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NATIONAL SECURITY STUDY
DIRECTIVE 12-82

December 7, 1982

U.S. RELATIONS WITH CHINA AND TAIWAN (S)

Introduction

This National Security Study Directive establishes the Terms of Reference for completing a comprehensive review of U.S. relations with China and Taiwan. (S)

Objective of Review

To define U.S. objectives with respect to the People's Republic of China and Taiwan, to analyze their objectives towards the United States, and to produce a National Security Decision Directive (NSDD) on the subject, "U.S. Relations with China and Taiwan." (S)

Scope

The Study will be comprehensive and address the multiple aspects of our relations to include, at a minimum, the following topics:

Global and Regional Setting (Action: NSC)

U.S. global objectives and policy objectives in Asia which create the setting in which our policies toward China and Taiwan must be determined. Priority attention must go to our policies towards the USSR and Japan, although our objectives in the Third World, Korea and Southeast Asia are also important. (S)

Objectives and Expectations (Action: State)

What are our long-term objectives with respect to both China and Taiwan? What should we expect from our relationships? What do the PRC and Taiwan want from us? What are the prospects for China's modernization program? Is it really in our interest to help modernize China? To what extent can we? Should we have a technical assistance program for China? To what degree can we realistically expect to influence the PRC towards a more liberal form of government over the next 20 years? What is the likelihood of a serious improvement in Sino-Soviet relations and what would be the implications for the U.S.? What are Soviet objectives in China and what contingencies are they planning for? What are the likely implications for the U.S. of succession problems in both the PRC and Taiwan? What

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is the likelihood that the Taiwanese will take over the Nationalist government on Taiwan, and what would be the effect on U.S. policy? What are the implications of PRC policies toward Hong Kong and Macao for Taiwan and for U.S. policies in the region? What are our near-term objectives and what should be the timetable for the management of our relations with China and Taiwan over the next two years? (S)

Political/Diplomatic Relations (Action: State)

-- Review the domestic political considerations in the PRC and Taiwan impacting on their policy towards the U.S.

-- Inventory PRC foreign policy objectives, and ours, to determine areas of common interest, and differences. What new initiatives might the U.S. take? What effect would better (or worse) US-PRC relations have on our relations with Korea, Vietnam and ASEAN?

-- US-Taiwan relations as a constraint on US-PRC relations; and the US-PRC relationship as a constraint on US-Taiwan relations. (S)

Financial, Tax and Investment Issues (Action: Treasury)

What is the most important financial assistance required by the PRC from foreign sources? What is the likely evolution of PRC policy towards the use of credit? What should Ex-Im Bank and OPIC policy towards the PRC be? What do we want to achieve with the PRC in negotiations on tax and investment issues? What is China's role in the IMF and IBRD? How can we use China's membership in those organizations to encourage China to play a responsible role in the international economic system? What is the appropriate role for the US-PRC Joint Economic Committee? (S)

Trade, Export and Import Issues (Action: Commerce and USTR)

-- What are the prospects for future U.S. trade with the PRC, Taiwan and Hong Kong? How can we increase U.S. agricultural and non-agricultural exports to all three areas? What constraints on U.S. trade with the PRC are imposed by hard currency and credit considerations? What are the prospects for U.S. participation in major development projects? For a greater U.S. role in industrial cooperation?

-- What are the patent and copyright problems with the PRC and how can we resolve them? What should be the role of the US-China Joint Commission on Commerce and Trade? To what extent is China likely to become a competitor in the international marketplace and what are the implications for Taiwan, Hong Kong and the U.S.? What are the implications of a Free Trade Zone in Taiwan?

-- What position should we take with respect to possible Chinese accession to the General Agreement on Tariffs and Trade (GATT)? With respect to the Multifiber Arrangement (MFA)? With GSP? How well is our bilateral trade agreement with the PRC working?

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-- What are the present and likely future major import problems in our trade with China, Taiwan and Hong Kong and what can be done about them? The PRC has a substantial deficit in its trade with the U.S. Yet, from the Chinese perspective, they are faced with increasing restrictions on expanding exports to the U.S. What impact does this perception have on our overall bilateral relationship? What is the likely future impact of our restrictions, import relief provisions, antidumping and countervailing duty laws? What are the prospects in the textiles and apparel sector? What can be done to lessen the unfavorable impact of these restrictions? (S)

Nuclear Issues (Action: State)

What are the problems in reaching a satisfactory agreement with the Chinese which will advance U.S. non-proliferation goals and at the same time permit the U.S. to sell the PRC nuclear power equipment? How can these problems be solved? How can we encourage China to join the IAEA? (S)

Technology Transfer (Action: OSTP)

What are China's technology needs from foreign sources? What is its ability to absorb foreign technology? Does our existing policy of control over the export of dual use technology to China support our overall objectives with regard to China? Are these controls about right, or should they be liberalized or tightened up? (S)

Science and Technology Relations (Action: OSTP)

The Science and Technology Agreement with the PRC and the 17 protocols under it appear to be one of the most successful areas of exchange and cooperation. Should it be expanded? What are the lessons from this experience which might help us improve our exchange in other areas such as economic, commercial, and industrial cooperation? What is the appropriate role of the US-PRC Science and Technology Commission? (S)

Cultural Relations (Action: USIA)

What are the real benefits and problems in our student exchange programs? What are the future prospects? In other cultural areas? (S)

Military Relations (Action: Defense)

-- Review the progress so far of our effort to establish military contacts with China. Discuss areas of possible cooperation (ship visits, observer exchanges, educational exchange, etc.). What should our objectives be in this important area, and what can we realistically expect? (S)

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Arms Transfers (Action: State and Defense)

What should our policy be towards arms sales to the PRC? Security assistance? Related matters? How can we manage arms sales to Taiwan in a manner consistent with the Taiwan Relations Act and in accordance with the provisions of the August 17 US-China Joint Communiqué? (S)

Intelligence (Separate Annex) (Action: CIA)

Taiwan (Action: State)

How can we enhance the quality and improve the substance of our unofficial, people-to-people relations with Taiwan while minimizing the risk that Taiwan will again become a major divisive factor in US-China relations? What are the prospects for Taiwan and the PRC working out their problems and achieving a "peaceful resolution"? (S)

Hong Kong (Action: State)

What are the prospects for an agreement between China and the U.K. over the future of Hong Kong and what will its most important features probably be? How is this development likely to affect stability and investment in Hong Kong? Will there be a flight of capital and if so to what areas? How will these developments affect U.S. economic relations and trade with Hong Kong? (S)

Administration

This Study will be conducted by an Interagency Group, chaired by the Assistant Secretary of State for East Asian and Pacific Affairs. It should include representatives from the Departments of Defense, Treasury and Commerce, the Central Intelligence Agency, the Office of Management and Budget, the U.S. Trade Representative, the Joint Chiefs of Staff, the U.S. Information Agency, the Office of Science and Technology Policy and the National Security Council Staff. (S)

The scheduling and managing of the Study is the responsibility of the Department of State, in coordination with the National Security Council. Working Groups chaired by the appropriate agencies will be created to deal with specific topics addressed by the Study. (S)

The organization of the Study, including whether to integrate the questions on Taiwan and Hong Kong with those on China, or treat them as separate sections, is left to discussion and decision in the IG. (S)

A report for consideration by the National Security Council should be prepared no later than March 15, 1983. An interim report summarizing the Study's preliminary conclusions and recommendations

should be prepared for consideration by the National Security Council in mid-January 1983, prior to the Secretary of State's trip to China, Japan and Korea in late January. (S)

Dissemination of this NSSD, subsequent study material, and the resulting NSDD should be strictly controlled and handled on a need-to-know basis. (S)

Ronald Reagan