

## THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

Executive Registry

79-10034

National Intelligence Officers

5 January 1979

MEMORANDUM FOR: Director of Central Intelligence

VIA : Deputy Director, National Foreign Assessment

FROM : [REDACTED]  
National Intelligence Officer for China

SUBJECT : Possibility that Deng Xiaoping (Teng Hsiao-p'ing)  
May Display Flexibility on Claims vs. Frozen  
Assets and Most Favored Nation (MFN) Issues

1. Action: That you sign the memorandum to Secretary Blumenthal on the above subject (Tab A).

2. Background: An important step forward in post-normalization US-PRC relationships would be the settlement of the long-deadlocked issue of exchanging blocked PRC assets in the US to meet American financial claims against the PRC. Granting MFN treatment to the PRC, which the Chinese want, would also add to the warmth of our relations. The two issues are likely to arise during Deng Xiaoping's visit, and Secretary Blumenthal will also address them further during his own visit to China 14 February through 1 March. He would like a memorandum from you addressing the question of whether or not you believe Deng is capable of displaying the kind of flexibility we will need from him to meet our legal and Congressional requirements.

3. Staff Position: We believe that Deng on balance will be able to show the desired flexibility. He is the heir of Chou Enlai, who in 1973 went a long way toward meeting our needs on the claims/assets issue, and it is possible that the deadlock which occurred later came when Chou faded from the scene in 1974 due to illness and the "gang of four" began to usurp his power. The "gang" has now been eliminated, Deng's influence on PRC policy has become paramount, and from the

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very circumstances of normalization we know he is a realist and a pragmatist. We also know that he would like MFN (see Tab B for his reference to MFN in his remarks to US journalists in Peking on 4 January). Thus, while some hard Oriental-type bargaining may be ahead, there is a strong chance that we and Deng can reach agreement.

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cc: DDCI

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8 JAN 1979

MEMORANDUM FOR: The Honorable W. Michael Blumenthal  
The Secretary of the Treasury

SUBJECT: Possibility that Deng Xiaoping  
(Teng Hsiao-p'ing) May Display Flexibility  
on Claims vs. Frozen Assets and Most Favored  
Nation (MFN) Issues

1. In view of your plans to address the subject issues with Deng Xiaoping, I felt that my thoughts on Deng's ability to display flexibility may be of interest to you.

2. Briefly, I believe that Deng is capable of providing the kind of flexibility which we need. Deng is Chou Enlai's heir, and it is noteworthy that Chou went a long way toward meeting our position on the claims vs. frozen assets issue before he began to fade from the scene due to illness in mid-1974. It appears very likely that the hardened position which the Chinese then adopted was the result of Chou's political opponents (the "gang of four") finding opportunities to circumscribe his authority as he weakened physically. However, the "gang" has now been eliminated, and PRC policies have been restored very much to the place where they would probably have been if Chou had not died. Deng's own influence over PRC policy has also become paramount.

3. In addition, Deng has a reputation for being a realist and a pragmatist who refuses to be bound by ideology. His penchant for setting ideology aside to gain results was the primary cause for his purge in 1966 and again in 1976 (he was known as a leading "capitalist roader" on both occasions). Moreover, we know from his role in the normalization negotiations that he manifested considerable flexibility on key issues.

4. We also know that Deng very much wants MFN, as indicated by his remarks to American journalists in Peking on 4 January. This desire, combined with Deng's other qualities as indicated above, suggests a negotiating position which should contain sufficient flexibility to give us what we need.

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5. However, we can probably anticipate some tough Oriental-style bargaining ahead in reaching agreement. Deng is a very strong nationalist who wants the best for China, and who will defend vigorously what he perceives to be its basic interests.

/s/ Stansfield Turner

STANSFIELD TURNER

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