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THE WHITE HOUSE

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MEMORANDUM OF CONVERSATION

SUBJECT: President Bush's Meeting with General Secretary of the Central Committee of the Communist Party Zhao Ziyang of the People's Republic of China

PARTICIPANTS: U.S.
President Bush
James A. Baker III, Secretary of State
Winston Lord, Ambassador to China
John Sununu, Chief of Staff
Brent Scowcroft, Assistant to the President for National Security Affairs
Marlin Fitzwater, Assistant to the President and Press Secretary
Stephen Studdert, Assistant to the President, Special Activities and Initiatives
Robert Zoellick, Counselor-Designate, State Department
Gaston Sigur, Assistant Secretary of State for East Asia and Pacific Affairs
Margaret Tutwiler, Assistant Secretary of State, Public Affairs (Designate)
James A. Kelly, Senior Director of Asian Affairs, National Security Council
J. Stapleton Roy, Deputy Assistant Secretary of State
Peter Tomsen, Deputy Chief of Mission, Embassy Beijing
Karl Jackson, Senior Director of Asian Affairs, National Security Council
Ray Burghardt, Political Counselor, Embassy Beijing
Mr. J. Larocco, Embassy Beijing, Notetaker
Mr. James Brown, Interpreter

China
General Secretary Zhao Ziyang
Vice Premier Wu Xueqian
Foreign Minister Qian Qichen
Vice Foreign Minister Zhu Qizhen
Han Xu, Ambassador to the United States
MOFERT Vice Minister Lu Xuejian
AFM Liu Huaqiu
MFA Protocol Director Wu Minglian
MFA Information Director Li Zhaoxing
USA Department Counselor Wang Li
Other participants (2)
Notetakers (2)
Interpreter

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DATE, TIME February 26, 1989, 4:00 p.m. - 5:40 p.m.
AND PLACE: Great Hall of the People, South Reception
Room, Beijing, China

SUMMARY: During a cordial one hour and forty minute meeting, President Bush and General Secretary Zhao Ziyang discussed the general state of Sino-U.S. relations, Chinese domestic reform efforts, and a variety of bilateral and international issues, including Sino-U.S. economic and commercial concerns, Sino-Soviet relations, Sino-Indian and Sino-Pakistan ties, nuclear nonproliferation in South Asia, and the roles of China, the United States and the Soviet Union in reducing tensions on the Korean Peninsula.

General Secretary Zhao characterized Sino-U.S. relations as having reached a level of significant mutual understanding; both sides know the great potential for increased cooperation while recognizing where our differences lie.

The President agreed with this assessment, noting that one area where we can certainly do more is in improving the climate for trade and investment between our two countries. He stressed that he did not see any foreign policy barriers standing in the way of developing further our already substantial bilateral economic relationship.

General Secretary Zhao endorsed the view that the improvement of Sino-Soviet relations would not adversely affect Sino-U.S. relations. Zhao noted that Gorbachev would be visiting China primarily in his capacity as President of the Supreme Soviet. His visit would have the effect of reestablishing party-to-party relations, but the principal purpose would be to restore normal state relations.

In response to the President's question on the state of Sino-Indian ties, General Secretary Zhao called Prime Minister Gandhi's recent visit to Beijing very successful in that Gandhi modified India's long-standing policy of refusing to make progress in other areas of the bilateral relationship as long as the Sino-Indian border dispute remained unresolved. He cautioned, however, that because of the boundary dispute there were limits on how far Sino-Indian cooperation could proceed.

The President stressed the need for Pakistan to adhere to its nuclear nonproliferation obligations.

General Secretary Zhao noted Pakistan's repeated assurances of the peaceful nature of its nuclear program, and cited the inconsistency of the international community in criticizing Pakistan while refraining from censure of India, which already possessed a nuclear capability.

General Secretary Zhao said he would visit the DPRK in late April.

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The President emphasized that the U.S. genuinely wanted a reduction of tensions on the Korean Peninsula; urged China to influence the DPRK to moderate its policies; stressed the importance of direct North/South dialogue; and expressed pessimism about the nature of North Korea's leadership.

General Secretary Zhao replied that Soviet influence over the DPRK, while also limited, is greater than China's. He said China would open a trade office in South Korea, welcomes the more relaxed U.S. posture toward North Korea, urged further steps in this direction, and noted this would enhance China's ability to moderate DPRK policies. Zhao promised to pass to the U.S. any message from the DPRK.

In an extended monologue that closed the meeting, General Secretary Zhao emphasized China's commitment to carry domestic reforms through to completion and characterized the current retrenchment as a temporary adjustment to curb inflation and cool the economy. Zhao contended that the active minority who favored a Western political system in China could create chaos and disrupt reform. He said U.S. support for such people would hurt reform and adversely affect Sino-U.S. friendship. END SUMMARY.

General Secretary Zhao: There's a lot of press here.

President Bush: There is much interest in America in this visit.

General Secretary Zhao: Some reporters came with you, and some are stationed here in Beijing. Is that right?

President Bush: Yes.

General Secretary Zhao: Have you been in this room before?

President Bush: I don't think so. It's a beautiful room.

General Secretary Zhao: It is the reception room of the Great Hall of the People where Ambassadors present their credentials.

President Bush: What is its name?

General Secretary Zhao: (After discussion among the Chinese present) It is just called the Reception Room. As you know, every province and municipality under the control of the Central Government has a room in this building. This is not one of those rooms.

President Bush: Yes, I know.

General Secretary Zhao: How was the weather in Tokyo?

President Bush: You should be glad you were not at the funeral. It was so cold. There was icy cold rain, and the wind was all

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the way from Moscow, and cut right through you. I thought we would lose a King who was sitting near us.

General Secretary Zhao: The weather here recently has been quite good.

President Bush: I expected colder weather, but it is like home.

General Secretary Zhao: A characteristic of this winter is that it has been on the warm side. It is hard to say whether this is a good or bad omen.

President Bush: Let's consider it a good omen.

General Secretary Zhao: If a warm winter doesn't usher in a Spring drought, then it's OK.

President Bush: There was a bad drought in the U.S. last year. It was a real cause for concern.

General Secretary Zhao: That's why international grain prices are up.

President Bush: How is agricultural production?

General Secretary Zhao: Pretty good two years ago...not good last year. Since 1985, agricultural production has been stagnant. There was a great expansion of production from 1981 through 1985. This was the result of our reforms, especially the linking of output to household responsibility. But that has achieved as much as it can. We need new steps now. But stagnation has only been from grains; other crops are doing well.

It is a great pleasure to welcome you, Mr. President. Without counting your time here as Liaison Office Chief, this is your fifth trip to China. During this period, despite some difficulties and setbacks, Sino-U.S. relations have developed in a steady manner and marked progress has been made. Mr. President, you are the best witness to the development of Sino-U.S. relations over the last decade. Of course, we must not be complacent; there is still great potential to be tapped in our bilateral relationship.

As you are well aware, China attaches great importance to our bilateral relations. We regard development of Sino-U.S. relations as a long-term strategic decision of the Chinese government. I also noted with great pleasure what you said in your letter to Chairman Deng Xiaoping last September. You said that if elected you would do your best to consolidate Sino-U.S. relations. Both of us understand the great significance of Sino-U.S. friendship. Both sides know the great potential and broad prospects for developing friendly relations and cooperation; we also know where the differences and obstacles lie. That is why we place great hopes on your new administration. We hope that through joint efforts we can make new progress in

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economic, political, and military fields. We hope the critical issues in our bilateral relationship can be properly settled so that in the new period our bilateral relationship can reach new heights.

President Bush: We are on the same general wave length. I share your assessment of where we stand right now.

Let me first talk a bit about the trade and investment climate between our two countries. This is an area where we can move forward more. I mentioned at an earlier meeting today that there are a couple of areas where we would like to work on improving. If we resolve some areas of difficulty for our business people, we can open the way for great progress.

I raised the issue of intellectual property rights with Premier Li Peng. He said that a patent law had been worked out and that you were working on a copyright law. These are very important steps. I want to say that this is not just a Sino-U.S. issue, but is an issue with other countries as well. For example, I think we have this kind of problem with Canada. I urge close cooperation on intellectual property rights.

I believe Li Peng, or perhaps it was Deng, talked about the U.S. being the largest investor in China. We want that to grow. I think a bilateral investment treaty would be helpful in this regard.

Generally, you are familiar with the GATT. We generally support your entry into the GATT. We have been discussing reforms in your trading system with you and can keep on discussing that.

There are ongoing discussions in our bureaucracy about export controls. Our policy is designed to allow U.S. companies to make the greatest possible contribution to your development. We must keep controls in certain highly sensitive areas. But we can discuss areas of special interest to you. If we can work out a deal for the launching of American satellites on Chinese rockets, we should be able to work out anything. This is a very technical subject. We are still having a lively debate in our government -- among State, Defense, and Commerce -- on liberalizing export controls on high technology items. We have supported liberalization in areas such as computers and fiber optics. I hope this has been of assistance to you. We will continue to work with other Western countries to provide the tools needed for China's modernization.

But putting these technical points aside, we are generally on the right track on trade. We want to keep building on that. I don't see any barriers in a broad foreign policy sense to the development of this relationship.

I listened carefully to Chairman Deng today. We are not concerned about the upcoming Soviet visit to China. We work with the Soviets in lots of areas. There is nothing in the change in

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your or our relations with the Soviets that will affect our relationship. We do not work with the Soviets in ways that will adversely affect China. We do not link the two in any way.

General Secretary Zhao: We also noted that not only you but others in political circles and the press in America clearly understand that the improvement of Sino-Soviet relations will not adversely affect Sino-U.S. relations. This is an entirely correct interpretation.

There might be some people in America who have apprehensions on how Sino-Soviet party relations will develop. The Gorbachev visit to China, the Summit meeting, and the normalization of state relations will naturally lead to the restoration of party relations. Future party relations will by no means be as they were in the 1950s. There will be a new relationship on a new basis.

You might have noticed that as far as party relations are concerned, we not only have party relations with other communist parties, but also with socialist parties and nationalist parties in developing countries. Our understanding of party-to-party relations is now entirely different from our understanding in the 1950.

Take Pakistan, for example. We established party relations with Prime Minister Junejo's Muslim League. When Benazir Bhutto came recently, we established party relations with the Pakistan People's Party led by her.

We apply four principles to relations with other parties; whether communist, socialist, or national: independence, equality, mutual respect and noninterference in internal affairs.

President Bush: Is the Soviet visit a party visit? Will you host the visit as a party visit or as a party and government visit?

General Secretary Zhao: This time Gorbachev will come to China primarily in his capacity as President of the Supreme Soviet. He has been invited by President Yang. His meeting with Deng will be the high-level meeting. I will also meet him. This meeting will mean the establishment of party relations.

President Bush: This is very complicated. We have not dealt so much on party relations. There is a new development, involving Dick Allen, in which the Republican Party is dealing with lots of European parties in the International Democratic League. This has nothing to do with the government.

General Secretary Zhao: Of course the establishment of party relations between two ruling parties will be beneficial to the promotion of state-to-state relations. But relations between two countries are primarily state relations. That is why I say that the purpose of the high-level Gorbachev meeting with Chinese

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leaders is primarily to normalize state relations. Normalizing state relations will naturally mean the restoration of party relations, but party relations will not have any special significance.

President Bush: We have covered lots of ground in my three previous meetings. One area I have not inquired about in my meetings here has been Sino-Indian relations.

General Secretary Zhao: The Gandhi visit was very successful. This visit solved one problem. On the Sino-Indian boundary dispute, we agreed that it is difficult to reach a mutually acceptable solution in a short time. Previously, Indian leaders always insisted the boundary question must be settled before cooperation in other areas could proceed and that it was an important condition for improvement of relations. But the fact is the problem cannot be solved in a short time. We have proposed some ideas, but the problem still cannot be settled quickly. Because of the Indian attitude, it is hard to make progress. Gandhi agreed that while we are discussing the border, we could make progress in other fields. This is a good step and is significant.

Nevertheless, because of the boundary dispute, there is a limit on how far cooperation and friendly relations can develop. There is this inhibition. Besides, we have all along been critical of the Indian approach to its neighbors in South Asia. It is the big bullying the small. So far, India has not abandoned this approach.

Since Gandhi became Prime Minister, U.S.-Indian relations have improved. Is that correct?

President Bush: Yes. I asked about this issue because Gandhi and Bhutto seem to have established good relations. There have been some differences, but they are close generationally. Their relations seem to be off to a good start. To the degree that they were divided over Afghanistan, with India closer to the Soviets, things should improve with the Soviet pullout.

Pakistan still worries about India in the nuclear field. And we still worry about Pakistan in the nuclear area because we have rigid Congressional certification requirements. It is a very serious question in terms of our ability to give the support we want to Pakistan. I made a clear presentation about this to Bhutto the other day in Tokyo, emphasizing that Pakistan must keep to its nonproliferation obligations. She anticipated my approach and took the initiative because she knew I would raise the matter. She gave lots of assurances. I do not want to burden you with this but it is a very serious matter. If Pakistan goes ahead with a nuclear device, we have to cut off our aid. I do not want this to happen. In any event, I think we should all work together for peace on the subcontinent. I knew of your visit with Gandhi. We may be on the edge of a new era in Indo-Pakistan relations. This would be good for all of us.

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General Secretary Zhao: Both President Zia and Bhutto have said again and again that Pakistan is not seeking nuclear weapons. They are engaged in peaceful uses of nuclear energy. We have often told our American friends that China-Pakistan cooperation is confined to peaceful uses of nuclear energy. Pakistan is participating in IAEA safeguards. So do we. We will continue to carry out our commitments to IAEA. However, our American friends should know that Pakistan leaders have one complaint: they have given assurances that they will not go for nuclear weapons, but they feel that the international community has a different policy toward India. There are two big countries in South Asia. One has a nuclear device and no one says anything about it. The other has no device and is only engaged in nuclear energy research, but the press and the United States exert big pressure on Pakistan.

President Bush: They have made the same points to us. I wish I could be relaxed that they are only engaged in peaceful nuclear energy research. But we are not. President Zia said the same thing. But we have pretty good evidence to the contrary. We hope that she will work on this. On the second question of unequal treatment by the international community, we are indeed concerned about India, and Pakistan has legitimate concerns. But we cannot look the other way. We must guard against further proliferation. We hope India and Pakistan can sign a nuclear agreement. But India thinks it has an advantage. We will work with it, but we have no influence with India.

General Secretary Zhao: I would like to tell you that in late April I will visit the DPRK. Do you have any advice?

President Bush: Good luck on your visit! (Laughter) Secondly, the fact that China has started to have relations with the South is an extraordinarily good thing. Third, I think China more than any other country can help convince North Korea to moderate its policies a bit. We appreciate the fact that you helped facilitate some low-level contacts for us with them. I would ask you on our behalf to convince North Korea not to seek to engage us in conversation about the South, but to engage the South directly in discussions about peaceful reunification on the Korean Peninsula. Lastly, we would genuinely welcome reductions of tensions on the Korean Peninsula. It would be wonderful for us. It's very expensive. We would like to see our role reduced, or even eliminated, by a peaceful resolution among the parties. Otherwise, we don't have much of a role. We welcome your views.

General Secretary Zhao: For my visit this time, I am mentally prepared to listen to criticism by the comrades in the DPRK. They have lots of complaints about our direct and indirect economic and trade ties with South Korea. On my part, I will elaborate on why we are moving to develop certain ties with South Korea. It is impossible for our relations with the South to go too fast or too far. On the other hand, we cannot do things entirely according to the North's opinions, but we must take into

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account what North Korea can bear. Maintaining stability on the Korean Peninsula is in our interest, your interest, and the region's interest. We will continue to do what we can and will use our influence whenever possible. It seems to me, however, that China's influence is limited in encouraging North Korea to be more flexible. The role played by U.S. policy is more important. We noted with great pleasure that the U.S. has adopted a more relaxed approach to North Korea and that this has achieved good results. We hope the U.S. can take an even more relaxed approach. The more relaxed the U.S. approach, the less isolated North Korea will feel. Hence, our influence will increase. To a great extent, our influence on North Korea is affected by U.S. policy.

It would appear from Gorbachev's new thinking that the Soviets also wish to see a relaxation on the peninsula.

Soviet influence on the North is greater than ours, but it is also limited. All of us should do something to promote relaxation of tensions on the peninsula.

The North on many occasions has asked us to convey messages to the U.S. hoping to improve relations. The U.S. has taken some steps already toward more relaxed relations with North Korea. We hope for more steps.

President Bush: We need to identify people who have influence who are more reasonable than the two top people in North Korea, Kim Il-sung and his son. I hope this does not offend you. They have a stake in hostility toward the U.S. We need to find other people who are more reasonable to deal with. Is this unfair?

General Secretary Zhao: In my view, if you want to improve relations with North Korea, you must deal with the two people you don't like.

President Bush: It's not a question of our not liking them. We don't think they want to deal. There is a performance barrier. They do not accept norms of civilization. They slip drugs and arms into diplomatic pouches. The leadership views are unacceptable. If I am being unreasonable, you tell me. We really are pessimistic about productive dealings because of the way the leadership views the U.S. Maybe they can change.

General Secretary Zhao: I favor the view that the nature of policy pursued by leaders has something to do with the set of circumstances they find themselves in. If the circumstances change, if the conditions change, so will the policies being pursued. I hope you are open-minded. After all, isn't it true that Khomeini accepted the UN Security Council resolution?

President Bush: Yes...but then he went and put a murder contract out on that writer. Look. I am serious. We sincerely welcome your advice. We honestly don't know these people in the North. If there is anything you can share, if you sense any flexibility,

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after your visit, we would welcome this and would like to hear about it. You will have difficulty convincing me he is a noble human being. But relations are not based on that. We are open-minded. We want to be a catalyst for peace on the Korean Peninsula.

General Secretary Zhao: If they have any message, I will convey it to you.

President Bush: Aren't you encouraged by feelers between the North and South? Isn't that a good sign?

General Secretary Zhao: Yes. There are some good trends. We hope they will continue. In my view, changes in the international climate and trends toward relaxation of tensions will help in the settlement of various regional issues, though the timing may be different from case to case.

Since you have discussed international issues at length at your other meetings with Chairman Deng, Premier Li, and President Yang, let's change the subject. Let me briefly take this opportunity to talk about the domestic situation in China. After my briefing, I would be interested in your views on the domestic scene in China.

President Bush: I am very interested.

General Secretary Zhao: Ten years have elapsed since reform was launched in China. The steps taken have not been small. However, we are only halfway through. We will unswervingly continue until the end of the road is reached. However, it is indeed a tough pursuit to transform the Chinese economy from a highly centralized system to a planned commodity system. It is a long process that cannot be done in a short period of time, particularly in a large country like China.

I have two points to stress: We must be firm in moving forward to complete the reform process, but we must also adjust to the actual conditions in China and gradually carry out reform. As you know, China has made progress in the last decade, which is primarily attributable to the reform steps taken. Recently, the Wall Street Journal carried articles comparing reform in China and the Soviet Union. They quoted CIA statistics. These statistics noted that Soviet average annual GNP growth in the 1980s was 1 percent while China's was 8 percent. Although this figure is slightly lower than ours, these statistics illustrate the big progress China has recorded during the ten years of reform. Our national strength has increased, and the quality of life for the Chinese has improved as well.

In view of the tremendous beneficial changes brought by reform, and the improvement in living standards, there is no reason or basis for changing current policies. Our view is that the reform trend is irreversible in China.

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In September 1988, we announced a program to improve the economic environment and restore economic order. Some people in China did not understand the program, and there was talk abroad that China was retreating from or abandoning reform. This doesn't tally with the facts. Rectification is mainly designed to solve problems related to an overheated economy. It is a common approach in Western countries to have alternating policies to deal either with inflation or recession. The correction in China is to curb inflation and dampen the overheated economy. The Chinese people do not have as much capacity as in the West to bear the effects of inflation because we pursued a low wage system, and also because of certain historical reasons and traditional ways of thinking. In fact, problems of inflation have long been with us in China, although they used to be in hidden form. The main manifestation of inflation in the 50s, 60s and 70s was not higher prices for commodities, but rather the unavailability of goods, the use of coupons, rationing, and standing in lines. That is inflation.

During the 34 years from 1951-1984, the average annual increase in the commodity price index was never more than 3 percent except in 1961 when it reached 16 percent. However, from 1985-1987, because of the gradual decontrol of prices, inflation averaged 6-8 percent. These rates were no real problem; the people could bear them. In 1988, however, the consumer price index shot up to 18.5 percent. That caused uneasiness.

President Bush: Are you referring to consumer prices or producer prices?

General Secretary Zhao: These are market prices not production prices.

We could not continue with reform with this rate of inflation. So we concentrated on austerity in financial expenditures, credit, and capital investment to curb demand. The main reason for this inordinate increase in commodity prices was the overly rapid issuance of money to support rapid economic development, excessive capital investment and too much consumption. The task of improving the economic environment and rectifying the economic order cannot be done in a short period. It may take two years, or a little longer. But rectification does not mean stopping reform. Rather, we must stabilize the economy so reform can press ahead according to the original plan. In analyzing the situation in China, I would emphasize two points: First, the Chinese people are both participants and beneficiaries of reform. On the whole, the Chinese people support reform. Second, quite a number of people in China are not adequately prepared mentally for the extent of the difficulties and the complexities of reform, especially the adjustment of interest. So they complain. Concerning this second point, when things go smoothly, the complaints are few. When things do not, the complaints are many.

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In China, there exist two erroneous and extreme ideas. First, because there are so many difficulties with reform, some people think that reform is infeasible and that China should go back to the old road. These people are few and have no appeal. Second, there are also a small number who think there are so many difficulties in reform because China is lagging behind on political reform. They stand for a multi-party parliamentary system -- the introduction of a Western political system. These people may be few, but they are vocal and active. Let's put aside the ideological question entirely. The above proposition does not tally with the realities of China. If it is carried out, chaos will result, and reform will be disrupted.

Some press people in the West and the U.S. feel warmly toward those in China who advocate a Western political system and have great interest in them. These forces want to influence current and future U.S. policy. In our view, if there are Americans who support those Chinese people who are opposed to the current policies of the Chinese government, they will hurt reform as well as Sino-U.S. friendship. Mr. President, you know that it is the Chinese government and people who are promoting reform in the light of the actual conditions of China. It is not these others. Mr. President, you know well China's history and its realities. I know you understand the above analysis. I hope the U.S. government will pay attention to this question for the sake of Sino-U.S. friendship, the stability of China, and the success of reform. NOTE: It was 5:45 p.m. The meeting had been scheduled to conclude at 5:25 p.m.

President Bush: That was a fascinating exposition. They tell me I am to be on live TV at 6:00 p.m. Let me say that I am very interested in what you said about reform. We strongly support reform and what the Chinese government has done. We know there are ups and downs. The U.S. also has its own economic problems, and I will do my level best to get our deficit down, which will benefit China and help you on your interest rates. I am glad to be here in China because I have escaped some of my own critics of my economic efforts. Don't worry about these critics. We want to see your reform succeed. We want to use our economic clout to be part of that success. I apologize for running. Thank you for your exposition.

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