

~~Top Secret~~**EU-CHINA:****Touting Closer Links**

EU Trade Commissioner Brittan announced a strategy last week for expanding the EU's ties to China, [redacted] He presented the plan as a long-term means "to steer China into the world economic and political mainstream and away from isolation."

- Brittan said the EU will encourage China to join the WTO and other international economic organizations, will begin a dialogue with Beijing on monetary policy, and will act as a facilitator for European companies trying to enter the Chinese market.
- He noted that the test of any policy should be its effectiveness, rather than its "easy popularity at home"—a comment that press reports described as an ill-disguised jab at the US. [redacted]

*EU officials will trumpet their role in encouraging China's progress toward WTO membership to contrast what they characterize as a confrontational US approach.* [redacted]

*Beijing also appears to be trying to use the prospects of stronger European ties to isolate the US on WTO and Taiwan issues. The current European visits of trade negotiator Long Yongtu and President Jiang Zemin are part of that effort.*

- After Brittan met with Long in Brussels last Thursday, Brittan's spokesman told reporters that Long pledged to offer new proposals to dismantle trade barriers during WTO talks in Geneva this week on China's membership. [redacted] that indicates China's leadership has broken its internal deadlock and is willing to make major concessions to accede to the WTO.
- Jiang is in Europe this week to discuss bilateral economic relations. He signed deals worth more than \$90 million in Finland late last week and arrived in Germany for a five-day visit yesterday. A Chinese Foreign Ministry official traveling with him publicly stated that Washington should take steps to mend bilateral relations with Beijing. [redacted]

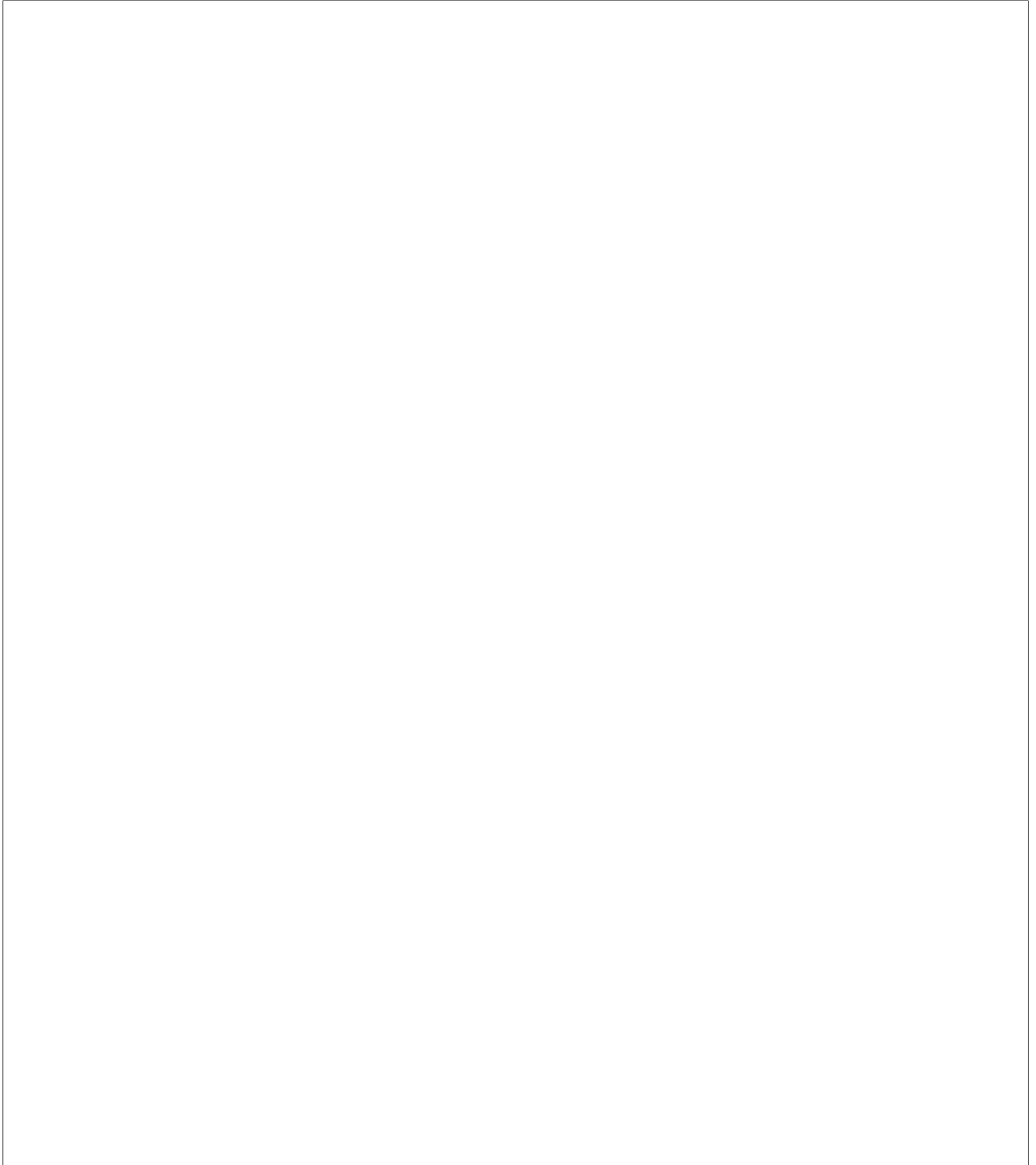
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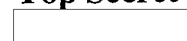
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## *Developments*



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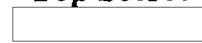
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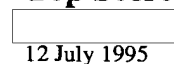
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**AMERICAS**

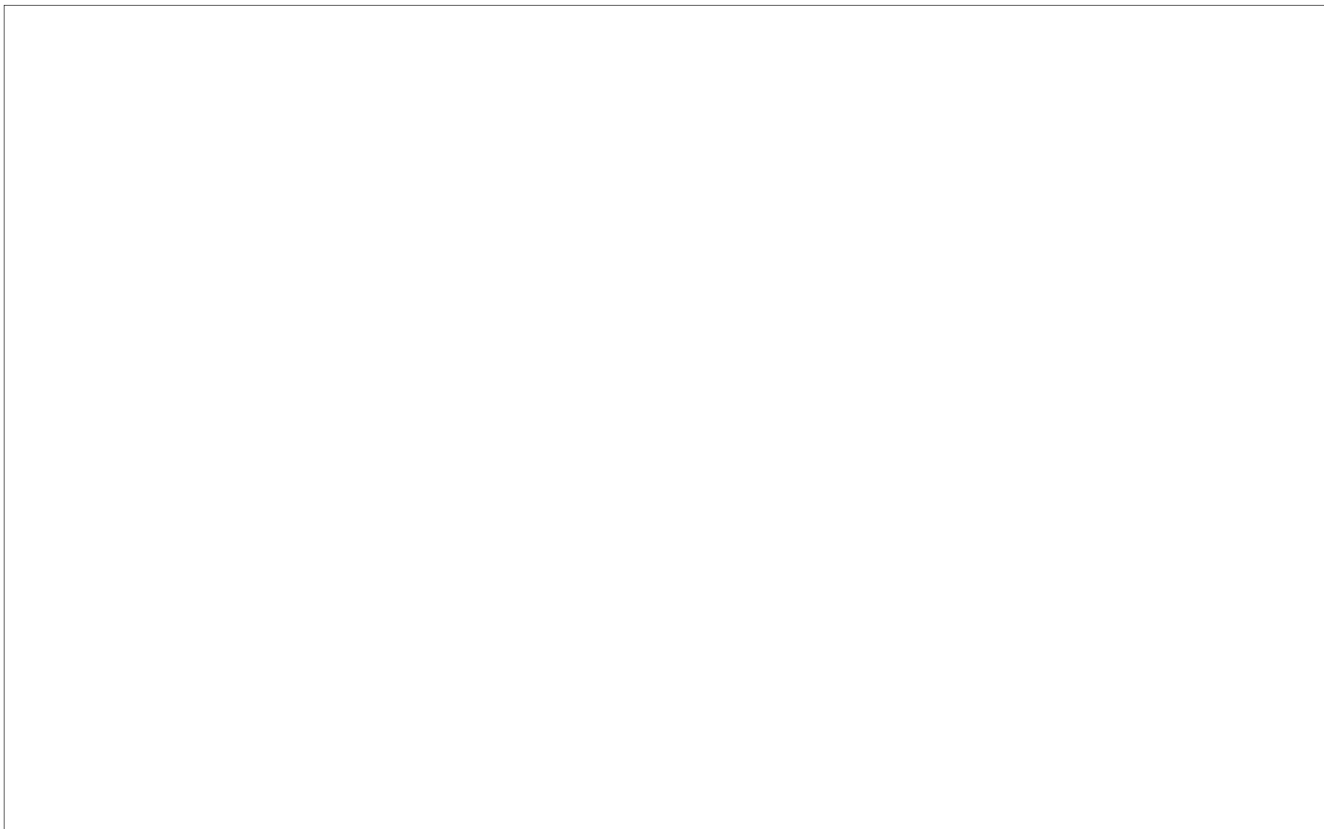
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**Argentina: Provincial Workers Set To Strike**

Public workers in Cordoba Province, many unpaid since April, have threatened strikes today and Friday to protest Governor-elect Mestre's plans to cut their salaries by 30 percent, to slash work hours by 40 percent, and to pay them with bonds. Mestre takes office today.

— Three weeks ago, such demonstrations degenerated into rioting and looting when then Governor Angeloz of the opposition Radical Civic Union announced similar plans. Angeloz resigned last Thursday, five months before his term expired, after failing to get a \$150 million loan to pay overdue wages, press reports say. [redacted]

[redacted] after meeting with Economy Minister Cavallo yesterday, Mestre agreed to reconsider his opposition to privatization of provincially owned enterprises in exchange for a \$70 million loan arranged by the federal government. [redacted]



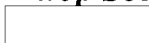
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**EAST ASIA (continued)**

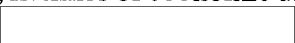
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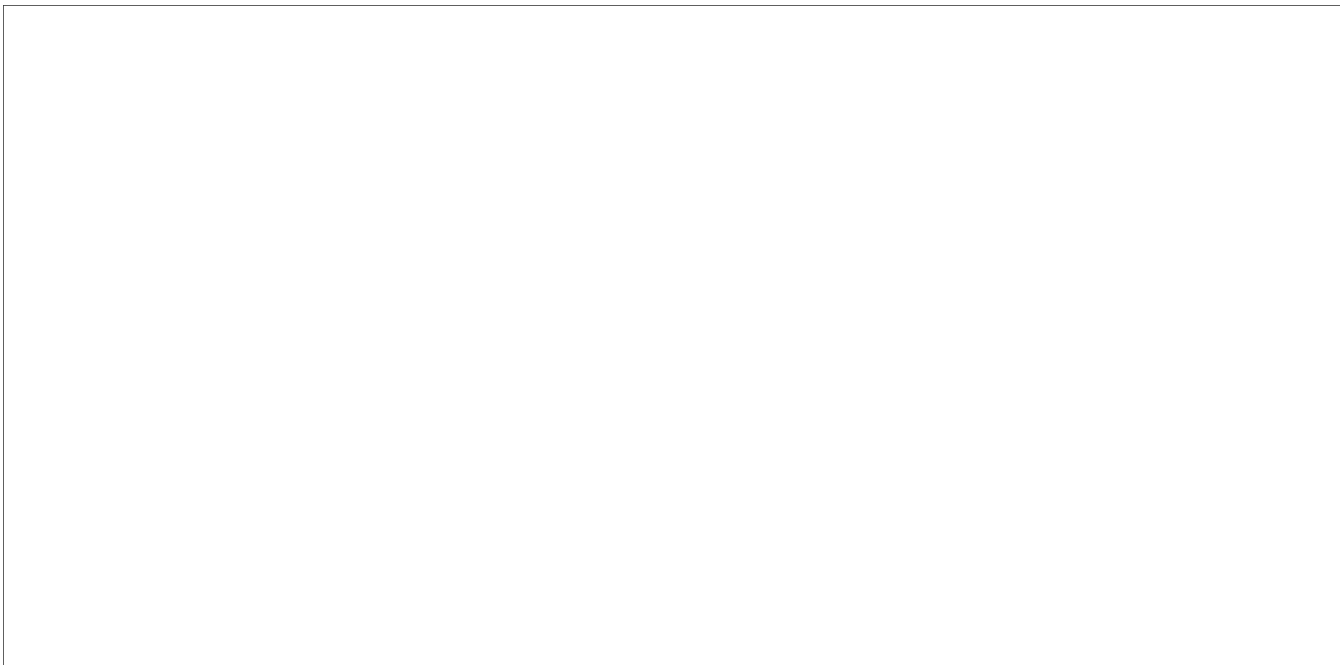
**Japan:**

**Tokyo Admits Economy at Standstill**

In a report released yesterday, the Economic Planning Agency, known for painting a rosy picture of the domestic economy and under fire as recently as last month for its positive assessment of the nation's economic situation, said that Japan's "mild economic recovery has come to a halt." It blamed flat exports, due to the strong yen and the slowing US economy, and a decline in housing investment.


— Even so, the EPA has chosen its words carefully; one official said, for example, that "the current standstill represents a pause in the ongoing recovery, and therefore it is not correct to say the economy is receding." 

The official view of the economy is now more in line with that of private economists, who since January have steadily lowered their estimates of Japanese economic growth to as low as 0.5 percent this year and 1.8 percent next year. ***The EPA statement will put additional pressure on candidates for the 23 July upper-house election to address pocketbook issues.*** Surveys already show that voters identify the economy as the nation's foremost challenge; historically, in times of economic uncertainty they have favored the political status quo. 



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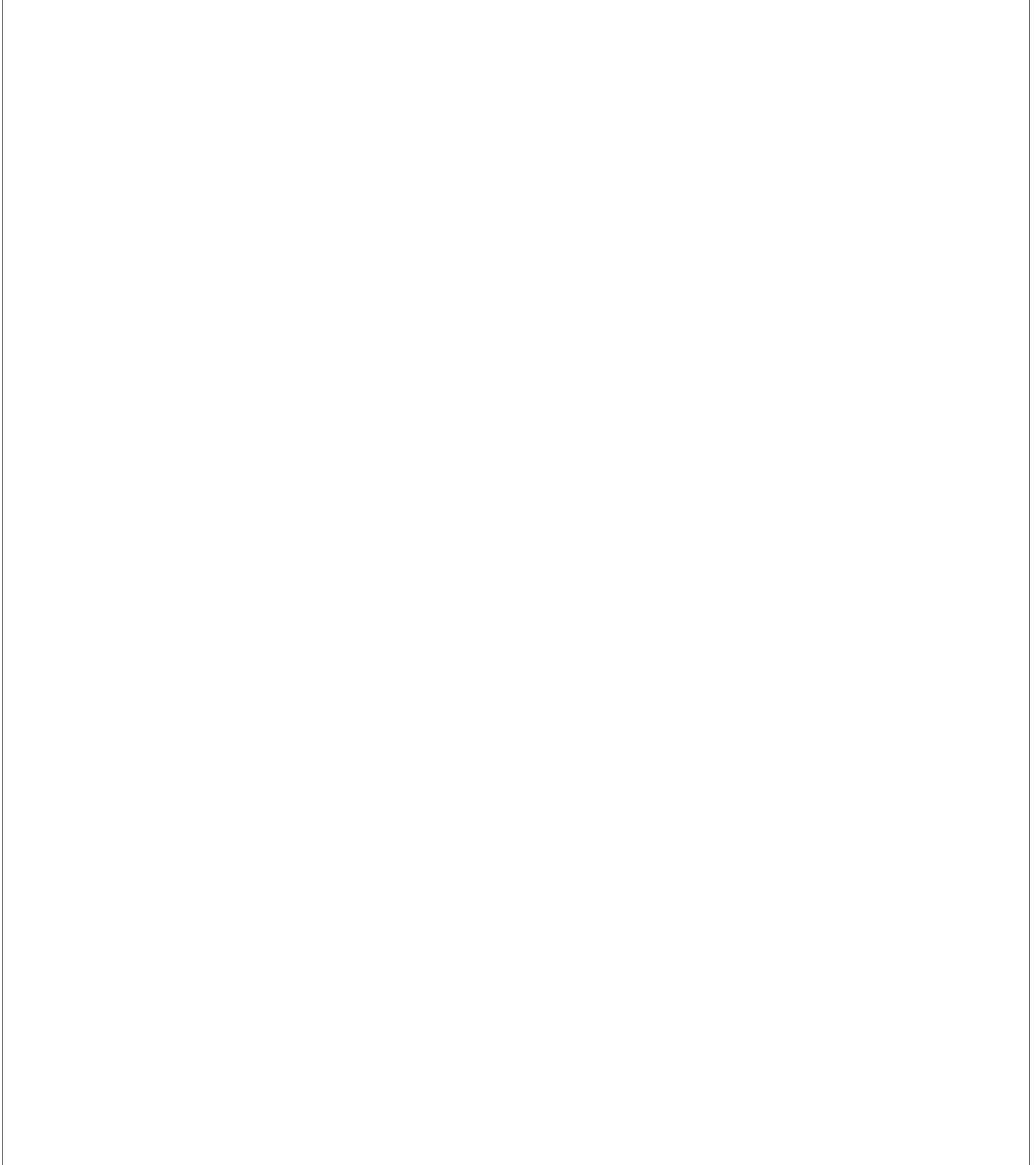
  
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## *Situation Report*



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## Current Notes

### EAST ASIA

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#### Philippines: **Economic Recovery Remains Strong**

The effects of the Mexican crisis on the Philippine economy are fading fast. The exchange rate has stabilized, the stock market is at its highest point this year, and foreign exchange reserves have also climbed to a high for the year of \$7.5 billion, about four months' worth of imports.

- First-quarter real GDP growth was 4.8 percent as the industrial sector grew by 7 percent and exports surged 30 percent.
- Proceeds from privatization of a military camp more than offset a shortfall in revenue collection and gave Manila a \$400 million budget surplus as of the end of May.

The good economic news and the success of President Ramos's coalition in legislative elections in May have bolstered investor confidence. The IMF last week acceded to Manila's request for higher monetary growth, according to press reports. In May two credit rating agencies upgraded the Philippines' debt rating, and another assigned a comparable initial rating.

- The sale of five-year fixed-rate treasury notes last month—the longest maturity offered in nearly a decade—was heavily oversubscribed.
- Press reports say foreign portfolio investment totaled \$830 million in the first quarter, up 3 percent from the previous quarter, while foreign direct investment grew 38 percent to \$630 million.

***This increased business confidence suggests the current boom will continue, although the government's failure to push through additional economic reforms and continuing concerns about a large current account deficit could renew economic jitters on short notice.*** Strong growth continues to spur capital equipment imports, resulting in a current account deficit of about 6.5 percent of GDP during the first quarter, up from 4.2 percent during the same period last year.

- A proposed tax reform program designed to broaden the tax base and reduce tax evasion is one step the government is counting on to ensure sustainable revenue flows, but previous tax legislation has run into considerable political opposition.

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## *Special Analysis*



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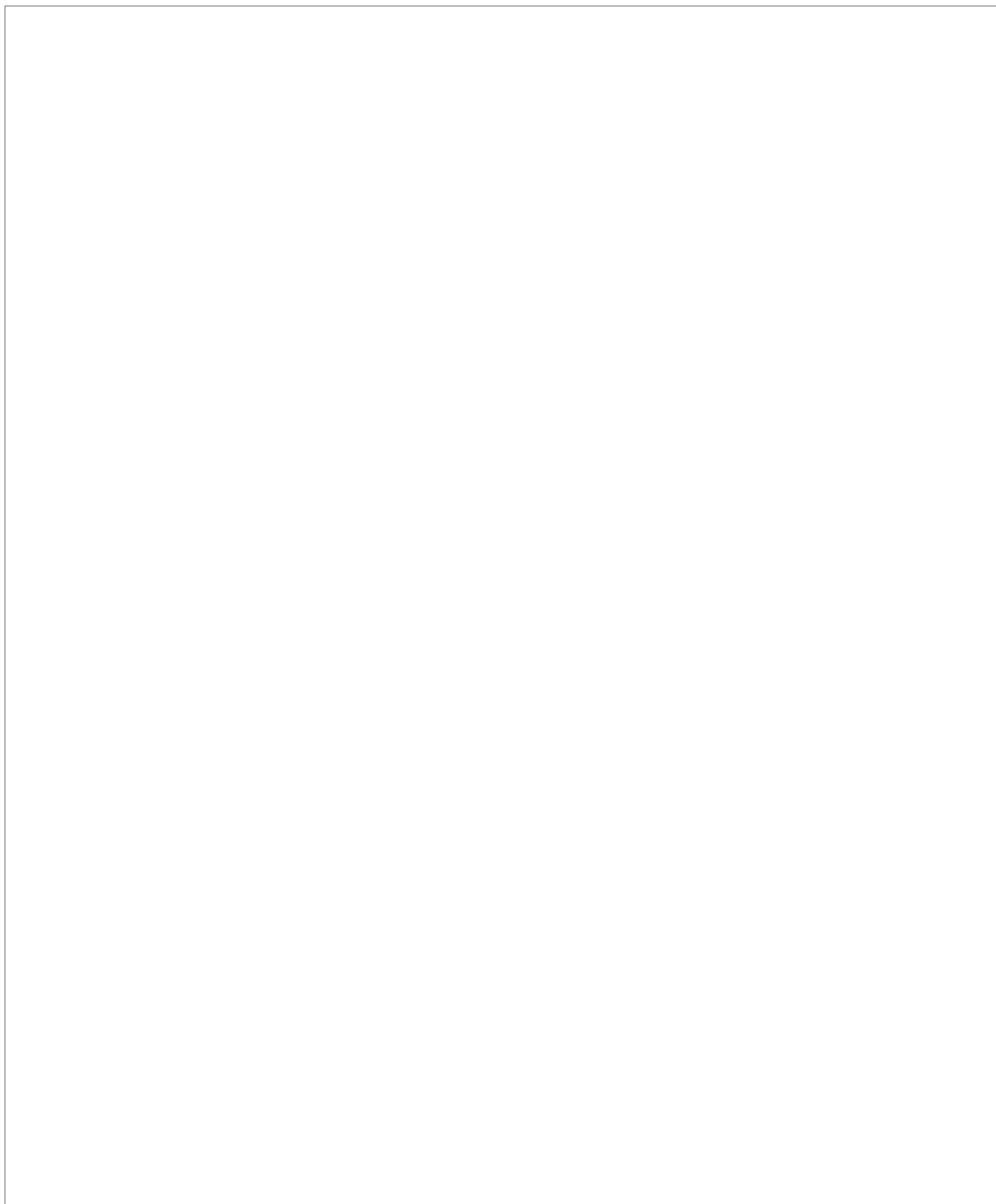
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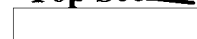


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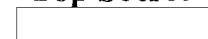


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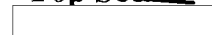
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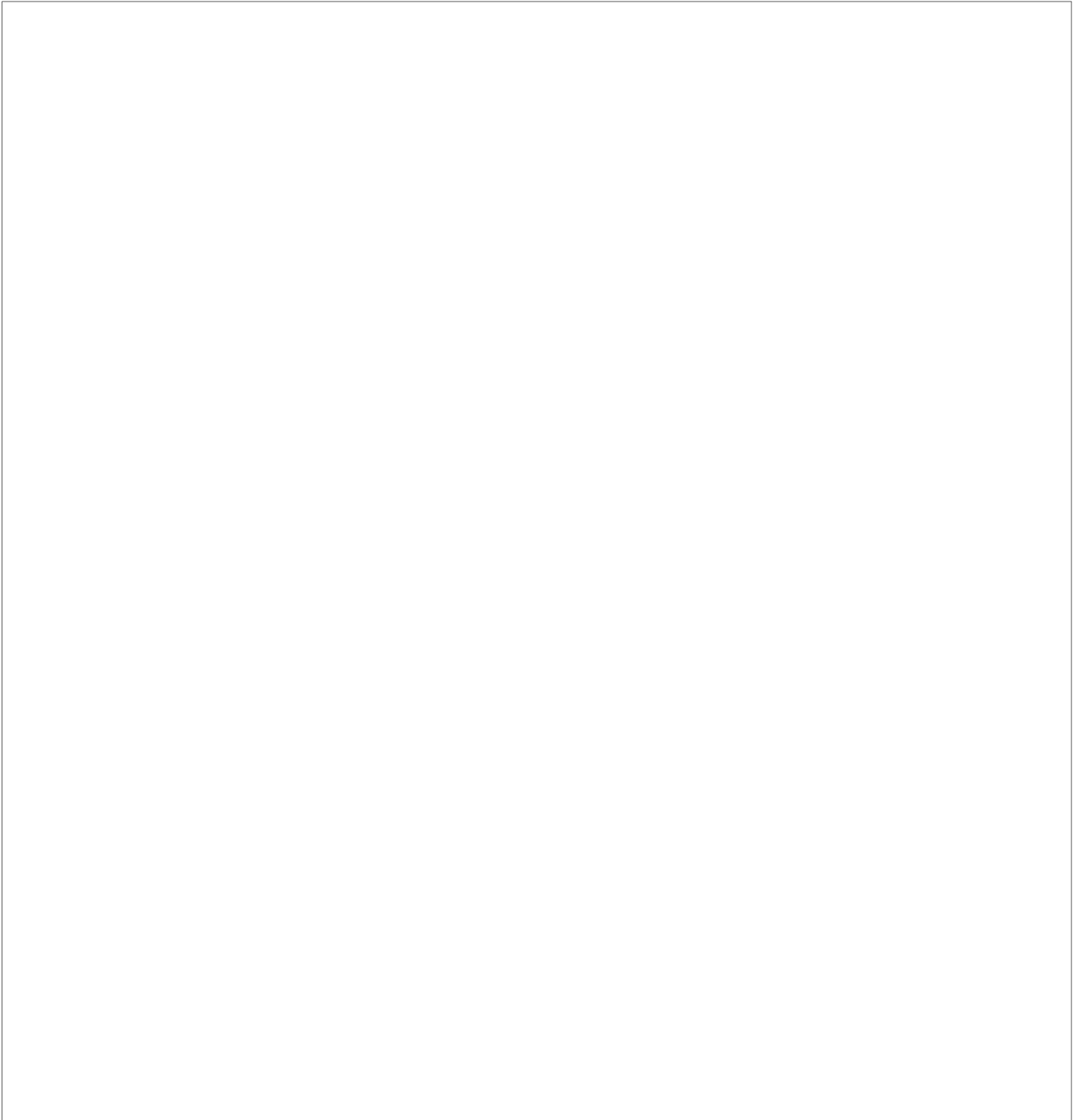
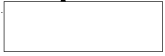
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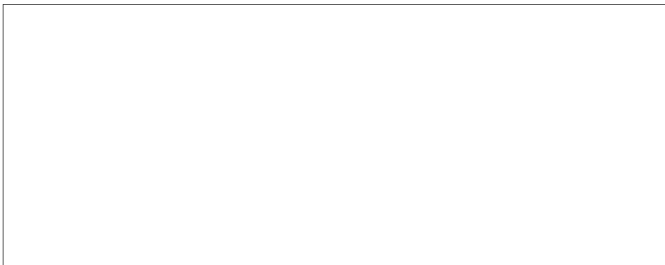
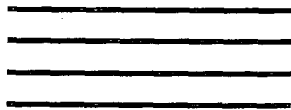
*Director of Central Intelligence*

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