PROGRESS.

11. SCIENCE AND TECHNOLOGY PROGRAMS.

OUR THIRTY PROTOCOLS CONSTITUTE THE LARGEST
BILATERAL PROGRAM EITHER COUNTRY CONDUCTS. WE
FACE THE CONTINUING CHALLENGES TO IMPROVE THE
BALANCE OF MUTUAL BENEFITS AND THE COMMERCIAL
APPLICATIONS. AND WE HAVE CORRECTLY HINGED THE
FIVE-YEAR RENEWAL OF THE UMBRELLA ACCORD ON
SATISFACTORY CHINESE ASSURANCES ON PROTECTION
OF INTELLECTUAL PROPERTY RIGHTS. AFTER INTENSIVE
NEGOTIATIONS WE REACHED A MAJOR AGREEMENT ON
SATELLITE LAUNCHES WITH THE CHINESE WHICH WILL MARRY
CHINESE ROCKETS WITH AMERICAN SATELLITES ON A CASE-
BY-CASE BASIS.

12. THE MILITARY DIMENSION.

OUR MILITARY TIES HAVE BEEN SUBSTANTIALLY ENRICHED
OVER THE PAST THREE YEARS, NOT WITHSTANDING A
TEMPORARY PAUSE INDUCED BY THE MISSILE ISSUE.
VIRTUALLY EVERY TOP MILITARY LEADER ON BOTH SIDES
HAS RECENTLY CROSSED THE PACIFIC AND A HEAVY
SCHEDULE OF FURTHER TRIPS WILL UNFOLD DURING
THE REMAINDER OF THIS YEAR. MEANWHILE WORKING
LEVEL DELEGATIONS EXPAND OUR PROFESSIONAL LINKS.
ONE OF THE MOST DRAMATIC EVENTS OF MY TENURE
WAS THE FIRST VISIT EVER TO THE PEOPLE'S REPUBLIC
BY AMERICAN NAVAL SHIPS IN THE AUTUMN OF 1986.
A YEAR LATER THE U.S. AIR FORCE THUNDERBIRDS
PERFORMED OVER BEIJING. EARLIER THIS MONTH I
SAW OFF THE FIRST PRC WARSHIP EVER TO VISIT THE
WEST. MORE AMERICAN VESSELS WILL STEAM INTO
SHANGHAI WHILE GORBACHEV IS IN CHINA, PERHAPS
IN SHANGHAI ITSELF. WE HAVE BEEN IMPLEMENTING
\$800 MILLION WORTH OF DEFENSIVE WEAPONS SALES

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Page 5

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AND ARE EXPLORING POSSIBLE NEW ITEMS.

13. WE WILL NEED TO CONTINUE MEASURING OUR TREAD IN OUR MILITARY COOPERATION. IT PROJECTS USEFUL SYMBOLISM AND ENLISTS CONSTITUENCIES IN THE PLA WHICH COULD PLAY A KEY ROLE IN BEIJING'S FUTURE ORIENTATION. BUT AS CHINA GROWS STRONGER, SO WILL APPREHENSIONS AMONG ITS ASIAN NEIGHBORS ABOUT ITS INTENTIONS AND POSSIBLY OUR INVOLVEMENT.
14. EDUCATIONAL AND CULTURAL EXCHANGES.

THESE HAVE MUSHROOMED SINCE 1985, DUE TO ONE OF THE MOST FERTILE USIA PROGRAMS ANYWHERE AND THE PROPER, EXPANDING, INDISPENSABLE ROLE OF THE PRIVATE SECTOR. AMERICAN CAMPUSES WELCOME MORE THAN 35,000 CHINESE STUDENTS, OVER HALF OF ALL THOSE ABROAD. INCREASING NUMBERS OF AMERICAN STUDENTS AND TEACHERS ARE COMING TO CHINA, INCLUDING 25 FULBRIGHTERS AT FIFTEEN UNIVERSITIES. THE WORLD'S LARGEST INTERNATIONAL VISITORS PROGRAM HAS SENT ALMOST 300 PRESENT AND FUTURE CHINESE LEADERS TO THE U.S. VOA REACHES AND AFFECTS TENS OF MILLIONS OF CHINESE, FROM ORDINARY CITIZENS TO THE HIGHEST LEADERS. WE HAVE RECENTLY INSTALLED C O N F I D E N T I A L SECTION 04 OF 10 BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR
TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF
SUBJECT: FAREWELL AND HAIL

A TVRO AND ARE STEPPING-UP DIRECT TRANS-PACIFIC DIALOGUE THROUGH WORLDNET AS WELL AS PLACING PROGRAMS ON CHINESE TELEVISION. PRESIDENT BUSH WAS THE FIRST FOREIGN LEADER TO ADDRESS THE CHINESE PEOPLE LIVE ON TELEVISION. I WAS THE FIRST AMERICAN AMBASSADOR TO BE INTERVIEWED ON THE CHINESE SCREEN (OR, TO INTRODUCE THE "BARBARIAN" SUPERBOWL). OUR BOOK PROGRAM HAS TRANSLATED AND PUBLISHED FIFTY-NINE TITLES ON AMERICAN LIFE.

15. ESPECIALLY YOUNG CHINESE ARE BEGINNING TO APPRECIATE OUR CULTURE AS WELL AS OUR TECHNOLOGY, THANKS TO A CONTINUAL FLOW OF AMERICAN ARTISTS, PERFORMERS, TROUPES AND EXHIBITS. THESE RANGE FROM ALLEY TO JOFFREY, PECK TO HESTON, DISNEY TO THE REDSKINS, "THE MUSIC MAN" TO THE "CAINE MUTINY COURT MARTIAL", WHICH IS HAVING A REMARKABLE IMPACT HERE.

16. WE CAN NEVER DO ENOUGH IN THESE AREAS. FOR OUR

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MOST PROFOUND CHALLENGES INCLUDE PROMOTING MUTUAL UNDERSTANDING AND REACHING THE YOUNGER GENERATIONS OF CHINESE. WHENEVER I SUCCUMB TO TEMPORARY PESSIMISM ABOUT CHINA'S FUTURE, I NEED ONLY RECALL THE WARMTH AND ENTHUSIASM IN OVERFLOWING UNIVERSITY AUDITORIUMS GREETING MRS. LORD AND ME -- OR, MORE ACCURATELY, AMERICA.

17. WITH OCCASIONAL BLIPS, CULTURAL EXCHANGE HAS PROGRESSED DESPITE THE PERIODIC CLAMPDOWN ON INTELLECTUALS AND EXPRESSION IN CHINA. A POTENTIALLY DICEY AREA IS OFFICIAL NERVOUSNESS ABOUT OUR ACCESS TO CAMPUSES. IF THIS TRANSLATES INTO SIGNIFICANT OBSTACLES I BELIEVE WE SHOULD CONSIDER RECIPROCAL ACTIONS AGAINST CHINESE DIPLOMATS IN THE U.S., WHILE RECOGNIZING THE DILEMMAS PRESENTED BY OUR FREE SOCIETY.

18. THREE WEEKS AGO I SIGNED AN EXCHANGE OF LETTERS WHICH WILL PAVE THE WAY FOR THE FIRST PEACE CORPS VOLUNTEERS EVER TO SERVE IN A COMMUNIST COUNTRY. THIS IS THE FRUIT OF FOUR YEARS OF STRENUOUS EFFORT. NO FRUIT HAS TASTED SWEETER; FEW PROGRAMS HOLD MORE POTENTIAL FOR SINO-AMERICAN FRIENDSHIP OVER THE LONG TERM.

19. WORKING AND LIVING CONDITIONS.

MAJOR IMPROVEMENTS HAVE LIFTED BOTH MORALE AND EFFICIENCY. COMPREHENSIVE RECIPROCITY TALKS YIELDED GOOD RESULTS ON HOUSING AND TRAVEL, THOUGH WE ARE NOW STALLED ON ALMOST EVERY FRONT. THE SEPARATION OF NEGOTIATIONS ON HOUSING AND SELECTIVE RETALIATION HOPEFULLY WILL ENABLE US TO RESUME A POSITIVE COURSE BENEFITING BOTH SIDES. DURING THE PAST THREE YEARS WE HAVE BUILT A SNACK BAR, SWIMMING POOL, AND TENNIS COURT AS WELL AS ADDITIONAL OFFICE SPACE. WE HAVE MOVED THE INTERNATIONAL SCHOOL TO SPACIOUS NEW QUARTERS, ALLOWING STEADY EXPANSION. WE HAVE VASTLY IMPROVED OUR SECURITY POSTURE BUT ARE STILL HIGHLY VULNERABLE ON THE TECHNICAL SIDE; WE URGENTLY NEED WASHINGTON FUNDING TO SHORE UP OUR DEFENSES. WE HAVE MANAGED THE BURGEONING BILATERAL RELATIONSHIP SKETCHED IN
C O N F I D E N T I A L SECTION 05 OF 10 BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR

TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF

SUBJECT: FAREWELL AND HAIL

THIS MESSAGE WITH NO NET GROWTH IN OUR PERSONNEL RANKS SINCE 1985. OUR FUTURE SUBSTANTIVE PERFORMANCE

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Page 7

WOULD BE ENHANCED, AND OUR BUDGET GREATLY REDUCED,
IF WE REQUIRED THREE YEAR TOURS HERE OF ALL BUT
JUNIOR OFFICERS.
CHALLENGES

20. THESE AREAS ILLUSTRATIVELY DOCUMENT THE
BASICALLY SOUND AND GROWING NATURE OF OUR
BILATERAL RELATIONS. MUCH MORE THAN IN THE
1970S THIS RELATIONSHIP NOW STANDS ON ITS OWN,
REGARDLESS OF OUR CHANGING TIES TO OTHER NATIONS.
WE HAVE MULTIPLIED THE CONSTITUENCIES ON BOTH
SIDES OF THE PACIFIC WHICH HAVE A STAKE IN POSITIVE
BONDS. WHEN SERIOUS ISSUES SURFACED -- SUCH AS
MISSILES, EXPULSIONS OR SATELLITES -- EACH SIDE
STROVE TO INSULATE FRICTIONS FROM THE CORE OF
OUR RELATIONS, TO MAINTAIN OVERALL MOMENTUM EVEN
AS SPECIFIC INITIATIVES MIGHT BE PUT ON HOLD.

21. WHILE WE CAN THEREFORE TAKE COMFORT IN BROAD
FOUNDATIONS, WE CAN HARDLY BE COMPLACENT. COMING
YEARS WILL BRING DEMANDING TESTS WE CANNOT NOW
FORESEE: FOUR YEARS AGO I WOULD HAVE BEEN AMAZED
IF TOLD THAT SILKWORMS, TIBETANS AND DISSIDENTS
WOULD CAUSE MORE ANGST THAN TAIWAN. OUR MOST
FUNDAMENTAL CHALLENGES, HOWEVER, ARE ALREADY TAKING
SHAPE. I OUTLINED THESE IN MY LATE 1988 SAN
FRANCISCO AND NEW YORK SPEECHES AND IN MY
FAREWELL REMARKS THESE PAST FEW WEEKS. CURRENT
HEADLINES SYMBOLIZE THE THREE BROAD AREAS:
GORBACHEV IS COMING TO TOWN; OUR TRADERS AND
INVESTORS ARE BEING SQUEEZED BY RETRENCHMENT;
AND THERE IS PALPABLE CHINESE NERVOUSNESS ABOUT
DOMESTIC DISSENT.

22. THE POLITICAL CHALLENGE.

THE INTERNATIONAL FRAMEWORK FOR OUR BILATERAL
RELATIONS IS CHANGING RAPIDLY. THE WORLD OF THE
1970S HAS BEEN RADICALLY ALTERED; SO HAS THE WORLD
OF THE MID-1980S. WASHINGTON WILL HAVE A MORE
COMPREHENSIVE VIEW OF THIS THAN THOSE OF US HERE.
THE UNDERLYING TRENDS TOWARD MULTIPOLARITY AND
INTERDEPENDENCE ACCELERATE. THE DECLINE OF
MARXISM AND STALINISM, THE SPREAD OF THE MARKET
AND DEMOCRACY, ARE EVER MORE APPARENT. THE AGE
OF TECHNOLOGY AND INFORMATION HAS ALREADY ARRIVED.
GORBACHEV SEEKS TO TRANSFORM THE SOVIET UNION,
AND MOSCOW'S RELATIONS WITH THE UNITED STATES,
CHINA, EASTERN AND WESTERN EUROPE DRAMATICALLY
EVOLVE. (CAN JAPAN BE FAR BEHIND?) CHINA GROWS
STRONGER AND MORE ASSERTIVE ON THE WORLD STAGE.

23. WE HAVE COPEDED REASONABLY WELL WITH THE IMPACT OF
THESE CHANGES ON OUR BILATERAL RELATIONS -- WHETHER
CONCERNING APPROACHES TOWARD MOSCOW, REGIONAL
CONFLICTS, MISSILES, OR SATELLITES. WE HAVE EVERY

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REASON TO BE POSITIVE. WE CAN TAKE IN STRIDE THE COMING MEDIA BLITZ OVER THE DENG-GORBACHEV SUMMIT. THE HISTORY AND GEOGRAPHY OF SINO-SOVIET RELATIONS WILL NOT CHANGE, NOR WILL THEIR LONG BORDER AND OVERLAPPING ETHNIC POPULATIONS. AS THE CHAIRMAN MADE AMPLY CLEAR TO THE PRESIDENT, CHINA WILL NEED THE UNITED STATES TO BALANCE THE SOVIET UNION --
C O N F I D E N T I A L SECTION 06 OF 10 BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR

TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF

SUBJECT: FAREWELL AND HAIL

AND JAPAN. CHINA'S OVERWHELMING PREOCCUPATION WITH MODERNIZATION MUST ORIENT IT TOWARD THE WEST FOR CAPITAL, MANAGEMENT, TECHNOLOGY AND TRADE.

24. OUR CENTRAL TASK -- FOR OUR CHINA AS FOR OUR GLOBAL INTERESTS -- IS TO ACT RESPONSIBLY AND PURPOSEFULLY AROUND THE WORLD. SO LONG AS WE DO, OUR RELATIONS WITH BEIJING SHOULD FLOURISH. EARLY IN THE NEXT CENTURY, WHEN CHINA CAN PROJECT ITS POWER AND OUR ASIAN FRIENDS CONSEQUENTLY PROJECT THEIR CONCERNS, WE MAY HAVE TO REVIEW THE BIDDING. BUT A STRONGER CHINA IS MUCH MORE LIKELY TO BE RESPONSIBLE -- AND RESPONSIVE TO US -- IF WE HAVE FULLY ENGAGED IT ON INTERNATIONAL ISSUES AND PARTICIPATED IN ITS DEVELOPMENT.

25. THE ECONOMIC CHALLENGE.

AS OUR OVERALL RELATIONSHIP WITH CHINA MATURES, SO MUST OUR ECONOMIC TIES. WE HAVE COME A VERY LONG WAY FROM OUR MUTUAL ILLUSIONS IN THE EARLY YEARS AFTER THE OPENING. OUR BUSINESS PEOPLE -- EYEING CHINA'S SIZE, POPULATION, NATURAL RESOURCES, INEXPENSIVE LABOR AND NEEDS -- HELD EXAGGERATED VISIONS OF THE HUGE CHINA MARKET. MANY GOT BURNED. THE CHINESE, IN TURN, ASSUMED THAT EAGER OUTSIDERS WOULD POUR CAPITAL AND TECHNOLOGY INTO THIS COUNTRY. THEY WERE SOMEWHAT SLOW TO RECOGNIZE THAT THEY HAD TO OFFER PROFITS AND COMPETE WITH OTHER MARKETS FOR FOREIGN ATTENTION.

26. BOTH SIDES HAVE LEARNED A GREAT DEAL, OFTEN AT THE COST OF CONSIDERABLE FRUSTRATION. AMERICANS ARE MORE REALISTIC ABOUT NEAR-TERM GAINS AND ADEPT AT TRADING AND INVESTING IN THIS OPAQUE AND BUREAUCRATIC ENVIRONMENT. DESPITE WELL-PUBLICIZED SETBACKS, FEW HAVE GONE HOME. MOST ARE PLAYING FOR THE LONG-RUN. AND MANY SUCCESS STORIES UNFOLD UNNOTICED BEHIND THE MEDIA GLARE ON PROBLEMS.

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Page 9

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MEANWHILE THE CHINESE HAVE SUBSTANTIALLY IMPROVED THE INVESTMENT CLIMATE, THOUGH ITS QUALITY VARIES GREATLY FROM ONE PROVINCE OR CITY OR SECTOR TO ANOTHER. AS A RESULT OUR TRADE STATISTICS HAVE SHOT UP DRAMATICALLY THE PAST FEW YEARS. SO HAVE THE NUMBER OF INVESTMENT PROJECTS, THOUGH THE VALUE REMAINS MODEST.

27. WE HAVE ONLY BEGUN TO TAP THE POTENTIAL OF OUR ECONOMIC COOPERATION. THE NEXT TWO OR THREE YEARS WILL BRING A SUBSTANTIAL SLOW-DOWN OVERALL, AND SOME BACKSLIDING IN CERTAIN AREAS. THE NEGATIVE EFFECTS OF THE CURRENT RETRENCHMENT ARE ALREADY BEING FELT. THE CHINESE CLAMPDOWN ON FOREIGN EXCHANGE, CREDIT, CONSTRUCTION, AND LOCAL AUTONOMY WILL KILL OR DELAY MANY PROMISING DEALS. ONE CAN ONLY HOPE THIS PERIOD OF TIGHTENING WILL BE BRIEF AND THAT MOMENTUM TOWARD REFORMS AND THE OPENING CAN BE EFFECTIVELY REGENERATED. IF CHINA SETTLES INTO LONG-RUN STAGFLATION OR, WORSE, REVERSES FIELD BACK TOWARD CENTRAL PLANNING AND PROTECTIONISM, THEN OUR COMMERCIAL TIES WILL BE SERIOUSLY AFFECTED. SO IN TURN MIGHT THE STABILITY OF CHINA AND ITS OVERALL RELATIONSHIP WITH THE WEST. I DO NOT BELIEVE THIS WILL HAPPEN, BUT PRUDENCE SUGGESTS THAT IT COULD.

C O N F I D E N T I A L SECTION 07 OF 10 BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR

TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF

SUBJECT: FAREWELL AND HAIL

28. ASSUMING WE MOVE THROUGH AND BEYOND THE RETRENCHMENT PHASE (AS WE HAVE BEFORE), WE WILL STILL FACE THE MORE FUNDAMENTAL CHALLENGE OF RECONCILING OUR TWO VERY DIFFERENT SYSTEMS. THE MUTUAL IMPERATIVE WILL BE TO LOOSEN UP AND OPEN UP. THE UNITED STATES SHOULD INCREASINGLY "NORMALIZE" ITS ECONOMIC RELATIONS WITH CHINA AS WE HAVE DONE ON THE POLITICAL FRONT. (SEE THE RECENT NICHOLAS LARDY REPORT PUBLISHED BY THE NATIONAL COMMITTEE ON U.S.-CHINA RELATIONS). THIS REQUIRES FURTHER RELAXATION OF STRATEGIC CONTROLS ON TECHNOLOGY, CONSISTENT WITH NATIONAL SECURITY. OUR ANTI-DUMPING APPROACH TOWARD CHINA CALLS FOR REVISION. PROTECTIONISM IN GENERAL NEEDS TO BE RESISTED. AND OTHER STEPS, LIKE UNCONDITIONAL MFN AND GSP, SHOULD BE CONSIDERED IN TANDEM WITH CHINA'S WILLINGNESS TO FREE UP ITS OWN SYSTEM.

29. IF WE ARE TO CONSIDER SUCH MOVEMENT ON OUR PART,

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Page 10

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THE CHINESE MUST TAKE RECIPROCAL ACTIONS. AS CHINA BECOMES MORE FULLY ENGAGED IN THE WORLD ECONOMY, IT MUST ASSUME A MORE OPEN STANCE. IF IT WANTS TO GAIN ADMISSION TO THE GATT, IT MUST LIBERALIZE ITS TRADING REGIME. IF IT WANTS MORE TECHNOLOGY, IT MUST PROTECT INTELLECTUAL PROPERTY RIGHTS. IF IT WANTS MORE INVESTMENT, IT MUST MAKE IT PROFITABLE. THIS IMPOSING AGENDA WILL DEMAND MUCH OF BOTH SIDES, OFFICIALS AND ENTREPRENEURS ALIKE, DURING THE COMING YEARS. THE STAKES, FOR OUR POLITICAL TIES AS WELL AS OUR COMMERCIAL BENEFITS, ARE VERY HIGH.

30. THE CULTURAL CHALLENGE.

THE NEWEST, AND PERHAPS MOST PRICKLY, PROBLEM IN OUR RELATIONSHIP FLOWS FROM THE INTERMINGLING OF OUR SOCIETIES AND VALUES. AS WITH OUR OTHER CHALLENGES, THE STAGE HAS BEEN SET BY SUCCESS. THE EXPLOSION IN EDUCATIONAL AND CULTURAL EXCHANGES, MOST OF IT IN THE PRIVATE SECTOR, IS A MAJOR POSITIVE FORCE. IT ENRICHES BOTH OUR COUNTRIES AND GREATLY EXPANDS PERSONAL NETWORKS THAT WILL BUTTRESS OUR OVERALL RELATIONSHIP IN THE FUTURE. BUT CHINESE OFFICIALS RESIST THE INTRUSION OF CERTAIN IDEAS. CHINA HAS ALWAYS BEEN PARTICULARLY WARY OF FOREIGN CULTURAL CONTAMINATION, WHETHER BECAUSE OF MIDDLE KINGDOM ARROGANCE OR ITS CENTURY LONG HUMILIATION BY FOREIGNERS.

31. SEVERAL FACTORS HAVE NOW JOINED TO MAKE THE ISSUE OF HUMAN RIGHTS ESPECIALLY SENSITIVE:

-- THE SERIOUS ECONOMIC AND CORRUPTION PROBLEMS THAT HAVE SURFACED SINCE LAST SUMMER HAVE CREATED DISAFFECTION AMONG THE PEOPLE AND MALAISE AMONG THE LEADERS. THE LATTER CURRENTLY PLACE THEIR PREMIUM ON STABILITY (AS DENG AND ZHAO TOLD THE PRESIDENT). THEY SEE THE FREE EXPRESSION OF IDEAS AS LEADING TO INSTABILITY RATHER THAN HELPING THEM FIND ANSWERS TO COMPLEX QUESTIONS.

-- DISSIDENT ACTIVITY, TRADITIONALLY RESTRAINED IN CHINA, IS PICKING UP, INCLUDING THE SIGNING OF PETITIONS FOR AMNESTY FOR POLITICAL PRISONERS.

C O N F I D E N T I A L SECTION 08 OF 10 BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR
TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF
SUBJECT: FAREWELL AND HAIL

-- AS DENG FADES FROM THE SCENE, THE JOCKEYING FOR SUCCESSION HAS INTENSIFIED, ADDING TO

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Page 11

POLITICAL TENSIONS.

-- THANKS TO GORBACHEV'S "GLASNOST" POLITICAL AND CULTURAL REFORMS IN THE SOVIET UNION HAVE OUTPACED THOSE IN CHINA. CHINESE INTELLECTUALS AND ARTISTS HAVE BEEN UNFAVORABLY COMPARING THEIR LOT WITH THAT OF THEIR RUSSIAN AND EASTERN EUROPEAN COLLEAGUES. POLITICAL DEVELOPMENTS IN HUNGARY AND POLAND ALSO HAVE CAUGHT THEIR ATTENTION. MEANWHILE, CHINESE LEADERS LOOK WITH APPREHENSION AT THE UNREST IN THE SOVIET UNION AND EASTERN EUROPE CAUSED BY POLITICAL REFORMS.

-- WE HAVE MADE HUMAN RIGHTS A PROMINENT PART OF OUR AGENDA WITH THE SOVIET UNION AND ACHIEVED SOME SUCCESS. THE AMERICAN DOMESTIC AUDIENCE HAS INCREASINGLY QUESTIONED THE DISPARITY WITH CHINA. THE QUESTION I HAVE BEEN MOST FREQUENTLY ASKED IN RECENT PUBLIC APPEARANCES AND BACKGROUNDEERS IS WHY WE PRACTICE A "DOUBLE STANDARD".

-- TIBET HAS EMERGED IN THE PAST ONE AND A HALF YEARS AS A MAJOR HUMAN RIGHTS ISSUE.

-- THE QUESTION OF U.S. FUNDING FOR THE UNFPA PROGRAM WILL FOCUS ATTENTION IN COMING WEEKS ON CHINA'S POPULATION PROGRAM.

-- THE DEATH OF HU YAOBANG IS FUELING FRESH DEMONSTRATIONS AND PROTESTS AS THE 70TH ANNIVERSARY OF THE MAY 4 MOVEMENT LOOMS.

32. AGAINST THIS BACKDROP THE CHINESE ARE CURRENTLY DEFINING "STABILITY" IN VERY NARROW TERMS, I.E. THE SUPPRESSION OF DISSENT. SO FAR THE SMOTHERING OF EXPRESSION HAS BEEN CONFINED TO THE POLITICAL ARENA AND HAS NOT APPRECIABLY AFFECTED CULTURAL LIFE, BUT IT WOULD NOT BE SURPRISING TO SEE IT SPREAD THERE AS IT HAS IN PAST CAMPAIGNS. DURING THE PAST DECADE BEIJING HAS GENERALLY AFFIRMED THAT INTELLECTUAL FERMENT AND CREATIVITY WAS NEEDED TO HELP CHINA FIND THE ANSWERS IN ITS PERPLEXING QUEST FOR MODERNIZATION. POLITICAL REFORM WAS NEEDED ALONGSIDE ECONOMIC REFORM. "LET A HUNDRED FLOWERS BLOOM". THESE THEMES ARE LARGELY ABSENT TODAY. TO BE SURE, CHINESE POLICIES, EVEN WHEN MISGUIDED, ON THE WHOLE SHOW RELATIVE IMPROVEMENT. DISSIDENTS ARE OSTRACIZED, OR (SOMETIMES) ALLOWED TO LEAVE THE COUNTRY, RATHER THAN LOCKED UP. CONTINUED EMPLOYMENT MAY BE ALLOWED EVEN AS PARTY MEMBERSHIP IS LOST. BUT STEAM IS BUILDING UP IN INTELLECTUAL CIRCLES. OFFICIAL NATIONWIDE CAMPAIGNS ARE INCREASINGLY DIFFICULT TO MOUNT BECAUSE THE PEOPLE WON'T SUPPORT THEM. THE PARTY'S IMAGE CONTINUES TO DETERIORATE. CYNICISM IS RAMPANT.

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THERE IS A FEELING THAT THE CCP HAS LOST ITS IDEOLOGICAL BEARINGS AND FLOUNDERS IN UNCHARTED WATERS.

33. IT IS ARROGANT FOR THE OUTSIDER TO JUDGE HOW BEST CHINA CAN BALANCE PROGRESS AND STABILITY, HOW FAST IT CAN MOVE TOWARD A FREER SOCIETY. BUT WE CAN HOPE THAT CHINA WILL SOON RESUME AGAIN THE GENERALLY POSITIVE COURSE IT HAS PURSUED SINCE
C O N F I D E N T I A L SECTION 09 OF 10 BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR

TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF

SUBJECT: FAREWELL AND HAIL

REFORMS BEGAN; THAT CHINESE AUTHORITIES WILL MAKE DISTINCTIONS, FOR EXAMPLE, BETWEEN FREE EXPRESSION AND INSTANT MULTI-PARTY DEMOCRACY; THAT "STABILITY" WILL BE GIVEN A MORE SOPHISTICATED DEFINITION. FOR THE LONG RUN I AM HOPEFUL, AS YOUNGER GENERATIONS -- EXPOSED TO WESTERN IDEAS -- SEIZE THE REINS.

34. FOR OUR PART WE WILL NEED TO STRIKE A BALANCE IN OUR HUMAN RIGHTS POLICY TOWARD CHINA, AS WE DO ELSEWHERE. WE SHOULD PROJECT OUR VALUES, MAINTAIN CONTACT WITH ACTIVISTS, AND REGISTER OUR DISAPPROVAL CONCERNING ABUSES. BUT WE MUST ALSO WEIGH OUR STRATEGIC, POLITICAL, ECONOMIC AND OTHER INTERESTS. WE MUST EMPLOY APPROACHES -- SOMETIMES PUBLIC, SOMETIMES SYMBOLIC, OFTEN PRIVATE -- WHICH CAN HAVE A POSITIVE IMPACT ON CHINA'S FUTURE COURSE, NOT JUST MAKE US FEEL GOOD.

35. WE SHOULD MAINTAIN AN APPRECIATION OF THE AWESOME CHALLENGES CHINA FACES AS IT SEEKS TO MOVE FROM ONE CENTURY TO ANOTHER, FROM ONE SYSTEM TO ANOTHER, IN A FEW SHORT DECADES. WE NEED TO HAVE SOME SENSE OF WHAT IS FEASIBLE, EITHER IN TERMS OF PACE OR CULTURAL CONTEXT. WE SHOULD USE CARROTS AS WELL AS STICKS, WELCOMING POSITIVE MOVES AND HELPING THE CHINESE TO DEVELOP A LEGAL FRAMEWORK FOR HUMAN RIGHTS. WE SHOULD KEEP AN EYE ON OVERALL TRENDS, NOT MERELY TAKE SNAPSHOTS.

36. WE CAN HOPE, BUT SHOULD NOT EXPECT, OTHER DEMOCRACIES TO MAKE HUMAN RIGHTS A MULTILATERAL ISSUE, NOT JUST A SINO-AMERICAN BILATERAL ONE. THE RECENT EUROPEAN POSTURE ON TIBET HAS BEEN HELPFUL, BUT OUR ALLIES IN EUROPE AND ASIA WILL GENERALLY LET US TAKE THE LEAD -- AND TAKE THE HEAT. THE SOVIET UNION WILL TRY TO EXPLOIT THIS ISSUE TO ITS ADVANTAGE. SOME CHINESE LEADERS WILL BE PRONE TO CONTRAST SOVIET RESTRAINT WITH AMERICAN

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MEDDLING.

37. THE FANG LIZHI BANQUET INCIDENT WAS AN UN-FORTUNATE BUT MINOR BLEMISH WHICH DID NO DAMAGE TO THE RELATIONSHIP. BUT IT WAS A HARBINGER OF SERIOUS TENSIONS TO COME IN THE HUMAN RIGHTS ARENA. AS TIME PASSES THE WISDOM OF OUR SYMBOLIC GESTURE WILL BE INCREASINGLY CLEAR. THE CHINESE WERE ENTIRELY TO BLAME FOR THEIR NEEDLESS ESCALATION. THEY ARE GENIUSES AT MAKING FOREIGNERS FEEL GUILTY AND DIVIDING THEM. ONE VERY IMPORTANT LESSON TO BE LEARNED FROM THIS EPISODE IS NOT TO LET THEM SUCCEED.

CONCLUSION

38. I AM DELIGHTED WITH PRESIDENT BUSH'S APPOINTMENT OF JIM LILLEY AS MY SUCCESSOR. HIS BROAD EXPERIENCE, OUTSTANDING CAREER, AND CLOSENESS TO THE PRESIDENT MAKE HIM A SUPERB CHOICE TO STRENGTHEN OUR RELATIONS WITH CHINA. I WILL DO ALL THAT I CAN TO HELP HIM.

39. I CONCLUDE WITH EXPRESSIONS OF GRATITUDE TO THE FOLLOWING:

-- PRESIDENT REAGAN FOR HAVING APPOINTED ME.
C O N F I D E N T I A L SECTION 10 OF 10 BEIJING 11017

DEPARTMENT PLEASE PASS TO USTR

FROM AMBASSADOR WINSTON LORD

E.O.12356:DECL:OADR
TAGS: PREL, MILI, ECON, SCUL, CH, UR, AF
SUBJECT: FAREWELL AND HAIL

-- THOSE IN WASHINGTON WHO HAVE SUPPORTED ME AND OUR MISSION IN CHINA.

-- THE MEMBERS OF THIS EMBASSY AND OUR CONSULATES DURING MY THREE AND ONE HALF YEAR TENURE FOR THEIR TALENTS AND THEIR TENACITY IN THE PURSUIT OF EXCELLENCE. OVERALL THEY HAVE FORMED THE BEST OVERSEAS TEAM I HAVE SEEN IN THREE DECADES OF SERVICE.

40. FOR MRS. LORD AND ME IT HAS BEEN A JOINT VENTURE AND A JOINT ADVENTURE.

LORD

ADMIN
END OF MESSAGE

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Page 14