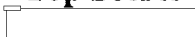


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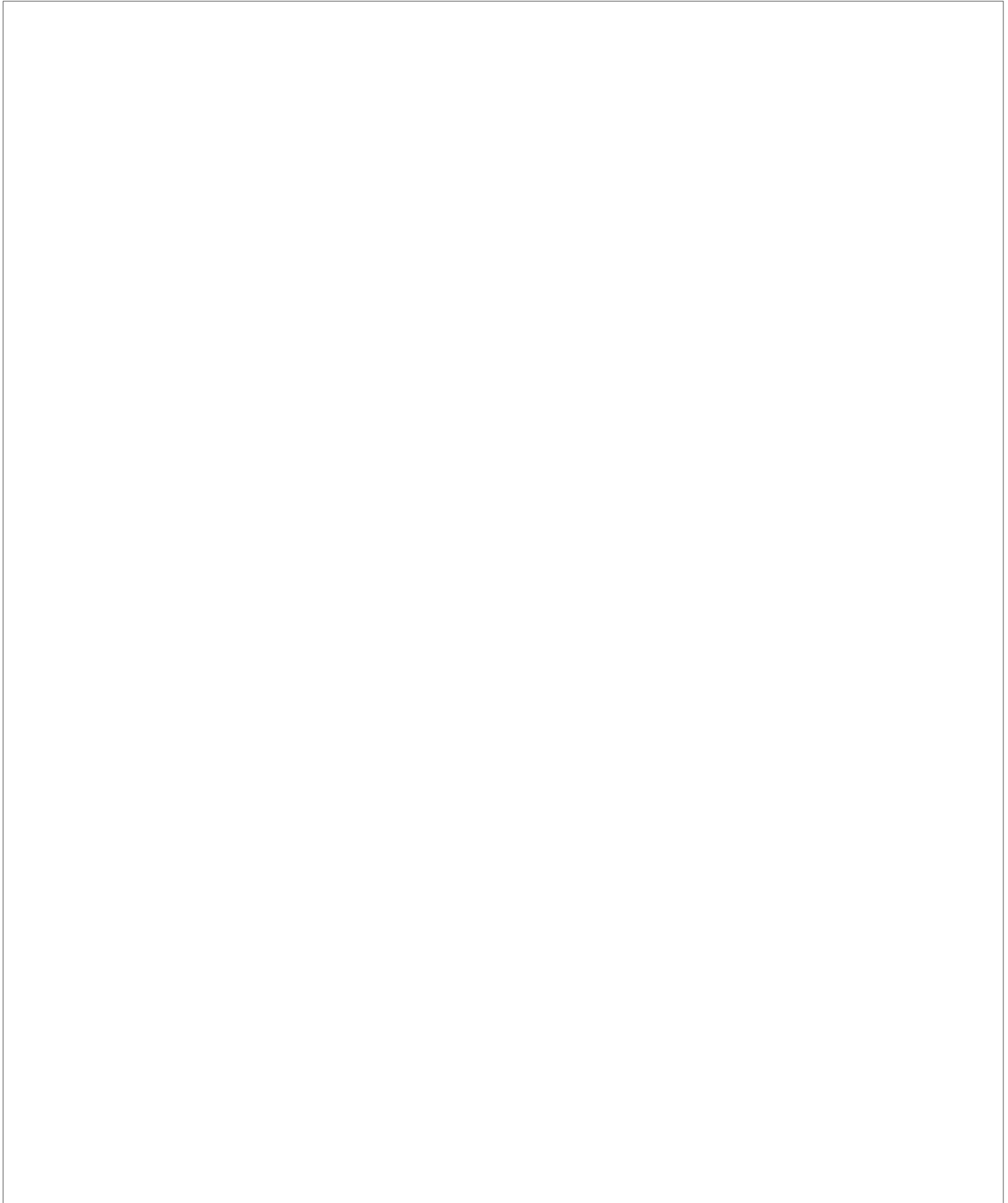
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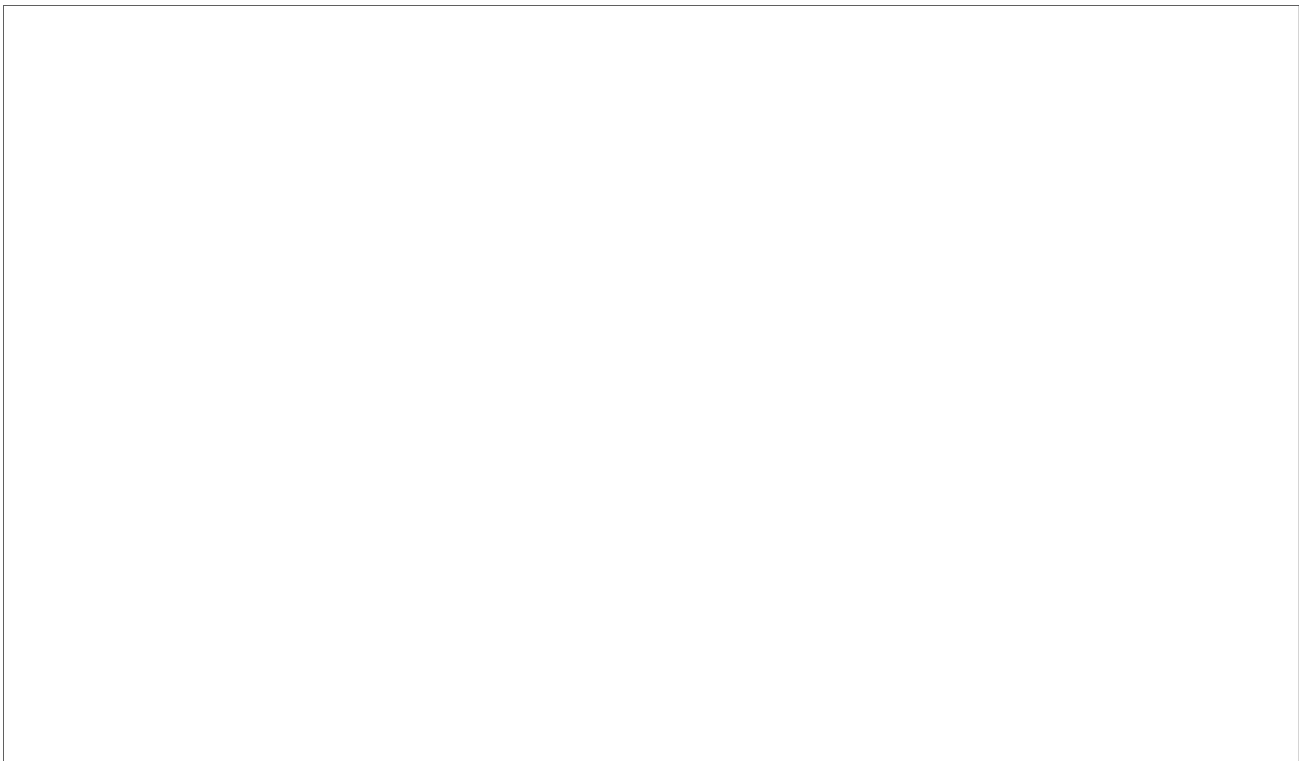
EAST ASIA (continued)

China: Jiang Boosting China's Economic Diplomacy

The trip of President Jiang Zemin to Europe last week was the first in what is likely to be a series of high-level visits to strengthen economic and political ties to US competitors in the aftermath of Taiwan President Li Teng-hui's visit to the US.

- *In contrast to the current tensions in Chinese-US relations, Beijing appears to have succeeded in playing down controversial issues in Europe and in encouraging European leaders to remain focused on trade.* German Foreign Minister Kinkel, for example, emphasized the importance of bilateral economic ties and noted that “economic cooperation . . . does not clash with our position on human rights.”
- A Chinese Foreign Ministry spokesman announced that Daimler-Benz won an agreement for a joint venture over two US competitors for economic reasons. *Nevertheless, the announcement may have been timed to show US firms the potential gains of good political relations with Beijing.* [redacted]

Possible future contacts include a visit to Canada in October by Jiang or Premier Li Peng, and Chancellor Kohl is scheduling a trip to China in November, shortly after Commerce Secretary Brown. [redacted]



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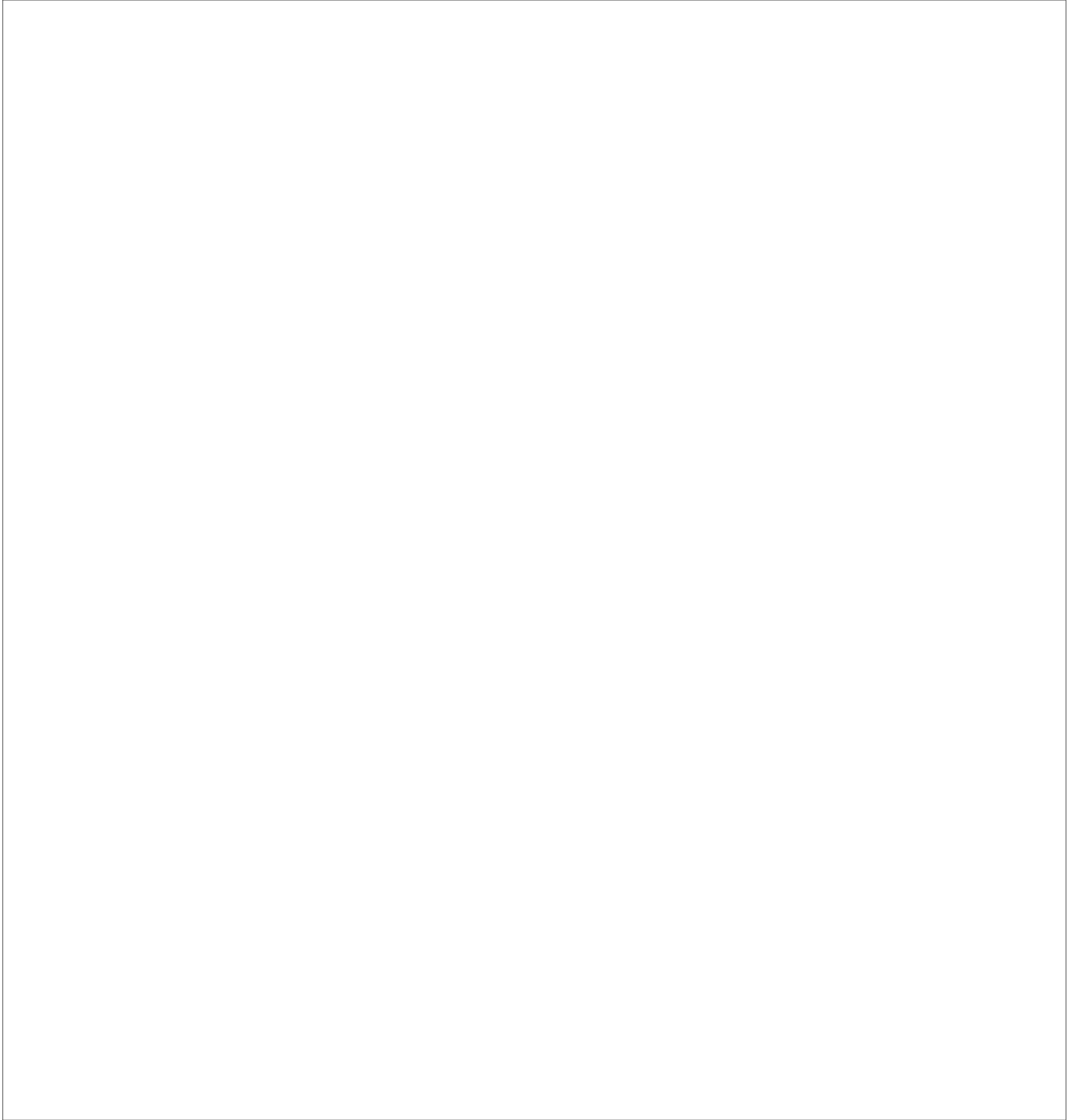
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Developments



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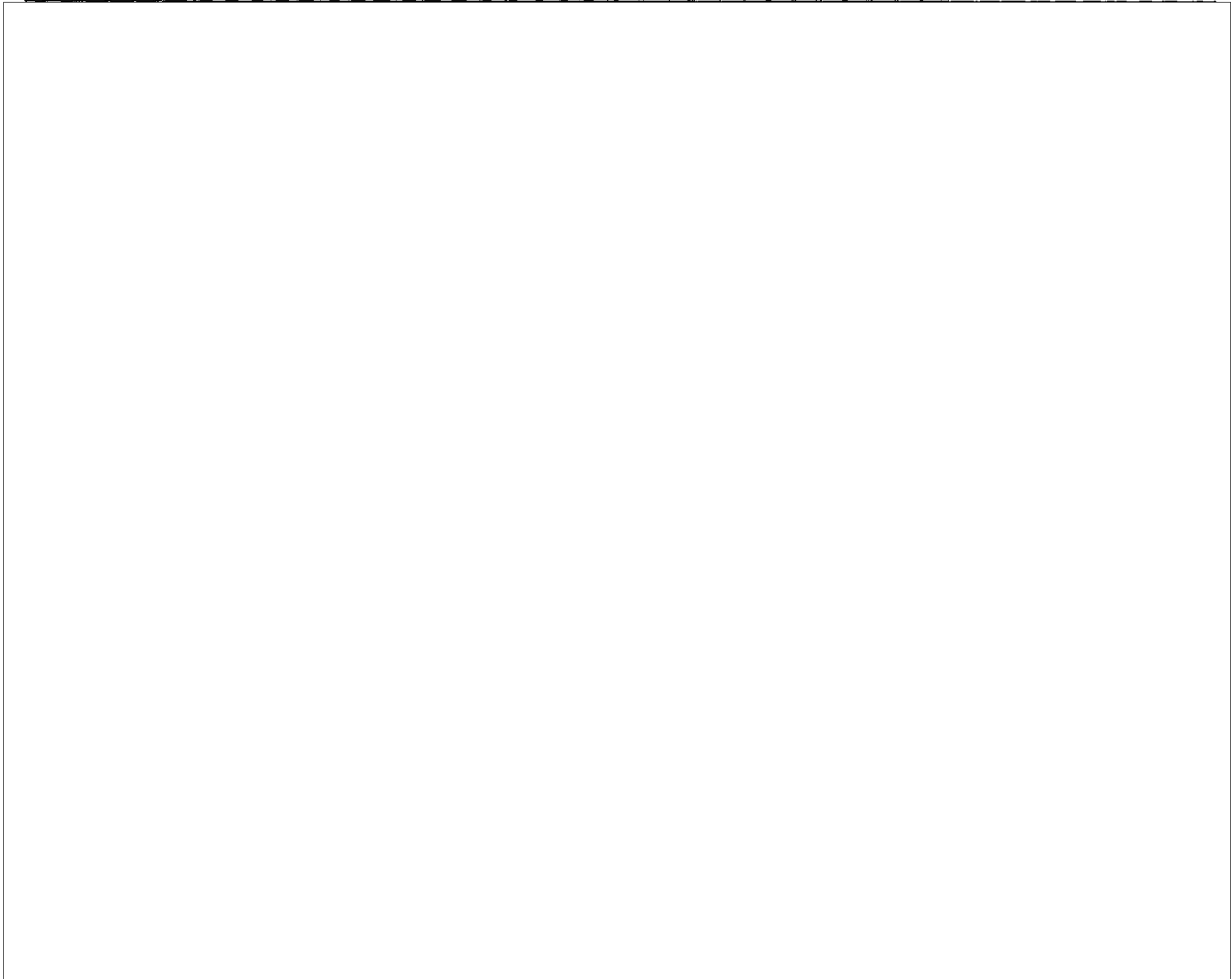


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EAST ASIA



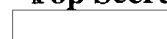
Vietnam:

Oil Production To Fall Short of Goal

The first sentence of the item in yesterday's *Daily* should have read "The operator of the Dai Hung oilfield, Broken Hill Proprietary of Australia, has revised its estimate of the field's reserves from the 800 million barrels it quoted in 1993 to 100 million barrels, according to press reports; Dai Hung now produces 30,000 barrels per day." 

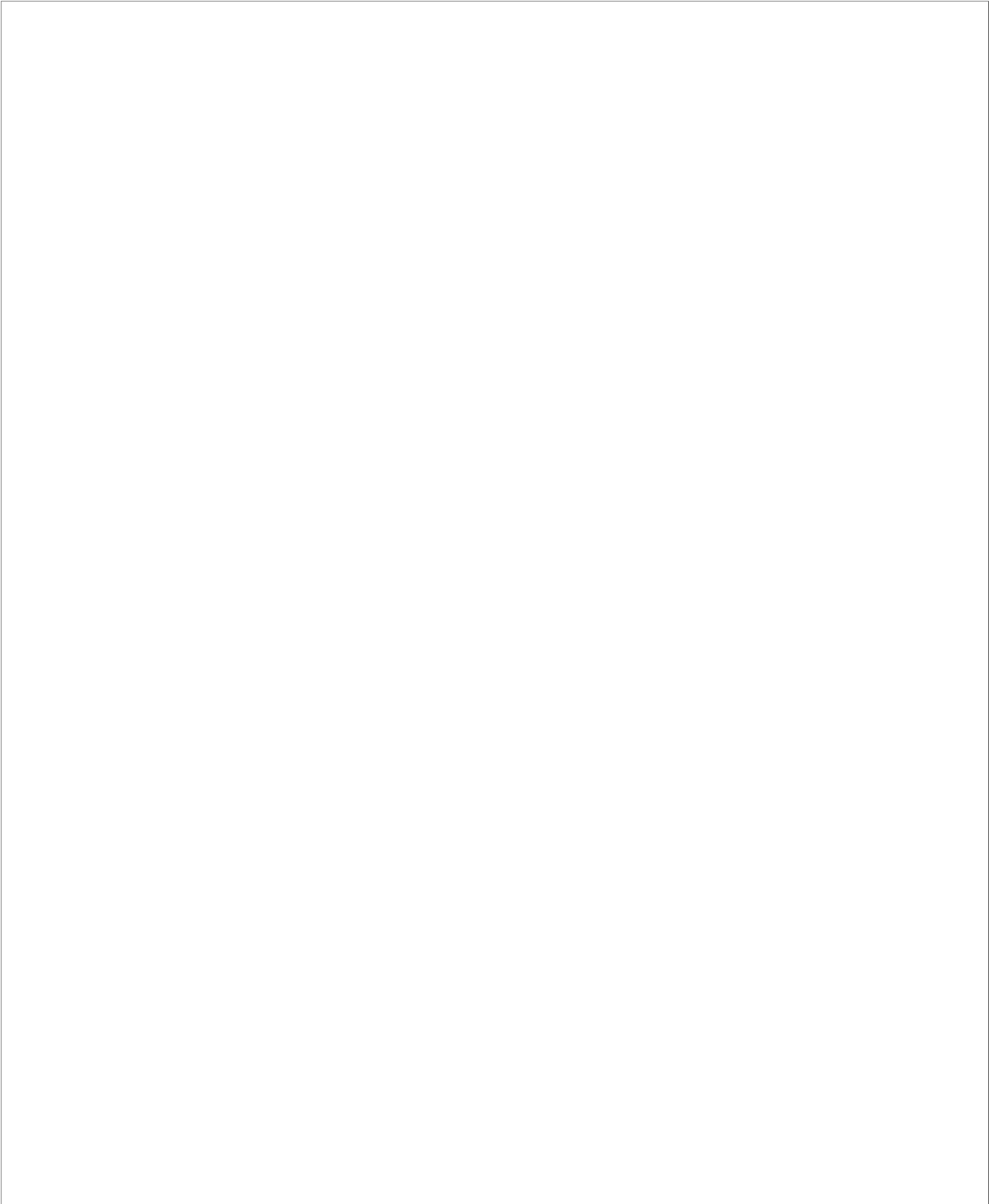
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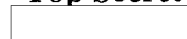
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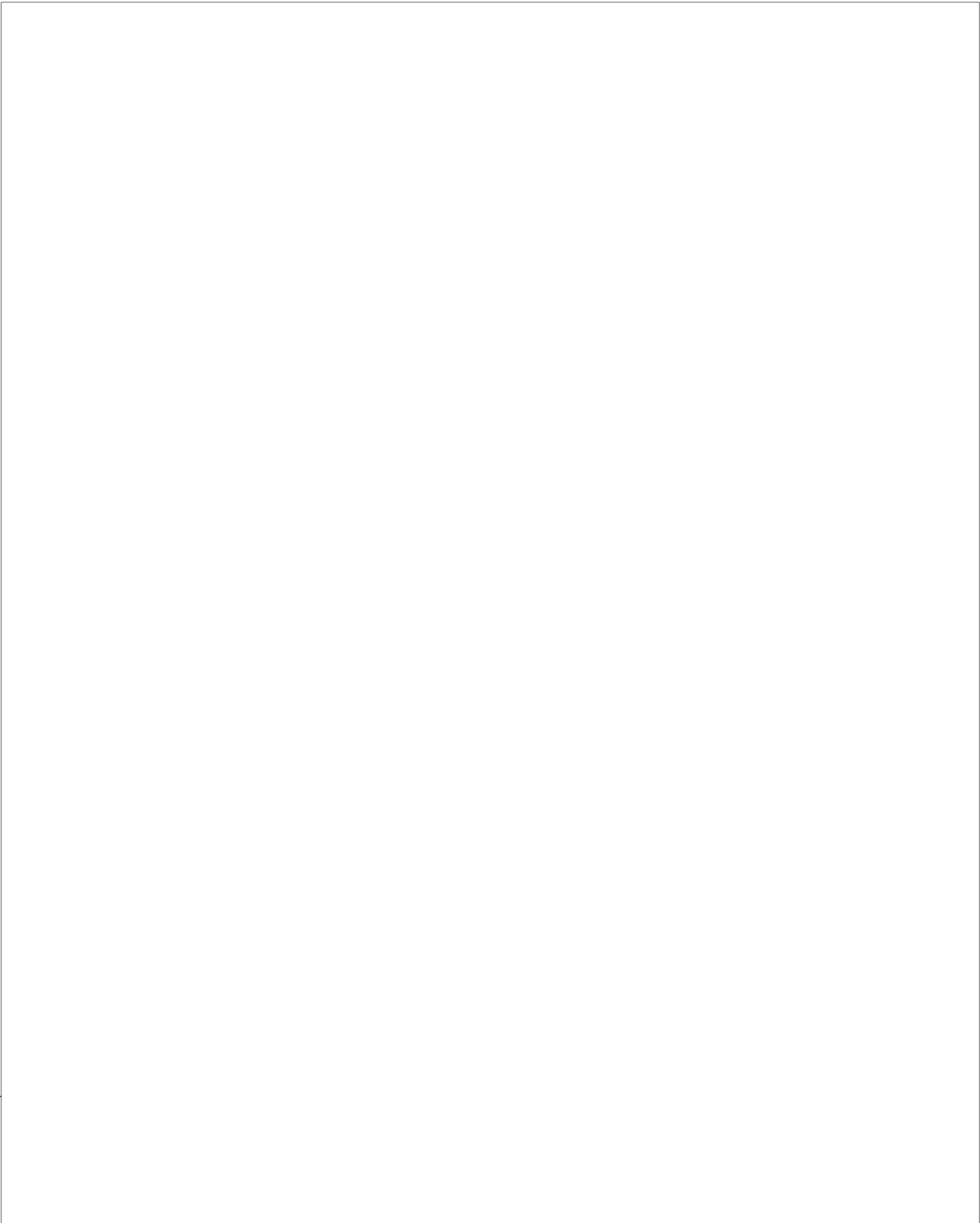
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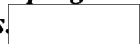
NEAR EAST

Iraq:

Saddam Threatening UN, Harassing Kurds

In a speech marking the anniversary of the 1968 Ba'th Party revolution, Saddam Husayn threatened to stop complying with UN resolutions and to end cooperation with the UN Special Commission unless the Security Council acts soon to lift sanctions.

— *Saddam's rhetoric appears crafted to keep pressure on the UN to respond to Baghdad's disclosures on its biological warfare program and is the strongest he has used in the past eight months.*



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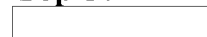
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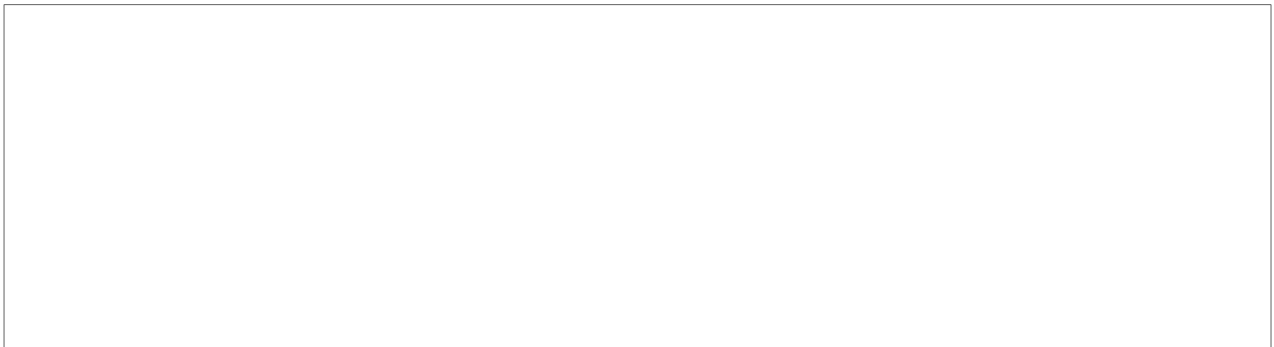
Current Notes



AFRICA

Burundi: Hutu Extremists Spreading Message

An extremist radio station operating from eastern Zaire is calling on Burundi's Hutus to resist the Tutsi-controlled military and support the Hutu insurgency. Over the weekend, it broadcast a 10-point plan calling on Hutus to elect local committees to support the insurgency, to give taxes and donations to these committees and disobey local authorities, and to withhold food from markets in Bujumbura and the provinces where the Hutus claim there are plans to massacre Hutus. 



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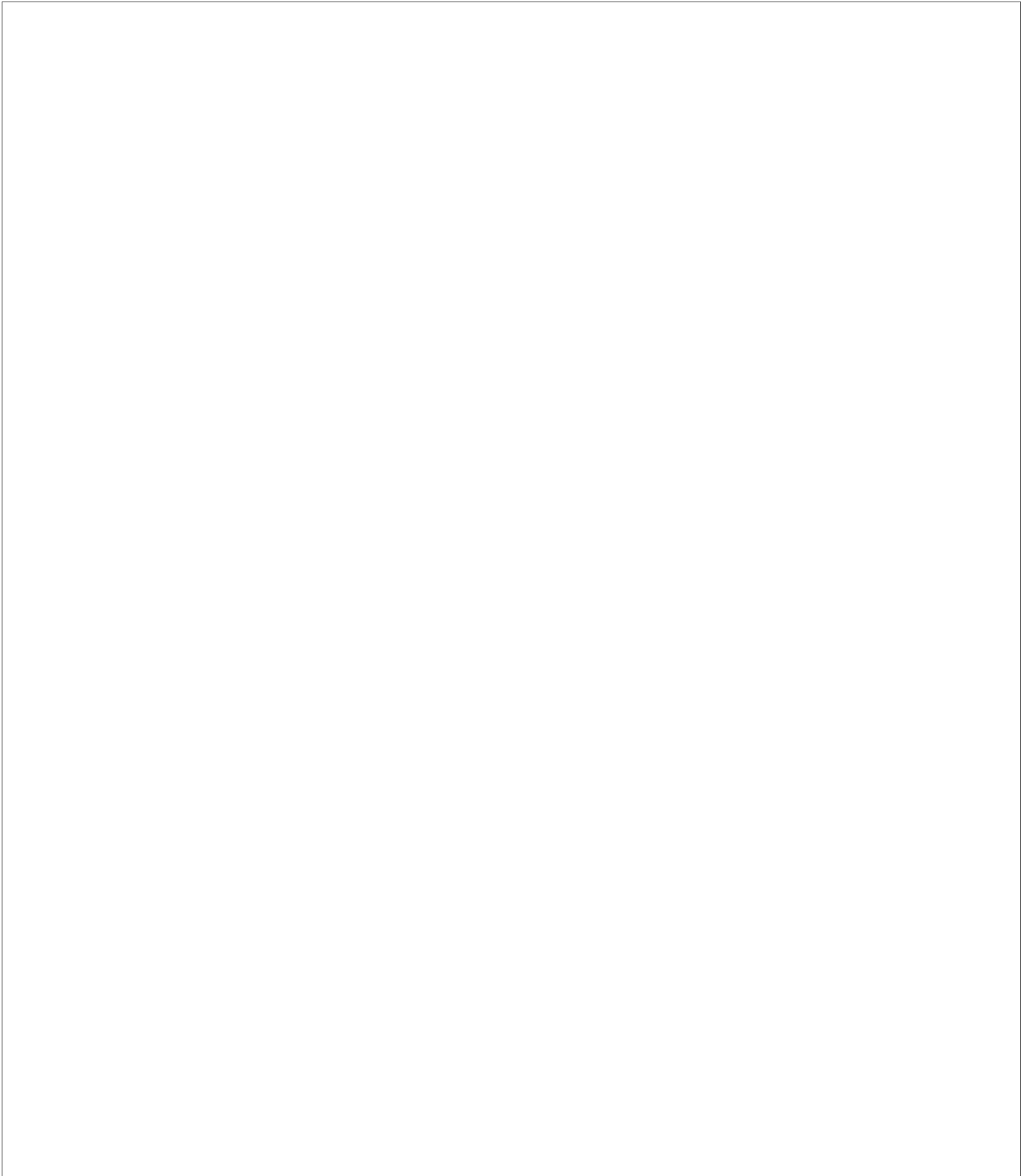


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Situation Report



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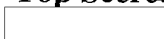
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Special Analyses

CHINA: Facing Economic Policy Dilemma

Growth and inflation rates have gradually declined in the past six months, suggesting the economy is heading toward the soft landing Chinese policymakers have been aiming for since 1993. Over the next six months, however, Chinese authorities will have to stick to their game plan of tight credit, something they have failed to do at critical points in the current round of economic expansion. []

Official measures of inflation have dropped steadily in the past seven months, and first-half GDP growth was 10 percent, slightly down from almost 12-percent growth in 1994.

— Growth of industrial output slowed to 14 percent in the first half of the year—as compared with the same period a year ago—from an 18-percent rate in 1994, according to official statistics. []

Nevertheless, there are signs that inflation could rebound later this year. Despite the central bank's vow to keep monetary policy relatively tight this year, the first-quarter money supply rose 36 percent over the same period last year, well above Beijing's goal of 23- to 25-percent growth for all of 1995. Grain prices, the major impetus of consumer price inflation last year, rose at a 41-percent annualized rate in April.

— China's National Information Center recently cited excessive wage increases as a major source of inflation; the annual urban wage in the first four months was up 27 percent on the same period in 1994, far higher than comparable gains in productivity. []

China's position in the business cycle now is similar to this time last year, but looser credit policies and steep commodity price hikes in 1994 led to a third-quarter resurgence of inflation, investment, and growth. In evident anticipation of similar developments, central officials have recently stressed the importance of maintaining efforts to slow inflation.

— At a national conference in May, Vice Premier Zhu Rongji called for tighter controls on locally initiated investments and for restrictions on wage increases. []

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Director of Central Intelligence

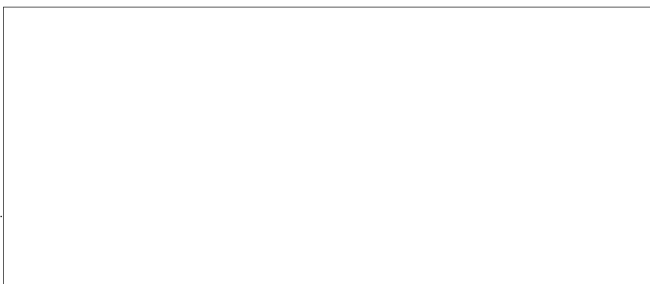
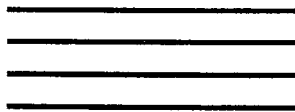


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National Intelligence Daily

Tuesday, 18 July 1995



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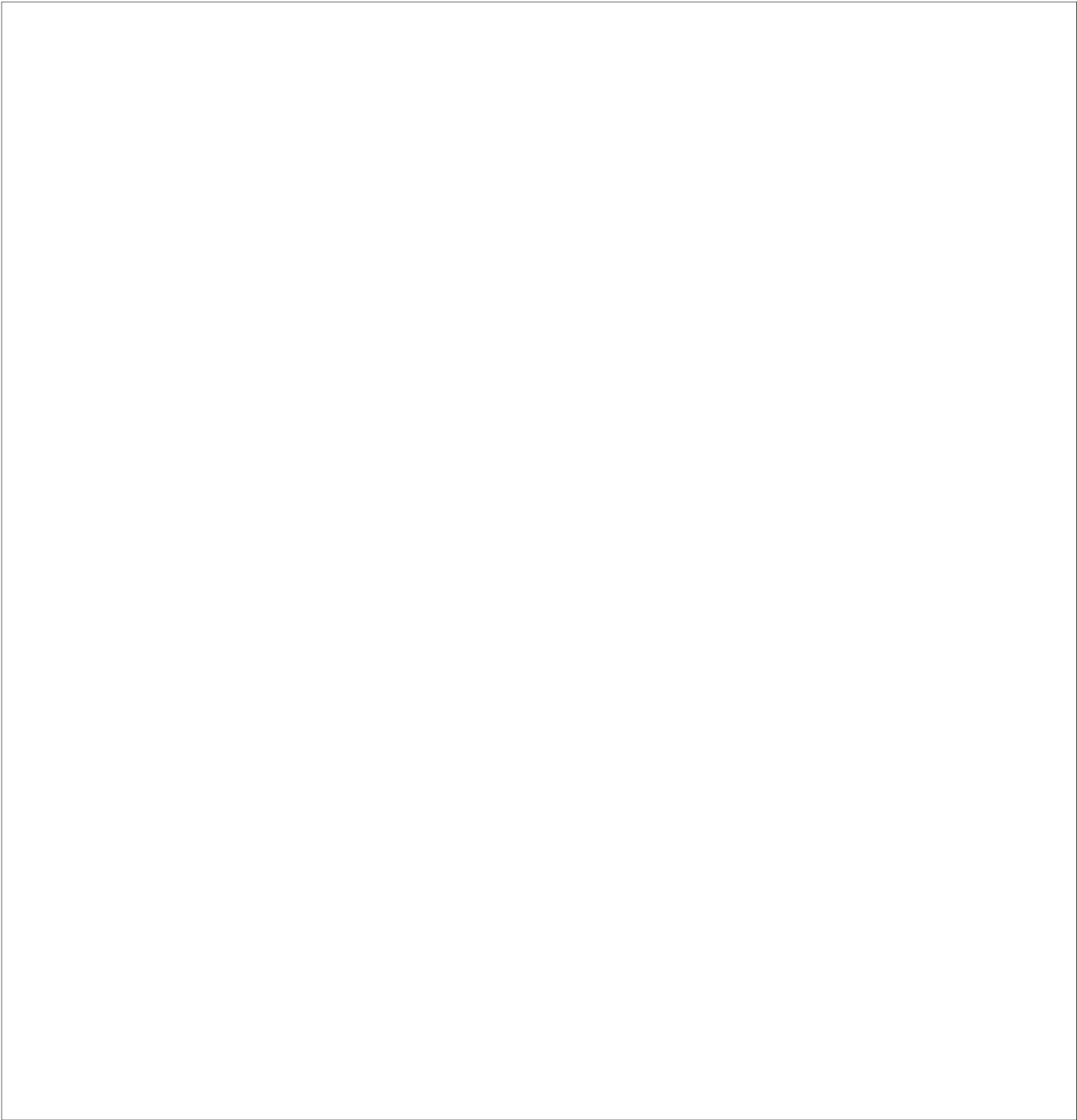


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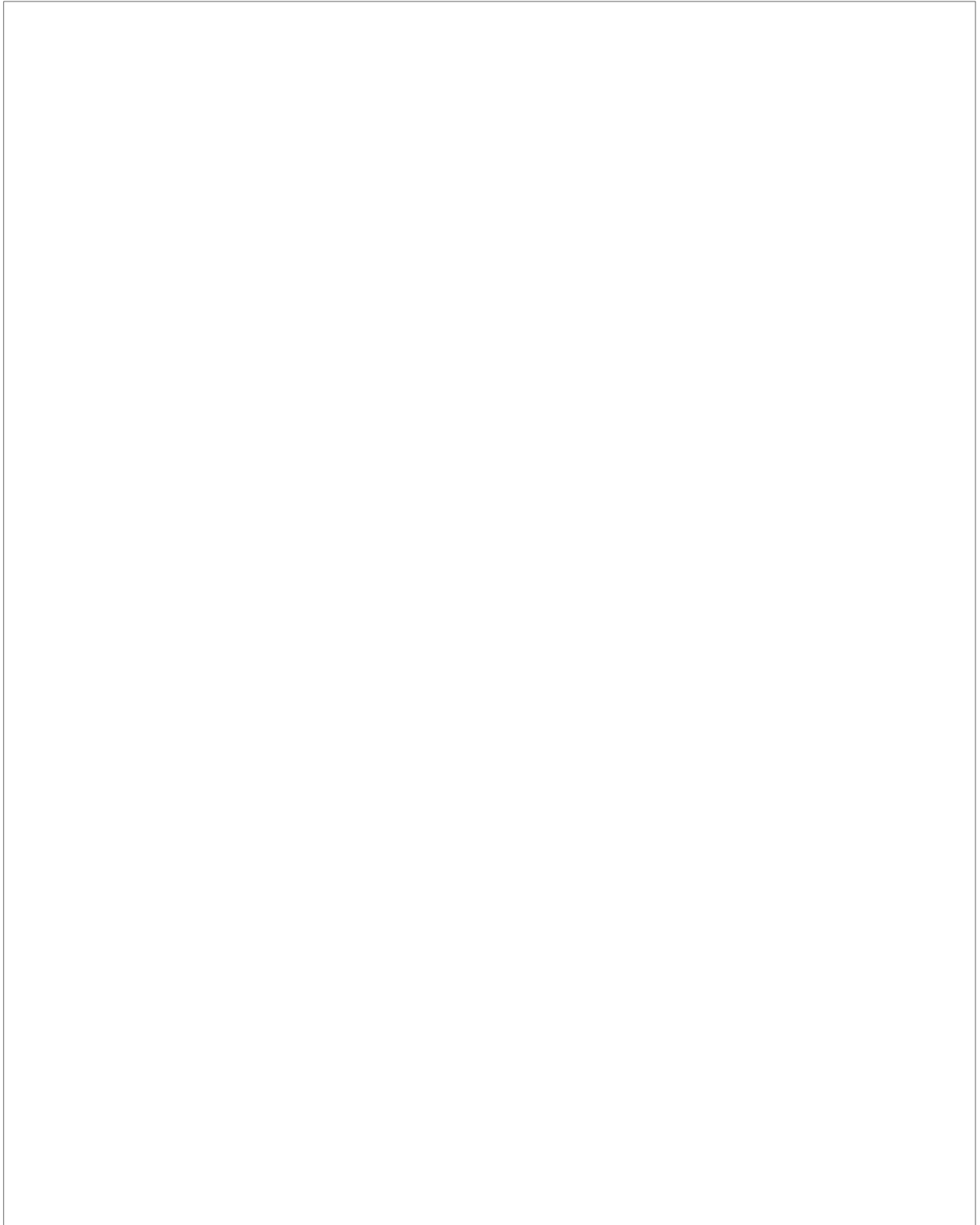
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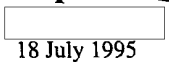
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Last year officials attributed 60 percent of inflation to food price increases, and a 40-percent grain price hike last month appeared to trigger the commodity price increases that pushed inflation up in the third quarter. Beijing has boosted grain supplies by increasing imports and curbing exports, and preliminary indications are that this year's harvest will be good. Central officials have said they will not repeat last year's price hikes. [redacted]

If Industrial Output Continues To Slow

Despite rapid monetary growth, many state enterprises and nonstate firms are running into cash-flow problems, and Beijing is likely to face pressure to loosen credit.

- By the end of April, industrial enterprises' defaults on debts had risen 10 percent from the beginning of the year, and the fraction of state enterprises losing money rose 4 percentage points from the end of 1994 to 47 percent at the end of the first quarter, according to official statistics.
- [redacted] labor tension because of factory closings and the slashing of worker subsidies has been rising.
- A prominent government economist argued in March that, given the lagged effects of macroeconomic policy, the government should take measures to stimulate the economy now, [redacted]
[redacted]

If Beijing can resist these and other pressures to loosen economic policy, inflation should continue to decline this year. The cost of maintaining tight credit conditions, however, will be slower growth, particularly in the nonstate sector, where expansion has already slowed substantially. Sluggish growth will also make it more difficult to hold unemployment to politically acceptable levels. [redacted]

Nevertheless, a period of slow growth now could facilitate progress on enterprise reform down the road. Beijing is more likely to push ahead with substantive reforms involving widespread layoffs of state workers during a period of low inflation and accelerating growth, such as in early 1992.

- Maintaining tight credit conditions this year could bring the economy to a similar point within 18 months, by which time Beijing should have made further progress on constructing a social safety net, establishing a legal infrastructure, and reforming the financial sector. [redacted]

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