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APPROVED FOR
RELEASE DATE:
30-Nov-2009

30 December 1997

China's Domestic Economy and Trade

China has been the world's fastest growing major economy during the last 10 years, averaging almost 10-percent annual GDP growth. During the 1990s, growth has been even faster, as an investment-led boom not only pushed growth over 13 percent in 1992 and 1993 but also fueled sharp increases in inflation. Beijing adopted a moderate austerity program in mid-1993 that gradually slowed growth and helped sharply reduce inflation in 1995 and 1996:

- According to Chinese statistics, real GDP grew 9.7 percent in 1996—down from 10.2 percent in 1995 and 11.8 percent in 1994. Preliminary data indicate that growth dropped to 8.8 percent this year.
- Beijing's commitment to "relatively tight" monetary policies have helped keep this year's rise in retail prices down to 0.8 percent, according to official Chinese press. [redacted]

In addition to holding the line on monetary policy, senior leaders have stressed that state enterprise reform will require more layoffs, bankruptcies, and restructuring:

- The economic slowdown has raised pressures for looser credit. [redacted] nearly one-half of China's state industrial enterprises were in the red at the end of September. [redacted]

Trade performance weakened in 1996, in part because the Chinese yuan appreciated against other major currencies, but rebounded in 1997. According to official projections, China will register a trade surplus of \$40 billion this year:

- Lower than expected GDP growth has slowed import demand and contributed to this booming trade surplus; moreover, government efforts to speed payments of export tax rebates—which were frequently delayed early last year—have also boosted export growth.

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- Combined with foreign direct investment of \$62 billion, this surplus pushed foreign exchange reserves up by more than \$30 billion to \$140 billion at the end of 1997—second only to Japan. [REDACTED]

China's trade surplus with the United States rose 23 percent in the first ten months of this year to more than \$41 billion, according to official US trade statistics. Chinese imports from the United States grew by almost 13 percent during the same period, as compared to a 21-percent increase in Chinese exports to the United States:

- Much of this year's slow growth in Chinese imports from the United States was because of a decline in overall Chinese cereal purchases on the heels of two successive record grain harvests.
- Foreign-invested enterprises were probably the main force behind the increase of US imports from China; these were driven by steady growth in US purchases of Chinese medium-technology goods. [REDACTED]

China's WTO accession efforts have been slowed because of pressure by the US and other WTO members for greater market access for their goods and services through tariff reductions and the elimination of nontariff barriers. Press reports show that Chinese officials unveiled a "comprehensive" services liberalization offer on 5 December during the WTO multilateral working party meeting in Geneva. The offer included commitments in the banking, insurance, and distribution sectors but failed to include anything on basic telecommunications. [REDACTED]

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