



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

November 10, 1983

SECRET NOFORN SENSITIVE

MEMORANDUM TO: Secretary Baldrige *FB*

FROM: Lionel H. Olmer *LHO*

SUBJECT: Technology Transfer Policy Towards the People's Republic of China

The major foreign policy initiative by this Administration towards the People's Republic of China, that of identifying the PRC as a "friendly, non-allied nation" and thereby increasing the permissible levels of sophisticated technology which can be exported from the West to the PRC, in my judgment, is in danger of foundering because our COCOM partners are not yet prepared to accept this dramatic change or its implications.

Thus, our policy may not be implemented with the speed, efficiency and predictability that the Administration has been assuring the Chinese (and the U.S. business community) it will be, because almost every license application -- even "Green List" items (those which Commerce will clear within 10 days without U.S. interagency review) -- still requires COCOM approval and COCOM can take 60-90 days, or longer. Moreover, China's highest priorities, computers, telecommunications and micro-electronics, may well be given a degree of scrutiny or outright resistance in COCOM that could develop into the very kind of contentious delay which has characterized this issue for the last several years.

I have argued that it was risky to change the PRC's licensing category until we were assured of having the practical ability to deliver on the expectations that would arise with this change in the regulations. You'll recall Premier Zhao Ziyang told you in May that he didn't want the promise of change without accompanying substance: "China doesn't want to be in reality a small 'P' (its old category) within a big 'V' (the category of friendly nations)," he said.

To avert this risk we have tried to bring along our COCOM allies through various briefings. Technical presentations have not yet been made, certainly not at the political level, of precisely what we propose authorizing because the Chinese Government only recently provided us with the written assurance we require against diverting to other countries that which is transferred to them. Immediately after interagency clearance of the letter of assurance received just this week from the PRC, our technical regulations will be

SECRET NOFORN SENSITIVE

Not referred to DOC. Waiver applies.



SECRET NOFORN SENSITIVE

- 2 -

published in the Federal Register (I expect this will occur by November 18).

It is my belief that unless COCOM creates a "Green List" or its equivalent (e.g. authorizing COCOM members to deal with a given level of technology for the PRC as a matter within the national discretion of each COCOM member), a backlog will develop of pending applications which will quickly clog the system, thwart implementation of our policy and deflate the high expectations that have built up.

To test the possibility of COCOM adopting the U.S. Green List approach, on November 8 while in Paris I put the question to a respected, experienced and COCOM-committed French Government official. Whereas I had been led to believe that COCOM reluctance to go along with U.S. export licensing policy towards the PRC was based on either selfish commercial motives or European and Japanese unwillingness to antagonize the Soviets by drastically differentiating between the two, the issue is more complex.

The French official gave me these personal views that are worth considering as possibly representative of the thinking within COCOM:

- (1) There is a worry about what the PRC will become in 5-10-15 years, in terms of possible threat to world or regional stability. U.S. perceptions of China's future attitudes towards the West and its likely behavior in general have not been adequately articulated. "What is the U.S. up to?" was asked not in an antagonistic or accusatory manner, but in genuine puzzlement.
- (2) The Chinese are intent upon obtaining technology with military applications, notwithstanding that their inquiries are cloaked in the guise of requests for civilian use products (the PRC Vice Minister for Electronics Industry recently presented to French Government officials and industry representatives a list of a few hundred items relating to telecommunications that have clear military relevance, even while he explained that his Ministry has little to do with telecommunications).
- (3) There is a strong bias against a separate list for the PRC because while it would mean speedy treatment for the PRC it could result in even lengthier delays than now occur for all other COCOM license reviews. Especially because the process of reducing the size of the COCOM list (now about 200,000 items) has been so feeble in recent years, this dramatic approach by the U.S. towards the PRC can't help but fuel European cynicism regarding U.S. motives ("the U.S. now has more than 100 times the number of PRC applications pending than anyone else").

SECRET NOFORN SENSITIVE

SECRET NOFORN SENSITIVE

- 3 -

- (4) "What is the U.S. up to?" was asked again in the context of our stated, common objective to staunch the flow of dual-use technology to potential adversaries. COCOM's attention to the "truly critical" is surely being impaired by the continuing failure to pare the control list as it applies to the Soviet Union. It is difficult to comprehend a huge list for the USSR and the Bloc, on the one hand, and an outpouring of technology for the PRC on the other hand. In other words, perhaps a great deal of what the U.S. proposes to authorize for the PRC could also be authorized for the USSR without any strategic risk.

On one level, these comments are reassuring for they reveal a sincere concern for the hazards to Western security which can result -- and has resulted -- from unwise technology transfers. But cynicism would be a terrible attitude to have to contend with as we continue our laborious and partially successful efforts at strengthening COCOM, possibly an even more fundamental foreign policy objective of this Administration than is our new approach towards China. We can achieve both objectives, I firmly believe, but a lot of shoring-up needs to be done, and soon.

There are more than 400 China cases pending in COCOM and as soon as our regulations are made public (which the private sector is anxiously awaiting) we anticipate a surge of many more. I would not be surprised to see our PRC COCOM workload increase from 890 in 1983 to 4000 in 1984. Because of superb cooperation between Commerce, Defense, State and the NSC, we will handle this, on the U.S. side, smoothly. But while efforts are being made to temporarily increase the technical staff in COCOM's Paris headquarters, this gesture may quickly prove to be inadequate. Absent a political-level intervention leading to major alterations in how COCOM member states deal with China, the system could become dysfunctional early in 1984.

If you agree, I will send this memo to Allen Wallis, Bill Schneider and Fred Ikle with the suggestion that principals get briefed and meet as soon as possible thereafter.

SECRET NOFORN SENSITIVE