

The original documents are located in Box 4, folder “China Exchanges - Index and Items #1 - #5, 5/1/73 - 6/5/73” of the Kissinger-Scowcroft West Wing Office Files at the Gerald R. Ford Presidential Library.

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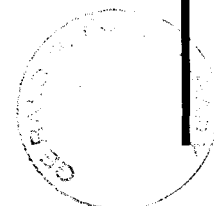
U. S. - PRC EXCHANGE OF NOTES

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AUTHORITY PR 9/23/03 NLF-K-S-WWOF-4-2-1-3
BY NSC/STATE/MLF DATE 1/21/09



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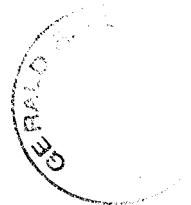


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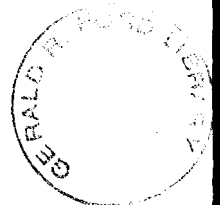
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Given to PRC
May 1973

U.S. APPROACH TO MBFR

DECLASSIFIED
E.O. 12958, SEC. 3.5 *State Review*
3/11/04
NSC MEMO, 11/24/98, STATE DEPT. GUIDELINES
BY HR, NARA, DATE 6/27/08

The U.S. approach to MBFR is based on a concern for maintaining a credible defense posture that would protect Allied security interests. Thus, the outcome of MBFR must maintain or enhance Alliance military security. This requires rectifying the Pact's present advantages in size, offensive orientation, and reinforcement capabilities through measures which will provide approximate parity and shift the composition of Pact forces to a more defensive-oriented force posture.

Our approach also must take into account: pressures within the Alliance for unilateral reductions; the effort to advance Allied interests in negotiations with the East; the improvement already achieved in East-West relations; and finally that the rough balance in strategic forces places a premium on a credible conventional defense.

In this context the U.S. approach to MBFR is:

-- To achieve a more stable military balance at lower levels of forces.

-- To maintain and improve Alliance military capabilities throughout the process, and to undertake reductions only in the context of negotiated agreements with the East.

-- To obtain Alliance agreement on what constitutes the essential military requirements of any outcome for MBFR.

-- To put forward a concrete proposal that forces the Eastern side to address the issues that concern us and demonstrates we are in earnest.

We recognize that MBFR must be pursued carefully and patiently and that it could well be a long and difficult process.

A key issue is the scope of MBFR: what countries' forces should be involved, how large reductions should be considered, and what should be the geographic extent of any measures. We believe that:



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EXEMPTION CATEGORY 5b(3)
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-- Alliance reductions should not exceed ten percent in either stationed or indigenous forces.

-- Stationed forces should be the focus of negotiations, not indigenous forces.

-- MBFR should be confined to Central Europe, that is, the two Germanies, the Benelux countries, Poland and Czechoslovakia with appropriate arrangements to ensure that Soviet forces in Hungary do not circumvent any agreement.

With these considerations in mind, three alternative outcomes have been developed which are acceptable to the U.S.

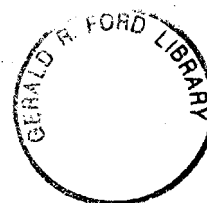
1. Phased common ceiling reductions of stationed and then indigenous forces based on a ten-percent NATO cut. In the first phase the U.S., U.K., Canada and Benelux would withdraw a total of 34,000 ground forces while the Soviets withdraw 83,000 ground personnel. In the second phase the FRG, Belgium and the Netherlands would reduce 46,000 ground troops while the GDR, Poland and Czechoslovakia reduced 29,000.

2. Parity in NATO/Pact ground force levels through a one-sixth reduction in U.S. and Soviet ground forces. This would be about a ten percent reduction in stationed forces on the Allied side and a four percent reduction in overall NATO manpower. It would amount to a U.S. cut of 32,000 and a 65,000 Soviet reduction. The implementation reductions would be in two phases to permit assessment of results in the first phase.

3. A mixed-package 20-percent reduction of offensive force elements. This approach illustrates how we might gain a greater degree of stability in the European balance by reducing forces which either side may consider threatening. On our part this is the size and offensive orientation of Soviet armored forces.

On the Pact side, one tank army would be withdrawn from East Germany (60,000 troops, 1,500 tanks). On the Allied side, there would be a reduction of 1,000 nuclear warheads, 36 U.S. Pershing missile launchers and three air squadrons containing a total of 54 U.S. F-4 fighter-bombers along with associated personnel. The result would be rough parity in stationed ground forces.

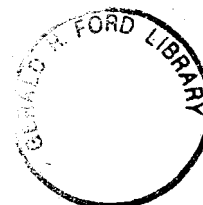
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In the pursuing any of these outcomes, we would also seek constraints on military activities before reductions. These could include pre-announcement of major exercises and movement of stationed forces into the area as well as limits on the size, location, number and duration of major exercises. To meet the need for flexibility, agreement on such constraints cannot be a precondition to negotiation of stationed force reductions. However, constraints should accompany such reductions and would be a pre-requisite to a negotiation of indigenous force reductions.

As for verification, the U.S. believes that our MBFR position must be designed as to be verifiable by national means (and including a commitment not to interfere with such means). In addition, we would be prepared to consider the possibility of proposing negotiated inspection measures; for example, observation of withdrawals and special inspection arrangements in the post-MBFR period.

We are now consulting with our Allies seeking their reaction to these outcomes and developing guidelines to be approved by Ministers for a preparation of a concrete negotiating position, including reductions, by the time negotiations begin on MBFR in the fall.



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THE WHITE HOUSE
WASHINGTON

ACTION

June 2, 1973

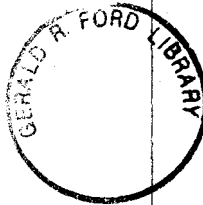
HAK:

You may want to preempt a PRC protest by a quick apology. We can hand-deliver to the Mayflower a note with the following message:

"The White House regrets the remarks made by Under Secretary of State for Economic Affairs William Casey at the meeting of the National Council for U. S. - China Trade on May 31 at the Shoreham Hotel. His remarks were not cleared with the White House or the China desk of the Department of State. The remarks to which the Chinese side objects do not represent United States policy. The White House will make every effort to insure against a repetition!"

Approve _____

Disapprove _____



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E.O. 12958, SEC. 3.5
NSC MEMO, 11/24/98, STATE DEPT. GUIDELINES
BY HR, NARA, DATE 6/27/08

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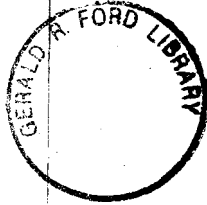
ACTION

HAK:

For hand-delivery
to the Mayflower.

Approve

Disapprove



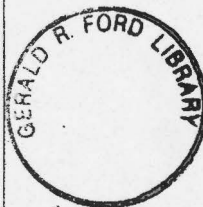
THE WHITE HOUSE

WASHINGTON

Henry-

Casey modified the draft
The Asian desk gave him
without clearing with anyone.

In his speech, he omitted
the worst two paragraphs.
When asked why, when they
were in the distributed text,
he said (allegedly) that
he didn't want the PRC
people walking out of their
first meeting, a great performance
Gunt



NATIONAL SECURITY COUNCIL

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INFORMATION

E.O. 12958, SEC. 3.5

NSC MEMO, 11/24/98, STATE DEPT. GUIDELINES

June 1, 1973

BY WR, NARA, DATE 6/27/08

MEMORANDUM FOR: DR. KISSINGER

FROM: RICHARD H. SOLOMON *RHS*

SUBJECT: Chinese Liaison Office Official Miffed at Under Secretary Casey's Remarks at Meeting of National Council for U. S. - China Trade



On May 31 the National Council for U. S. - China Trade held its inaugural public meeting at the Shoreham Hotel here in Washington. You were to have been a speaker, as was Secretary Shultz, but your participation in the Iceland meetings with French President Pompidou prevented your attendance. The meeting was rather well attended nonetheless, with the one bright note being participation by PRC Liaison Office Deputy Chief Han Hsü, who spoke for about ten minutes. His positive remarks, which emphasized the willingness of the PRC to cooperate with the new trade council, were the first formal comments made by an official of the PRC to a public American audience. Han was warmly received by the audience, and received substantial attention in the media.

The one discordant note was a luncheon speech by Under Secretary of State for Economic Affairs William Casey. His remarks were his own, and had not been cleared with either the NSC or the PRC desk at State-- which had submitted a draft speech which Casey did not use. His statement drew a polite but unmistakable private protest from Han Hsü to officials of the Departments of State and Commerce attending the meeting. Han protested the manner in which Casey's speech juxtaposed America's relations with both the PRC and the ROC, implying a "two China" policy on our part. As Han said to one State official, "It is not our policy to be associated with the Taiwan government in this manner."

The speech, at Tab A, contains the following points which would have been particularly objectionable to PRC authorities:

-- After stressing the Administration's goal of improving relations with the PRC, including trade relations as stressed in the Shanghai Communique, the statement goes on to assert that "our China policy calls for the continuation of strong economic ties with the Republic of China" (p. 5). Reference is then made to an ROC trade mission in the U. S.

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-- The matter of U. S. private claims against the PRC is referred to as "a major issue" in our relations with Peking (p. 8). While reference is then made to our current efforts to resolve this matter, and to the progress achieved over the past three months, PRC authorities might read this as prodding them about a response to our proposed language on the exchange of letters between the President and Premier Chou which we gave them some time ago--and to which they have not yet replied.

-- The speech makes reference to conflicting offshore oil claims shared by both the PRC and the ROC (p. 12).

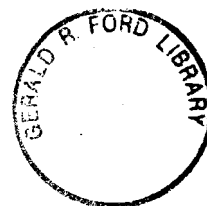
-- The statement makes several references to "mainland China," (pp. 4, 5) a term which is objectionable to PRC ears because of its "two Chinas" connotation.

We raise the matter of Secretary Casey's speech and Han Hsu's protest with you on the assumption that you may receive some comment about it from Liaison Office Chief Huang Chen.



Delivered
June 2, 1973

The White House regrets the remarks made by Under Secretary of State for Economic Affairs William Casey at the meeting of the National Council for U.S. - China Trade on May 31 at the Shoreham Hotel. His remarks were not cleared with the White House or the China desk of the Department of State. The remarks to which the Chinese side objects do not represent United States policy. The White House will make every effort to insure against a repetition.



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E.O. 12958, SEC. 3.5
NSC MEMO, 11/24/98, STATE DEPT. GUIDELINES
BY HR, NARA, DATE 6/27/08

ADDRESS BY
THE HONORABLE WILLIAM J. CASEY
UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

BEFORE THE
US-CHINA BUSINESS COUNCIL

MAY 31, 1973



TRADE AS A FACTOR
IN IMPROVING UNITED STATES-PRC RELATIONS

UNITED STATES' ECONOMIC RELATIONS WITH MAINLAND CHINA ARE ON THE THRESHOLD OF INTENSE AND RAPID CHANGE. AFTER YEARS OF COLD WAR STAGNATION DURING WHICH STRATEGIC CONSIDERATIONS AND IDEOLOGY FRUSTRATED THE PURSUIT OF COMMON ECONOMIC INTEREST, PRESIDENT NIXON, IN A DRAMATIC SERIES OF INTERRELATED INITIATIVES, SET A NEW ENVIRONMENT IN WHICH UNITED STATES ECONOMIC POLICIES TOWARD COMMUNIST COUNTRIES CAN OPERATE TO SUPPORT BROADER POLICIES TOWARD THESE COUNTRIES AND THE REST OF THE WORLD.

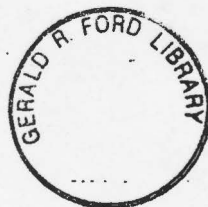
THIS IS A GOOD TIME TO REVIEW HOW FAR WE HAVE COME AND WHAT WE EXPECT FROM OUR ECONOMIC RELATIONS WITH THE COMMUNIST NATIONS.

THE UNITED STATES TODAY SEEKS A NORMALIZATION OF ECONOMIC RELATIONS WITH COMMUNIST COUNTRIES. WE ARE SEEKING TO BUILD AND EXPAND EAST-WEST TRADE AS A PIVOTAL ELEMENT IN A STRUCTURE OF PEACE. WE SEE ECONOMIC INTERDEPENDENCE AS A GREAT FORCE FOR PEACE. WE SEEK RISING ECONOMIC COLLABORATION TO SCALE DOWN MILITARY COMPETITION. WE SEE THE BUILDING OF LIVING STANDARDS

BRINGING INTO PLAY AN ECONOMIC EQUATION WHICH WILL REQUIRE SCALING DOWN THE COMMITMENT TO ARMS AS IT BECOMES NECESSARY TO EXPAND THE COMMITMENT TO TRADE AND DEVELOPMENT. WE SEE TRADE AND ALL THE OTHER STRANDS OF ECONOMIC RELATIONSHIPS AS THREADS WITH WHICH A STRUCTURE OF PEACE CAN BE WOVEN.

LET ME TRACE HOW TRADE HAS PLAYED A MAJOR ROLE IN THE DEVELOPMENT OF OUR RELATIONS WITH THE PEOPLE'S REPUBLIC OF CHINA. BEGINNING IN 1969, THE ADMINISTRATION MADE A SERIES OF STEPS TOWARDS RELAZATION OF RESTRICTIONS UPON TRADE WITH AND TRAVEL TO CHINA. THESE WERE ADMINISTRATIVE ACTIONS INTENDED TO PROMOTE CONTACT BETWEEN THE AMERICAN AND CHINESE PEOPLES, INITIATE TRADE, REDUCE FRICTIONS WITH THIRD COUNTRIES FOR WHAT THEY CONSIDER EXTRATERRITORIAL APPLICATION OF US TRADE CONTROLS, AND PROVIDE AN OPPORTUNITY TO IMPROVE RELATIONS BETWEEN THE UNITED STATES AND CHINA.

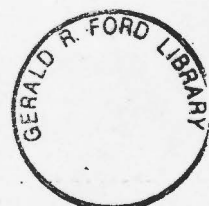
THESE ACTIONS WERE TAKEN IN LINE WITH PRESIDENT NIXON'S POLICY OF NORMALIZING RELATIONS WITH ALL COUNTRIES IN THE WORLD. THEY CONSTITUTED THE ENDING OF THE MORE THAN TWENTY-YEAR EMBARGO ON TRADE WITH CHINA AND REDUCTION OF CONTROLS ON EXPORTS TO THE PRC TO THE SAME LEVELS APPLYING TO THE USSR AND MUCH OF EASTERN EUROPE. BUT REAL TRADE DID NOT DEVELOP UNTIL THE PRESIDENT MADE THE GREAT POLITICAL STEP OF VISITING CHINA AND HOLDING DISCUSSIONS WITH ITS LEADERS. AFTER THESE HISTORIC NEGOTIATIONS BOTH SIDES AGREED THAT ECONOMIC RELATIONS



ARE IN THE INTEREST OF THE PEOPLES OF THE TWO COUNTRIES AND THAT BOTH SHOULD FACILITATE THE PROGRESSIVE DEVELOPMENT OF TRADE.

ONCE THE POLITICAL STAGE WAS SET, ECONOMIC RELATIONS DEVELOPED AT A RAPID RATE. FROM LESS THAN FIVE MILLION DOLLARS IN 1971, THE YEAR THE US EMBARGO ON TRADE WITH CHINA ENDED, AND DURING WHICH ALL TRADE WAS CONDUCTED THROUGH THIRD COUNTRIES, US-CHINA TRADE ROSE TO MORE THAN NINETY MILLION DOLLARS IN 1972. IN 1973 TRADE IS CONTINUING TO EXPAND, (\$33.5 MILLION OF US EXPORTS TO CHINA AND \$14 MILLION OF US IMPORTS FROM CHINA DURING THE FIRST QUARTER) PRESENTING THE POSSIBILITY THAT THE UNITED STATES WILL BECOME ONE OF THE TOP TWO OR THREE TRADING PARTNERS OF THE PEOPLE'S REPUBLIC OF CHINA.

WITH THESE FACTS AS BACKGROUND, IT IS DESIRABLE TO REVIEW OUR AIMS IN EXPANDING OUR ECONOMIC RELATIONSHIP WITH THE PEOPLE'S REPUBLIC OF CHINA. ABOVE ALL ELSE, WE WISH TO DEVELOP AN INTERNATIONAL CLIMATE WHICH WILL MAKE A GENERATION OF PEACE THE PRACTICABLE ALTERNATIVE TO THE CONTINUING CONFLICT OF THE PAST. THIS IS AN ESSENTIAL ELEMENT OF OUR RELATIONS WITH CHINA, AS IT IS WITH EASTERN EUROPE. WE BELIEVE THAT DEVELOPMENT OF INTERDEPENDENT INTERESTS IS A MAJOR REQUIREMENT TO FURTHER THIS GOAL. WE BELIEVE THAT A WORLD SITUATION IN WHICH CHINA IS PROSPERING AND IMPROVING THE LIFE OF ITS CITIZENS IS IMPORTANT TO US AS IT IS TO THE REST OF THE WORLD. TRADE IS ONE OF THE

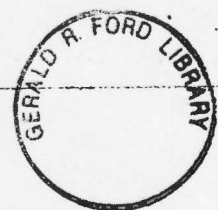


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WAYS TO FURTHER THIS OBJECTIVE. MOREOVER, TRADE IS A TWO-WAY STREET. AS DEFINED IN THE JOINT COMMUNIQUE ISSUED IN SHANGHAI ON FEBRUARY 28, 1972, ECONOMIC RELATIONS SHOULD BE BASED ON EQUALITY AND MUTUAL BENEFIT. WE HAVE BENEFITED AND ARE CONTINUING TO BENEFIT FROM THE DEVELOPMENT OF OUR TRADE WITH CHINA, AND WE BELIEVE THAT CHINA SEES THIS EXCHANGE IN THE SAME LIGHT IN VIEW OF THE CONTINUING EXPANSION OF THIS TRADE.

I VIEW THE LONG TERM PROSPECTS FOR LARGE TRADE WITH THE PRC AS GOOD. BUT WE WILL MAKE A MISTAKE IF WE EXPECT TOO MUCH TOO SOON. WE SHOULD REMEMBER THAT 80% OF THE MAINLAND CHINESE ARE ENGAGED ON FOOD PRODUCTION. THE GOVERNMENT DOES NOT WANT TO BECOME OVERDEPENDENT ON ANY OTHER COUNTRY. THEY WILL MOVE AT A REASONABLY SLOW PACE TO INSURE SELF RELIANCE. THIS CALLS FOR U.S. BUSINESSMEN TO BE CAUTIOUS, NOT TOO EXHILARANT AND BOTH CONSCIOUS OF AND ATTUNED TO THE POLITICAL CONTEXT IN WHICH THE PRC WILL MAKE ITS ECONOMIC DECISIONS.

OFFICIALS OF THE PRC TELL US THAT THEY DO WANT TO INCREASE TRADE ON A BASIS OF EQUALITY AND MUTUAL BENEFIT IN ACCORDANCE WITH THE SHANGHAI COMMUNIQUE. BUT THEY EXPRESS CONCERN ABOUT THE PRESENT IMBALANCE IN BILATERAL TRADE. THEY CLAIM THAT THEY PRESENTLY IMPORT ABOUT TWICE AS MUCH AMERICAN GOODS THROUGH THIRD COUNTRY BUSINESSMEN AS THEY BUY DIRECTLY. THEY SHOW GREAT INTEREST IN OVERCOMING THE OBSTACLES FACING CHINESE EXPORTS TO THE UNITED STATES. THEY CITE THEIR SMALL SURPLUS OF EXPORTABLE GOODS IN EXCESS OF DOMESTIC NEEDS, THEIR INSUFFICIENT ACQUAINTANCE WITH THE AMERICAN MARKET AND HIGH TRANSPORTATION COSTS AS WELL AS HIGH DUTIES ON CHINESE GOODS. THEY EMPHASIZE THEIR INTEREST IN EXPANDING CONTACTS WITH AMERICAN BUSINESSMEN AND ENCOURAGE VISITS TO THE CANTON FAIR AND DISCUSSIONS WITH THEIR EXPORT-IMPORT CORPORATIONS IN PEKING.



WE MAY BE ABLE TO GLEAM SOMETHING OF HOW OUR TRADE WITH CHINA MAY DEVELOP BY THE JAPANESE EXPERIENCE. WELL BEFORE ITS DECISION TO RECOGNIZE PEKING, JAPAN HAD BECOME MAINLAND CHINA'S BEST OVERSEAS TRADING PARTNER, HAD EXCHANGED PERMANENT TRADE MISSIONS WITH PEKING, AND WAS SENDING SEVERAL THOUSAND BUSINESSMEN ANNUALLY TO THE CANTON TRADE FAIR.

SINCE 1966 THE OVERALL RATE OF GROWTH IN JAPAN'S TWO-WAY TRADE WITH THE PRC HAS BEEN ABOUT 15 PERCENT ANNUALLY. JAPANESE EXPORTS TO MAINLAND CHINA PROBABLY TAPPED A BILLION DOLLARS LAST YEAR WHILE THE JAPANESE BOUGHT SOMETHING OVER \$400 MILLION. JAPAN WILL HAVE TO BUY MORE TO MAINTAIN THIS TRADE AND THEY SEEM ON THE VERGE OF BREAKING THE ICE IN PERSUADING THE PRC TO ACQUIRE INDUSTRIAL PLANTS TO STEP UP THEIR OUTPUT ON DEFERRED PAYMENTS. WESTERN EUROPEAN BUSINESSMEN ARE POISED TO TAKE ADVANTAGE OF SUCH A POLICY SHIFT AND I HOPE AMERICAN BUSINESSMEN ARE THERE TOO.

IN DEVELOPING THESE OPPORTUNITIES IT'S IMPORTANT TO WATCH THE POLITICAL PITFALLS. OUR CHINA POLICY CALLS FOR THE CONTINUATION OF STRONG ECONOMIC TIES WITH THE REPUBLIC OF CHINA (ROC). AT THE SAME TIME THAT WE ARE TRYING TO EXPAND OUR TRADE AND OTHER ECONOMIC CONTACTS WITH THE PEOPLE'S REPUBLIC OF CHINA (PRC). IN OUR ECONOMIC RELATIONS WITH EACH, IT IS ESSENTIAL THAT WE TAKE INTO CONSIDERATION THE PROBABLE REACTIONS OF THE OTHER. THE NEW RELATIONSHIP WE ARE BUILDING WITH THE PRC IS NOT TO BE OBTAINED AT THE EXPENSE OF OUR OLD FRIENDS AND WE WANT TO MAINTAIN OUR STRONG ECONOMIC TIES WITH TAIWAN. WE



APPRECIATE THE STRONG EFFORT WHICH THE REPUBLIC OF CHINA IS MAKING TO INCREASE THEIR IMPORTS FROM THE UNITED STATES IN ORDER TO REDUCE THE LARGE SURPLUS, OVER \$600 MILLION LAST YEAR, THEY HAVE BUILT UP IN THEIR TRADE WITH US.

THE ROC HAS SENT A TRADE MISSION HERE, COMPILED A LIST OF PRODUCTS THEY WOULD LIKE TO GET FROM THE U.S., OFFERED TO SPONSOR A TRADE SHOW OF AMERICAN CONSUMER GOODS IN TAIPEI THIS FALL AND PUT OUT THE WELCOME MAT FOR BUSINESSMEN WHO WANT TO DISCUSS THE HIGH TICKET PROJECTS THE ROC HAS ON ITS PROGRAM FOR THE FUTURE. IT'S IMPORTANT FOR AMERICAN BUSINESSMEN TO SHOW THEIR COMPETITIVE ABILITY TO RESPOND TO THIS EXPLICIT INVITATION.

IT SHOULD BE NOTED THAT EXPANSION OF US-PRC TRADE IS NOT ONLY IN THE INTERESTS OF OUR TWO COUNTRIES. AS TRADE DEVELOPS AND MARKETS EXPAND, THE OPPORTUNITIES FOR OTHER COUNTRIES TO INCREASE THEIR TRADE ALSO RISES. THE ADVANCED ECONOMIC DEVELOPMENT OF THE UNITED STATES HAS ENABLED US TO MAKE MAJOR CONTRIBUTIONS TO THE EXPANSION OF THE ECONOMIES OF UNDER-DEVELOPED COUNTRIES OF THE WORLD. CHINA TOO HAS CONTRIBUTED AID TO THE LESSER DEVELOPED COUNTRIES. AS CHINA'S ECONOMY PROGRESSES, IT WILL BE ABLE TO CONTRIBUTE STILL MORE TO THE DEVELOPMENT OF THESE COUNTRIES.

BUT TO RETURN TO THE BILATERAL ASPECTS OF TRADE BETWEEN THE US AND CHINA, ITS DEVELOPMENT IS MAKING AN IMPORTANT CONTRIBUTION TO THE NORMALIZATION OF THE RELATIONS BETWEEN THE TWO COUNTRIES. FOR OVER TWENTY YEARS THERE HAS BEEN LITTLE CONTACT BETWEEN THE PEOPLES OF OUR TWO COUNTRIES. AMERICANS ARE FAR BEHIND OTHERS IN THEIR EXPERIENCES WITH CHINA. THERE HAS BEEN GREAT INTEREST AND ENTHUSIASM SHOWN IN RECONSTITU



CONTACTS AS IS SHOWN BY YOUR PRESENCE HERE. WE BELIEVE THAT THE DEVELOPMENT OF TRADE WILL SIGNIFICANTLY PROMOTE THE BUILDING OF BRIDGES, THEREBY LESSENING THE TENSIONS ON BOTH SIDES. NOT ALL PROBLEMS ARE SUSCEPTIBLE TO SOLUTIONS AT THE PRESENT TIME. BUT BOTH CHINA AND THE UNITED STATES HAVE FELT THAT THE ROAD TO IMPROVED RELATIONS BETWEEN US WAS BEST TRAVELED BY SETTING ASIDE THOSE MATTERS UPON WHICH WE COULD NOT AGREE, AND WORKING UPON THOSE MATTERS IN WHICH OUR INTERESTS CONVERGED. TRADE IS AN AREA IN WHICH WE HAVE COMMON INTERESTS. IT IS AN AREA WHICH CAN PRODUCE CONCRETE RESULTS. AS SUCCESSES IN TRADE GROW, AS RESULTS BECOME VISIBLE, A CLIMATE CAN BE ACHIEVED IN WHICH SOLUTION OF OTHER PROBLEMS BECOMES POSSIBLE.

POLITICAL AND ECONOMIC RELATIONS ARE INEXTRICABLY INTER-TWINED. RECOGNIZING THIS BASIC FACT EARLY IN HIS ADMINISTRATION, PRESIDENT NIXON SET OUT FIRST TO ASSURE A SUBSTANTIAL DEGREE OF STABILITY IN POLITICAL AFFAIRS. FROM THE OUTSET, THE GUIDING PRINCIPLE BEHIND THE NORMALIZATION OF ECONOMIC RELATIONS WITH COMMUNIST COUNTRIES HAS BEEN THAT ECONOMIC NORMALIZATION IS LINKED WITH PROGRESS TOWARDS THE IMPROVEMENT OF POLITICAL RELATIONS. THE PACE OF ADVANCEMENT IN THE ECONOMIC SPHERE THUS HAS BEEN REGULATED BY THE PACE OF ADVANCEMENT IN THE POLITICAL SPHERE.

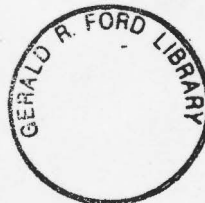
I CANNOT EMPHASIZE ENOUGH THE IMPORTANCE OF THIS PRINCIPLE. IT MEANS THAT THE UNITED STATES WILL INITIATE AND RECIPROCATE



ALONG THE ENTIRE SPECTRUM OF OUR RELATIONS IN THE INTEREST OF BUILDING A LASTING INTERDEPENDENCE OF INTERESTS. WE WILL NOT FORCE THE PACE IN ONE AREA, SUCH AS TRADE RELATIONS, IN THE MERE HOPE THAT THIS WILL BRING ON SUBSEQUENT PROGRESS ON POLITICAL, CULTURAL, OR MILITARY MATTERS. WE ARE SATISFIED WITH THE LESS DRAMATIC BUT MORE CERTAIN STEP-BY-STEP CONSTRUCTION OF A BALANCED STRUCTURE OF RELATIONSHIPS.

AN OBJECTIVE OF OUR POLICY IS TO CHANGE THE WORLD VIEW OF COMMUNIST NATIONS FROM ONE OF CONFLICTING FORCES HOPELESSLY LOCKED INTO A STRUGGLE FOR SURVIVAL, TO ONE OF COMPETING FORCES COMPROMISING WHERE INTERESTS CONFLICT AND COOPERATING WHERE THEY COINCIDE. THE ECONOMIC AREA IS WHERE INTERESTS ARE MOST SHARPLY PERCEIVED AS BEING MUTUALLY BENEFICIAL BY MANY COMMUNIST LEADERS AT THIS POINT IN TIME. TRADE FOSTERS HABITS AND ATTITUDES OF ADAPTATION, ACCOMMODATION AND AGREEMENT WHICH, HOPEFULLY, WILL BE CARRIED OVER INTO POLITICAL AND SECURITY RELATIONSHIPS.

THE MOMENTUM OF DEVELOPING TRADE CONTRIBUTES TO NORMALIZATION OF RELATIONS PARTLY BY DEFINING ISSUES WHICH CAN BE SOLVED. FOR EXAMPLE, A MAJOR ISSUE ON THE AMERICAN SIDE WHICH HINDERS TRADE IS EXISTENCE OF PRIVATE AMERICAN CLAIMS FOR PROPERTY OF AMERICAN CITIZENS IN CHINA TAKEN BY THE PEOPLE'S REPUBLIC OF CHINA. UNTIL THIS ISSUE IS RESOLVED, NORMAL TRADE RELATIONS IN THE UNITED STATES IS IMPOSSIBLE. EVEN TRADE EXHIBITS OR VISITS OF CHINESE PLANES OR SHIPS COULD RESULT IN COSTLY LITIGATION. FROM THE CHINESE POINT OF VIEW, THE ACTION OF THE UNITED STATES GOVERNMENT IN FREEZING CHINESE ASSETS



IS EQUALLY OFFENSIVE. IT PRESENTS AN OBSTACLE TO NORMALIZING RELATIONS WITH US BANKS, AS MANY AMERICAN BANKERS HAVE BEEN INFORMED. THIS PRESENTS A HARDSHIP TO AMERICAN TRADERS, WHO ARE THEREFORE UNABLE TO UTILIZE THEIR ORDINARY MEANS OF FINANCING THEIR PURCHASE OF CHINESE GOODS. DURING HIS LAST VISIT TO CHINA, MR. KISSINGER ATTAINED CHINESE ACCEPTANCE TO NEGOTIATE ON THESE ISSUES. SUBSEQUENTLY, SECRETARY ROGERS AND THE CHINESE FOREIGN MINISTER, CHI P'ENG-FEI, HELD DISCUSSIONS ON THIS SUBJECT IN PARIS. THEY AGREED IN PRINCIPLE TO SETTLE THE PROBLEM. WE ARE PRESENTLY NEGOTIATING ON THIS PROBLEM AND HOPE TO SOLVE IT IN THE NEAR FUTURE.

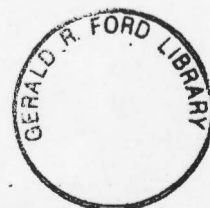
WHEN THE ISSUE OF US PRIVATE CLAIMS AND PRC ASSETS FROZEN BY THE US GOVERNMENT IS RESOLVED, THERE WILL BE OTHER ISSUES TO TAKE UP. SOLUTION OF THESE ISSUES WILL CONTRIBUTE FURTHER TO THE NORMALIZATION OF RELATIONS BETWEEN THE UNITED STATES AND CHINA. ONE MAJOR ISSUE, ONE WITH WHICH THOSE OF YOU WHO HAVE TRADED WITH CHINA ARE AWARE, IS THE CHINESE VIEW THAT LACK OF MOST FAVORED NATION TREATMENT UNDER OUR TARIFF PRESENTS A MAJOR HINDRANCE TO DEVELOPMENT OF US-CHINA TRADE. LACK OF MOST FAVORED NATION TREATMENT PREVENTS A NUMBER OF CHINESE MANUFACTURES, AND EVEN SOME PRIMARY PRODUCTS, FROM BEING SALEABLE IN THE UNITED STATES. WHILE THE PRC DOES NOT BALANCE ITS TRADE ON A BILATERAL BASIS, IT DOES TRY TO MAXIMIZE ITS EXPORTS TO HARD CURRENCY MARKETS.



CHINESE TRADING OFFICIALS HAVE TOLD US THAT THEY STAY OUT OF MANY AMERICAN MARKETS BECAUSE THEY CONSIDER THE ABSENCE OF MOST FAVORED NATION TREATMENT TO BE UNFAIR. CHINA DOES PRODUCE A QUANTITY OF HIGHLY FINISHED CONSUMER GOODS WHICH WOULD FIND ACCEPTANCE IN THE AMERICAN MARKET AND WHOSE SALE WOULD HELP FINANCE AN INCREASING VOLUME OF CHINESE PURCHASES IN THE US.

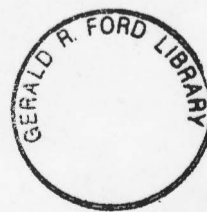
IF THE TRADE REFORM ACT OF 1973 IS PASSED BY THE CONGRESS IN ITS PRESENT FORM, THE PRESIDENT WOULD HAVE THE AUTHORITY TO NEGOTIATE A MOST FAVORED NATION AGREEMENT WITH THE PEOPLE'S REPUBLIC OF CHINA. THIS MIGHT THEN BECOME ANOTHER AREA IN WHICH WE MIGHT EXPAND OUR EFFORTS TO NORMALIZE RELATIONS. ARRIVAL AT SUCH AN AGREEMENT WOULD BENEFIT OUR TRADE AS WELL, SINCE WE WILL EXTEND MOST FAVORED NATION TREATMENT ONLY IN EXCHANGE FOR CONCESSIONS WHICH BENEFIT OUR EXPORTS AND EXPORTERS.

LET ME SPECULATE A LITTLE ON-THE SHAPE OUR TRADE WITH CHINA WILL TAKE. THE CHINESE ARE NOT NOW PREPARED TO GO INTO DEBT. THIS PLACES SEVERE RESTRAINTS ON OUR ABILITY TO SELL THEM OUR GOODS. THEY ALSO SEEM TO TAKE THE VIEW THAT NO OUTSIDER WILL BE PERMITTED TO EXPLOIT OR DEVELOP RESOURCES. THIS WOULD SEEM TO INHIBIT THE KIND OF DEVELOPMENT PROJECT, WHICH THE SOVIETS SEEM WILLING TO ENTERTAIN, IN WHICH US TECHNOLOGY AND CAPITAL IS JOINED WITH RUSSIAN RESOURCES



AND LABOR TO MOVE NATURAL GAS OR FERTILIZER TO WORLD MARKETS. BUT THE CHINESE MAY NOT BE INDEFINITELY UNRECEPTIVE TO THIS KIND OF ECONOMIC COOPERATION. THEY ARE WILLING TO SELL THEIR RAW MATERIALS. THEY CAN BENEFIT FROM ADVANCED TECHNIQUES IN EXPLORING, RECOVERING AND PROCESSING FUELS AND MINERALS. THEY SEEM TO BE VERY INTERESTED IN ENTERING INTO KNOW-HOW CONTRACTS AND TO HAVE THE SCIENTIFIC ABILITY TO RECEIVE AND APPLY ADVANCED TECHNOLOGY IN THE PETROCHEMICAL FIELD IN ONE CONSUMMATED KNOW-HOW DEAL. THEY ARE REALISTIC ENOUGH TO PERCEIVE THAT THE ADVANTAGES IN PRICE AND OTHER ADVANTAGES IN CONSUMER GOODS MAY BECOME INCREASINGLY FLEETING AS THE MOBILITY OF EQUIPMENT AND TECHNOLOGY INCREASES. ON THE OTHER HAND TRADE ADVANTAGES BASED ON RESOURCES AND ESTABLISHED TRANSPORTATION AND MARKETING PATTERNS REMAIN. WITHIN THE FRAMEWORK OF THESE REALITIES, WITH CHINA'S WILLINGNESS TO EMPLOY TALENT, PAY FOR TECHNOLOGY AND SELL RAW MATERIALS I BELIEVE AMERICAN BUSINESS WILL FIND A WAY TO WORK OUT MUTUALLY PROFITABLE DEVELOPMENT PROJECTS WHICH WILL ACCELERATE CHINA'S ABILITY TO BRING SPECIALIZED AMERICAN PRODUCTS TO THE HUGE CHINESE MARKET. ONE OF THE IMPORTANT INTERESTS OF OUR LIAISON MISSION IN PEKING WILL BE TO EXPLAIN AND ASSESS THE WAY THE CHINESE ARE PREPARED TO PROCEED TO UTILIZE AMERICAN TECHNOLOGY AND SKILLS IN THEIR EFFORT TO DEVELOP THEIR RESOURCES.

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THERE SEEM TO BE IMPORTANT OIL PROSPECTS IN OFFSHORE AREAS MUCH OF WHICH IS IN DISPUTE WITH THE PRC, THE ROC, THE KOREANS AND JAPANESE ASSERTING VARIOUS CLAIMS. AMERICAN OIL COMPANIES ARE EAGER TO PARTICIPATE IN THE DEVELOPMENT OF ANY PETROLEUM RESOURCES THAT MAY LIE IN THESE AREAS. THE U.S. GOVERNMENT WOULD LIKE THEM TO DO SO AS LONG AS WE CAN MAINTAIN OUR NEUTRALITY WITH RESPECT TO UNSETTLED CLAIMS, AVOID DAMAGE TO U.S. RELATIONS WITH THE VARIOUS CLAIMANTS, AND OTHERWISE PRESERVE OUR INTERESTS.

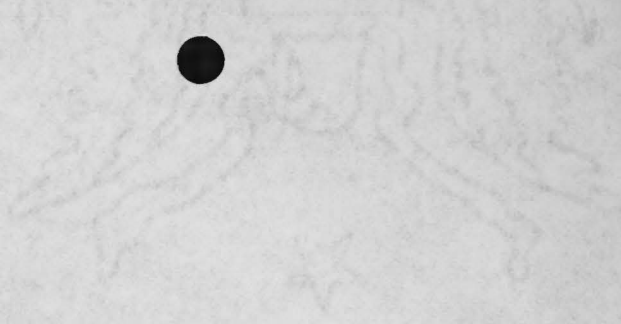
IN SHORT, THERE IS A NEED OFF THE CHINA COAST FOR U.S. TECHNOLOGY AND EXPERIENCE IN OFFSHORE DRILLING. IF CONCESSIONS BECOME AVAILABLE IN UNDISPUTED AREAS OR IF SERVICES ARE CONTRACTED FOR, THERE CAN BE IMPORTANT OPPORTUNITIES FOR U.S. COMPANIES. HOWEVER, OUR GOVERNMENT WANTS TO PUT EVERYONE ON NOTICE THAT IT WILL NOT IMPAIR ITS RELATIONS WITH OTHER COUNTRIES OR PREJUDICE ITS POSITION IN NEXT YEAR'S VERY IMPORTANT LAW OF THE SEA CONFERENCE BY SUPPORTING THE INTERESTS OF AMERICAN COMPANIES WHO OPERATE IN DISPUTED WATERS.

THERE ARE MANY OTHER ISSUES STILL TO BE DISCUSSED WITH THE PRC. TO MENTION A FEW, GOVERNMENT GUARANTEE OF CREDITS, PATENTS, TRADEMARKS, COPYRIGHTS, MEAT IMPORTS. THERE ARE QUESTIONS CONCERNING THE PRIORITIES OF THE ECONOMIC PLAN, HOW TO DEAL WITH THE SPECIAL TYPE OF STATE TRADING ECONOMY OF THE



PEOPLE'S REPUBLIC OF CHINA, AND MANY OTHERS WHICH WILL ARISE AS TIME GOES ON. BUT AS WE GAIN EXPERIENCE AND ACHIEVE SOLUTIONS STEP BY STEP, WE EXPECT THAT RELATIONS WILL BECOME BETTER AND WE WILL APPROACH MORE CLOSELY THE PRESIDENT'S GOAL OF AN ERA OF NEGOTIATIONS. AS WE DO, TRADE WILL HAVE CONTRIBUTED A SIGNIFICANT SHARE TO THIS RESULT.





Received
4 June 1972

Chairman Mao and Premier Chou have learned of President Nixon's expressed desire to visit China again. The Chinese Government welcomes the President to revisit China at an appropriate time.

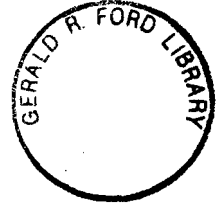


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Received
4 June 1973



The Chinese side has learned of the U.S. side's tentative thinking on the settlement of the question of Cambodia. Just as Premier Chou pointed out to Ambassador Bruce, in settling the Cambodian question, all parties concerned should respect Cambodia's sovereignty. It is impossible for the Chinese side to conduct any talks with the United States in place of the Cambodian side. The Cambodian question can only be settled through direct negotiations between the U.S. side and the Royal Government of National Union of Cambodia led by Samdech Norodom Sihanouk. The Chinese side can communicate the U.S. tentative thinking to the Cambodian side, but as Samdech Sihanouk is still visiting Africa and Europe, it is inconvenient for us to contact him through diplomatic channels. For the sake of accuracy, the Chinese side would like to repeat the U.S. tentative thinking as follows: "The United States is prepared to stop its bombing in Cambodia. It is prepared to withdraw the military advisory groups it has there. It is prepared to arrange for the withdrawal of Lon Nol for medical treatment in the United States. In return, it would like a cease-fire, if necessary for 90 days, a negotiation between the Sihanouk group and the remainder of the Lon Nol group. While this negotiation is going on in Cambodia, the United States would authorize some discussions between the staff of Ambassador Bruce and the subordinates of Prince Sihanouk in Peking. And when this process is completed in some months, the U.S. would not

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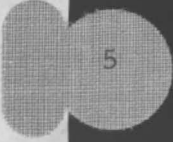
oppose the return of Prince Sihanouk to Cambodia. But it is a process that has to extend over some time." If there are any inaccuracies in the above, it is expected that the U.S. side will provide corrections.



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The US side has noted with surprise and regret the June 4 statement by Premier Chou En-lai that the United States must "respect the Paris Agreement on Vietnam, immediately stop all their actions in violation of the Agreement, and stop bombing and military intervention in Cambodia." At a time when this whole subject is actively being discussed with the DRV as well as with the PRC, the US side does not find the statement helpful and is particularly concerned at being urged publicly, especially in language which implies a threat, to desist from something we have already offered to stop, in our private communications to the Premier.



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