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CONTROLS

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/***** THIS IS A COMBINED MESSAGE *****/

BODY

PASS:

(b)(3):10 USC 424;(b)(3):50 USC 3024(i);(b)(6)

COUNTRY: CHINA (CH) .

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WARNING: THIS IS AN INFORMATION REPORT, NOT
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TEXT: THIS REPORT IS A CONTINUATION OF

(b)(3):10 USC 424

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THE INTERNAL SECURITY APPARATUS

THE INTERNAL SECURITY APPARATUS SPEARHEADS THE FIGHT
AGAINST RISING CRIME AND SOCIAL DISORDER. WITH HUGE
NUMBERS OF POLICE OFFICERS, STATE SECURITY AGENTS AND
PARAMILITARY TROOPS, IT WIELDS ENORMOUS FIREPOWER AND
HAS SHOWN THAT IT IS PREPARED TO USE THIS FORCE TO

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SMASH UNREST.

BEIJING HAS BEEN STRENGTHENING THE SECURITY SERVICES EXTENSIVELY TO MEET AN INCREASING WORKLOAD. HUNDREDS OF THOUSANDS OF NEW RECRUITS HAVE BEEN DRAFTED IN RECENT YEARS. MOST OF THEM HAVE BEEN POSTED IN MAJOR CITIES WHERE THE AUTHORITIES ARE MOST CONCERNED ABOUT SOCIAL UNREST. THE SECURITY PRESENCE IN RURAL AREAS IS MUCH WEAKER, CONTRIBUTING TO A RAPID ESCALATION IN CRIME IN MANY PARTS OF THE COUNTRYSIDE.

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THE AUTHORITIES LEARNED FROM THE 1989 PROTESTS THAT IT IS NECESSARY TO CRUSH DISTURBANCES AS QUICKLY AS POSSIBLE. AS A RESULT, THEY HAVE SET UP HEAVILY ARMED ANTI-RIOT RAPID REACTION FORCES IN MANY LARGE AND MEDIUM-SIZED CITIES. BEIJING HAS ALSO EXPANDED SURVEILLANCE CAPABILITIES TO WATCH OVER DISSIDENTS, FOREIGNERS AND OTHER "HOSTILE" ELEMENTS. NEW LAWS GIVE THE SECURITY SERVICES SWEEPING POWERS OF ARREST, IMPRISONMENT AND THE RIGHT TO USE FORCE.

BUT THE INTERNAL SECURITY APPARATUS ALSO FACES MANY PROBLEMS, INCLUDING INSTITUTIONAL RIVALRIES, INADEQUATE COORDINATION AMONG AGENCIES, AND LOW PROFESSIONAL STANDARDS. THIS HAS RESULTED IN DELAYS IN TACKLING UNREST, AS WELL AS SERIOUS DISCIPLINARY PROBLEMS IN THE RANKS, INCLUDING CORRUPTION, SMUGGLING, AND COOPERATION BETWEEN SECURITY PERSONNEL AND CRIMINAL GANGS. THE AUTHORITIES HAVE ESTABLISHED A TOP-LEVEL LEADERSHIP GROUP TO IMPROVE COORDINATION AMONG SECURITY, LAW ENFORCEMENT AND GOVERNMENT AGENCIES.

THE BUILDUP OF THE INTERNAL SECURITY FORCES' CAPABILITIES MAKE UNLIKELY A REOCCURRENCE OF UNREST ON THE SCALE OF THE 1989 PROTESTS. THE SECURITY SERVICES WOULD BE WELL-PREPARED TO STAMP OUT ANY UNREST IN THE CITIES BEFORE THEY WERE TO GET OUT OF HAND.

ETHNIC UNREST

OUTBREAKS OF ETHNIC DISTURBANCES AND TERRORIST ATTACKS BY SEPARATIST GROUPS OCCUR REGULARLY IN OUTLYING MINORITY AREAS LIKE XINJIANG, QINGHAI AND TIBET. ALTHOUGH THESE INCIDENTS TEND TO BE ISOLATED AND SMALL IN SCALE, SOME TURN INTO SERIOUS RIOTS. THE MOST

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RECENT UNREST TOOK PLACE IN JULY WHEN AN ARMED INSURRECTION BY MUSLIM AND KIRGHIZ GUERRILLAS BROKE OUT IN HOTAN CITY IN XINJIANG. THE LOCAL AUTHORITIES WERE FORCED TO CALL IN MILITARY UNITS TO BREAK-UP THE REBELLION.

STILL, WORRIES THAT THE COLLAPSE OF THE FORMER SOVIET UNION AND DISORDER IN ITS FORMER CENTRAL ASIAN REPUBLICS WOULD SPARK UNREST IN NEARBY XINJIANG AND INNER MONGOLIA HAVE PROVEN UNFOUNDED. THERE HAS BEEN NO NOTICEABLE INCREASE IN THE CASES OF UNREST CAUSED BY MINORITIES OVER THE PAST FEW YEARS. HOWEVER, BEIJING CONTINUES TO MAINTAIN A HEAVY SECURITY PRESENCE IN THESE AREAS.

THE MAIN SOURCE OF UNREST ARISES FROM RELIGIOUS MOVEMENTS, ESPECIALLY THOSE WITH FOREIGN CONNECTIONS. MUSLIM SEPARATIST GROUPS IN XINJIANG ARE SAID TO RECEIVE SUPPORT FROM RELIGIOUS ORGANIZATIONS IN TURKEY AND OTHER ISLAMIC COUNTRIES. IN TIBET, THE BACKBONE OF ORGANIZED RESISTANCE TO CHINESE RULE IS THE BUDDHIST CLERGY, WITH STRONG SUPPORT FROM THE DALAI LAMA, WHO LIVES IN EXILE IN INDIA. IN A MOVE TO TIGHTEN ITS CONTROL OVER THE TIBETAN LAMA MOVEMENT, BEIJING APPOINTED ITS OWN BOY PANCHEN LAMA, THE SECOND HIGHEST RANKING LAMA, IN NOVEMBER AFTER REJECTING THE DALAI LAMA'S CANDIDATE.

POLITICAL AND RELIGIOUS DISSENT

THE AUTHORITIES HAVE BEEN AGGRESSIVELY CRACKING DOWN ON DISSIDENT POLITICAL AND RELIGIOUS GROUPS AND INDIVIDUALS IN RECENT MONTHS. MANY OF THE COUNTRY'S MOST ACTIVE POLITICAL DISSIDENTS HAVE BEEN JAILED OR EXILED ABROAD, INCLUDING WEI JINGSHENG, WHO WAS RECENTLY SENTENCED TO 14 YEARS IN PRISON.

THIS REPRESSION CAME IN RESPONSE TO EFFORTS BY DISSIDENTS IN THE PAST FEW YEARS TO BECOME MORE ACTIVE AND ORGANIZED. THEY FORMED POLITICAL ASSOCIATIONS, WROTE LETTERS AND PETITIONS TO THE NATIONAL PEOPLE'S CONGRESS, AND MET WITH FOREIGN JOURNALISTS AND OFFICIALS TO PUBLICIZE THEIR VIEWS. THE AUTHORITIES HAVE NOT TOLERATED THESE ACTIVITIES, ALTHOUGH THE DISSIDENTS HAVE BEEN CAREFUL NOT TO BREAK THE LAW.

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BEIJING HAS ALSO TARGETED UNDERGROUND CHURCH GROUPS AND UNOFFICIAL LABOR ASSOCIATIONS. LABOR ACTIVISTS HAVE ESPECIALLY RECEIVED TOUGH TREATMENT BECAUSE THE LEADERSHIP IS WORRIED THAT LAY-OFFS BY LOSS-MAKING STATE-OWNED ENTERPRISES AROUND THE COUNTRY COULD SPARK LABOR UNREST.

ALTHOUGH THE DISSIDENT COMMUNITY IS SMALL, FRAGMENTED AND HAS FEW WAYS TO PUBLICIZE THEIR CAUSES WITHIN CHINA, THE LEADERSHIP IS NERVOUS ABOUT ITS POTENTIAL TO STIR SOCIAL UNREST, ESPECIALLY AS PUBLIC DISCONTENT GROWS OVER CORRUPTION, INFLATION, UNEMPLOYMENT AND WIDENING INCOME GAPS. DISSIDENTS PLAYED A KEY ROLE IN ORGANIZING THE 1989 PRODEMOCRACY PROTESTS.

DISSIDENTS WHO HAVE NOT BEEN DETAINED OR IMPRISONED ARE SUBJECT TO INTENSIVE SURVEILLANCE BY THE SECURITY SERVICES TO PREVENT THEM FROM BECOMING ACTIVE. BEIJING'S TOUGH CRACKDOWN AGAINST POLITICAL DISSENT IS LIKELY TO CONTINUE IN THE FORESEEABLE FUTURE, AND OTHER PROMINENT DISSIDENTS LIKE WANG DAN WHO HAVE BEEN DETAINED BY THE AUTHORITIES ARE EXPECTED TO RECEIVE HEAVY PRISON TERMS.

CORRUPTION

CORRUPTION HAS BECOME RAMPANT IN CHINA, ESPECIALLY WITHIN OFFICIAL CIRCLES. UNLESS ITS SPREAD IS CHECKED WITHIN THE NEXT FEW YEARS, TOP LEADERS CANDIDLY ADMIT IT COULD SERIOUSLY UNDERMINE ECONOMIC DEVELOPMENT AND THREATEN THE PARTY'S HOLD ON POWER.

BEIJING PERIODICALLY LAUNCHES ANTI-GRAFT CAMPAIGNS AND HAS ROUNDED UP GROWING NUMBERS OF MOSTLY JUNIOR AND MIDDLE-RANKING CADRES. THE CENTRAL DISCIPLINE INSPECTION COMMISSION, THE PARTY'S TOP ANTI-CORRUPTION AGENCY, UNCOVERED MORE THAN 100,000 CASES OF CORRUPTION AND EMBEZZLEMENT INVOLVING PARTY OFFICIALS IN THE FIRST HALF OF 1995. MORE THAN 100,000 INDIVIDUALS WERE DISCIPLINED, BUT ONLY SOME 7,000 WERE COUNTRY-LEVEL CADRES OR HIGHER.

THE CRACKDOWNS HAVE PROVED LARGELY INEFFECTIVE IN CONTAINING CORRUPTION AS THEY DO NOT ADDRESS KEY STRUCTURAL PROBLEMS, SUCH AS LOW OFFICIAL SALARIES AND THE LACK OF CHECKS AND BALANCES TO PREVENT ABUSES. THE GOVERNMENT HAS INTRODUCED TOUGHER ANTI-CORRUPTION

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MEASURES IN RECENT MONTHS. IT HAS PROHIBITED CIVIL SERVANTS FROM SPENDING LAVISHLY ON ENTERTAINMENT, REQUIRED SENIOR OFFICIALS TO DISCLOSE THEIR PERSONAL WEALTH, AND BARRED GOVERNMENT ORGANIZATIONS FROM OWNING IMPORTED LUXURY SEDANS.

POPULAR ANGER OVER OFFICIAL CORRUPTION IS WIDESPREAD. THE ISSUE TOPPED THE LIST OF COMPLAINTS VOICED BY DEMONSTRATORS DURING THE 1989 PRO-DEMOCRACY PROTESTS. TO APPEASE PUBLIC ANGER, THE LEADERSHIP IS LIKELY TO CONTINUE REGULAR, HIGH-PROFILE CAMPAIGNS TO COMBAT CORRUPTION. IT HAS BEGUN TO TARGET THE CHILDREN OF TOP LEADERS WHO ARE VIEWED AS ESPECIALLY CORRUPT. A SMALL NUMBER OF SENIOR OFFICIALS HAVE ALSO BEEN ARRESTED TO DEFLECT PUBLIC CRITICISM THAT THE UPPER ECHELONS OF THE RULING ELITE ARE ABOVE THE LAW.

CRIME AND SOCIAL DISORDER

CRIME, ESPECIALLY VIOLENT AND ORGANIZED CRIME, HAS SURGED IN RECENT YEARS. OFFICIAL STATISTICS SHOW THAT REPORTED CRIME HAS SOARED MORE THAN TEN FOLD IN THE PAST DECADE. SOME 250,000 SUSPECTS WERE ARRESTED IN 1994 ALONE FOR SERIOUS CRIMES, SUCH AS MURDER, BOMBINGS AND INVOLVEMENT IN GANGS. THIS FIGURE REPRESENTED A 60% INCREASE OVER THE PREVIOUS YEAR AND THE UPWARD TREND IS EXPECTED TO CONTINUE.

THE SITUATION IS ESPECIALLY BAD IN COASTAL AND BORDER REGIONS WHERE SECURITY FORCES ARE THINLY-MANNED AND LUCRATIVE OPPORTUNITIES INVOLVING SMUGGLING, DRUG TRAFFICKING AND ORGANIZED PROSTITUTION HAVE LED TO THE RISE OF POWERFUL CRIMINAL ORGANIZATIONS. YUNNAN PROVINCE, WHICH BORDERS THE OPIUM-GROWING FIELDS OF SOUTHEAST ASIA'S GOLDEN TRIANGLE, HAS ONE OF THE HIGHEST SERIOUS-CRIME RATES IN THE COUNTRY. THE NUMBER OF DRUG RELATED CASES HANDLED BY YUNNAN'S PUBLIC SECURITY FORCES EACH YEAR HAS SURGED FROM SEVERAL HUNDRED TO MORE THAN 4,000.

RURAL DISTURBANCES HAVE ALSO BROKEN OUT WITH INCREASING FREQUENCY IN RECENT YEARS. IN 1993, FOR EXAMPLE, POLICE AND PARA-MILITARY FORCES IN 24 PROVINCES HAD TO DEAL WITH MORE THAN 600 CASES OF MASS, ARMED UNREST AMONG RIVAL CLANS, CRIMINAL GANGS AND IRATE PEASANTS PROTESTING AGAINST CORRUPTION BY LOCAL OFFICIALS.

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UNREST IN THE COUNTRYSIDE IS LIKELY TO BECOME INCREASINGLY SERIOUS WITH INCOME GAPS GROWING BETWEEN FARMERS AND CITY DWELLERS, HIGH INFLATION AND BALLOONING NUMBERS OF UNDER-EMPLOYED RURAL LABORERS. THE SECURITY FORCES LACK SUFFICIENT RESOURCES TO COPE WITH THE DETERIORATING SITUATION AND HAVE BEEN FORCED TO CALL ON PART-TIME MILITIA UNITS UNDER THE PLA FOR ASSISTANCE.

THE AUTHORITIES ARE WORRIED ABOUT THE OUTBREAK OF UNREST IN URBAN AREAS, ESPECIALLY HEAVY INDUSTRIAL CITIES. MILLIONS OF WORKERS HAVE BEEN LAID OFF BY AILING STATE-RUN ENTERPRISES SINCE MID-1993 WHEN BEIJING IMPLEMENTED A TIGHT CREDIT POLICY TO COOL DOUBLE DIGIT INFLATION. SMALL-SCALE STRIKES AND DEMONSTRATIONS TAKE PLACE FREQUENTLY, IN SUCH CITIES AS SHENYANG, WUHAN AND CHONGQING.

WITH MANY CHINESE RESENTFUL ABOUT HIGH INFLATION AND CORRUPTION, THESE PROTESTS COULD SNOWBALL INTO ANTIGOVERNMENT DEMONSTRATIONS. PARA-MILITARY FORCES WERE CALLED OUT TO DEAL WITH MORE THAN 1,000 CASES OF UNREST IN 1993, AND THIS FIGURE IS LIKELY TO HAVE RISEN SHARPLY IN THE LAST TWO YEARS. IF THE GOVERNMENT CONTINUES ITS AUSTERITY PROGRAM, THE CHANCES OF MORE SERIOUS WORKER UNREST BREAKING OUT ARE HIGH.

EXTERNAL ISSUES

TAIWAN

GROWING TENSIONS ACROSS THE TAIWAN STRAIT REPRESENT THE BIGGEST THREAT TO CHINA'S STABILITY OVER THE NEXT 2 TO 3 YEARS. BEIJING IS THREATENING TO USE FORCE TO STOP WHAT IT VIEWS AS MOVES BY TAIWAN PRESIDENT LEE TENG-HUI TO LEAD THE ISLAND TOWARDS INDEPENDENCE. WITH THE TWO SIDES UNWILLING TO TALK, PROSPECTS FOR A PEACEFUL SOLUTION ARE DIM AND THEY COULD BE HEADED FOR A MILITARY SHOWDOWN.

LEE'S ATTEMPTS TO RAISE TAIWAN'S INTERNATIONAL PROFILE IN THE PAST FEW YEARS HAS CONFIRMED BEIJING'S BELIEF THAT HE IS SEEKING INDEPENDENCE FOR THE ISLAND. LEE SCORED HIS BIGGEST SUCCESS WITH A PRIVATE VISIT TO THE U.S. IN JUNE, THE FIRST TIME A TAIWANESE PRESIDENT HAS BEEN ALLOWED THERE SINCE WASHINGTON BROKE OFF

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DIPLOMATIC TIES WITH TAIPEI MORE THAN TWO DECADES AGO. CHINESE LEADERS WERE FURIOUS AND RETALIATED BY LAUNCHING MISSILE EXERCISES CLOSE TO TAIWAN IN JULY. THESE WERE FOLLOWED BY LARGER PLA WARGAMES IN FUJIAN PROVINCE IN NOVEMBER ON THE EVE OF LEGISLATIVE ELECTIONS IN TAIWAN.

BEIJING IS LIKELY TO CONTINUE FLEXING ITS MILITARY MUSCLES UP TO AND BEYOND THE TIME OF TAIWAN'S FIRST PRESIDENTIAL ELECTIONS AT THE END OF MARCH 1996. BY DOING SO, IT IS SEEKING TO SEND A CLEAR WARNING TO TAIWANESE NOT TO VOTE FOR LEE OR PRO-INDEPENDENCE DEMOCRATIC PROGRESSIVE PARTY CANDIDATES. ALTHOUGH LEE IS EXPECTED TO WIN THE ELECTION, BEIJING HOPES THE PRO-REUNIFICATION NEW PARTY, BACKED BY AGEING MAINLANDERS IN THE RULING KUOMINGTANG (KMT), CAN STEAL ENOUGH VOTES FROM LEE'S MAJORITY TO PRESSURE HIM INTO RECONSIDERING HIS POLICIES.

CHINESE HARDLINERS, INCLUDING MANY MILITARY OFFICIALS, ARE PESSIMISTIC THAT THEY WILL BE ABLE TO CONVINCE LEE TO CHANGE HIS MIND THROUGH PEACEFUL MEANS. IF LEE TRIUMPHS IN MARCH AND CONTINUES HIS EFFORTS TO GAIN GREATER INTERNATIONAL RECOGNITION FOR TAIWAN, TENSIONS ACROSS THE STRAIT ARE ALMOST CERTAIN TO DETERIORATE. THE U.S. CONGRESS MIGHT CONSIDER INVITING LEE ON AN OFFICIAL VISIT TO WASHINGTON IF HE WINS THE PRESIDENTIAL ELECTION. CHINESE OFFICIALS ALSO WORRY THAT LEE MIGHT IMPLEMENT CONSTITUTIONAL CHANGES THAT WOULD MORE CLEARLY DEFINE TAIWAN AS A SEPARATE POLITICAL ENTITY FROM THE MAINLAND, ALTHOUGH STOPPING SHORT OF AN OUTRIGHT DECLARATION OF INDEPENDENCE.

BEIJING MAY BEGIN TO SERIOUSLY CONTEMPLATE DIRECT MILITARY ACTION AGAINST THE ISLAND IF ANY OF THESE DEVELOPMENTS WERE TO TAKE PLACE, ESPECIALLY GIVEN THE STRONG INFLUENCE OF MILITARY CHIEFS. THE PLA COULD RESORT TO SEVERAL OPTIONS IN THAT CASE, INCLUDING LAUNCHING AN ESCALATING SERIES OF MAJOR MILITARY EXERCISES AND REDEPLOYING UNITS TO FUJIAN; IMPLEMENTING A NAVAL BLOCKADE; DISPATCHING FISHING BOATS INTO TAIWANESE COASTAL WATERS TO HARASS ITS NAVY AND COAST GUARD; ATTACKING AN OUTLYING TAIWANESE ISLAND; OR LAUNCHING A FULL-SCALE INVASION OF TAIWAN.

THE MAINLAND AUTHORITIES HAVE NOT COMPLETELY GIVEN UP ON THE POSSIBILITY OF WORKING OUT A COMPROMISE WITH

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LEE. JIANG EXTENDED AN OLIVE BRANCH TO THE TAIWANESE PRESIDENT AT THE BEGINNING OF 1995 WHEN HE UNVEILED AN EIGHT-POINT INITIATIVE TO IMPROVE CROSS-STRAIT TIES. JIANG SAID BEIJING WOULD BE WILLING TO ENTER INTO UNCONDITIONAL TALKS WITH THE TAIWANESE AUTHORITIES IF THEY AGREED TO RECOGNIZE ONE CHINA. TAIPEI RESPONDED LUKEWARMLY TO BEIJING'S OFFER AND LITTLE MENTION HAS BEEN MADE OF THESE PROPOSALS SINCE THE ESCALATION IN TENSIONS IN JULY.

A CONFLICT ACROSS THE TAIWAN STRAIT WOULD HAVE DRASTIC IMPLICATIONS FOR STABILITY IN CHINA AND THE REST OF THE ASIA-PACIFIC REGION. IT WOULD SERIOUSLY HAMPER CHINA'S ECONOMIC DEVELOPMENT AND LIKELY LEAD TO A COLD WAR WITH THE U.S. AND OTHER WESTERN COUNTRIES. BUT THE CHINESE LEADERSHIP WOULD BE WILLING TO RISK THESE CONSEQUENCES IF NECESSARY BECAUSE IT BELIEVES THAT TAIWAN INDEPENDENCE WOULD THREATEN ITS RULE AND COULD EVEN LEAD TO CHINA'S BREAKUP.

SINO-U.S. RELATIONS

CHINA'S TIES WITH THE U.S. HAVE BEEN SHAKY IN RECENT YEARS AS THE TWO SIDES HAVE CLASHED REPEATED OVER A WIDE RANGE OF ISSUES, INCLUDING TAIWAN, HUMAN RIGHTS, ARMS PROLIFERATION AND TRADE. RELATIONS ARE LIKELY TO CONTINUE TO BE BUMPY OVER THE NEXT FEW YEARS, AS MANY OF THESE PROBLEMS REMAIN UNRESOLVED.

SINO-U.S. RELATIONS PLUMMETED IN MAY 1995 AFTER WASHINGTON PERMITTED TAIWAN PRESIDENT LEE TENG-HUI TO VISIT THE U.S. FOR A COLLEGE REUNION. BEIJING SUSPENDED HIGHLEVEL EXCHANGES AND ACCUSED WASHINGTON OF UNDERMINING KEY SINO-U.S. DIPLOMATIC COMMUNIQUEES. COMMENTARIES IN THE OFFICIAL MAINLAND PRESS LASHED OUT AGAINST ALLEGED U.S. ATTEMPTS TO CONTAIN CHINA AND WARNED THAT ANOTHER 'COLD WAR' COULD BE IN THE MAKING.

DESPITE THE HARSH RHETORIC, CHINESE POLICY-MAKERS REALIZE THAT THEIR INTERESTS ARE BEST SERVED BY MAINTAINING A CONSTRUCTIVE RELATIONSHIP WITH THE U.S. WASHINGTON'S COOPERATION IS VITAL IF BEIJING IS TO SUCCESSFULLY CHECK TAIWAN'S QUEST FOR GREATER INTERNATIONAL RECOGNITION. THE U.S. IS CHINA'S BIGGEST EXPORT MARKET AND A KEY SOURCE OF INVESTMENT AND TECHNOLOGY. AFTER A FEW MONTHS OF COOL RELATIONS

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BEIJING BEGAN TO VOICE A MORE CONCILIATORY TONE, AND THE TWO SIDES AGREED TO TRY AND PATCH UP DIFFERENCES FOLLOWING A SUMMIT MEETING BETWEEN JIANG ZEMIN AND U.S. PRESIDENT BILL CLINTON IN OCTOBER.

SINO-U.S. RELATIONS ARE LIKELY TO REVOLVE AROUND SEVERAL KEY ISSUES OVER THE NEXT FEW YEARS. AT THE TOP OF THE AGENDA IS TAIWAN. BEIJING WANTS A COMMITMENT FROM WASHINGTON THAT IT WILL NOT ALLOW FURTHER VISITS BY SENIOR TAIWANESE OFFICIALS. THE WHITE HOUSE HAS SAID SUCH A BAN WOULD BE UNCONSTITUTIONAL, BUT ASSURED BEIJING THAT FUTURE VISITS WOULD BE RARE.

IF TENSIONS HEIGHTEN ACROSS THE TAIWAN STRAIT AND BEIJING STEPS UP PREPARATIONS FOR POSSIBLE MILITARY ACTION AGAINST TAIWAN, WASHINGTON MAY BECOME DRAWN INTO THE CRISIS. THE U.S. GOVERNMENT WOULD LIKELY FACE STRONG PRESSURE FROM CONGRESS AND OTHER QUARTERS TO TAKE MEASURES TO DETER BEIJING. WASHINGTON COULD DISPATCH THE SEVENTH FLEET TO SAIL THROUGH THE TAIWAN STRAIT IN A SHOW OF FORCE, BUT WOULD MOST LIKELY HESITATE BECOMING MORE DIRECTLY INVOLVED MILITARILY.

HUMAN RIGHTS ARE LIKELY TO BE REMAIN A MAJOR IRRITANT IN SINO-U.S. RELATIONS. CLINTON, FACING RE-ELECTION IN 1996, IS UNDER MOUNTING PRESSURE FROM CONGRESS TO RETALIATE AGAINST CHINA'S IMPRISONMENT OF DISSIDENTS. THE WHITE HOUSE HAS SAID IT WILL CONSIDER CHINA'S HUMAN RIGHTS RECORD WHEN ASSESSING ITS APPLICATION FOR MEMBERSHIP TO THE WORLD TRADE ORGANIZATION. THE U.S. IS ALSO LIKELY FOR THE FIRST TIME TO SUPPORT A DECISION TO CENSOR CHINA AT THE UN HUMAN RIGHTS COMMISSION'S ANNUAL SESSION IN MARCH.

TRADE COULD ALSO CAUSE INCREASED FRICTION IN SINO-U.S. RELATIONS OVER THE NEXT YEAR. THE U.S. TRADE DEFICIT WITH CHINA HAS SURGED, AND HAS BEEN ESTIMATED BY U.S. CUSTOMS TO TOTAL US\$25 BILLION IN 1995, SECOND ONLY TO WASHINGTON'S TRADE DEFICIT WITH JAPAN. IN ADDITION, WASHINGTON HAS EXPRESSED DISSATISFACTION WITH BEIJING'S EFFORTS TO IMPLEMENT AN INTELLECTUAL PROPERTY-RIGHTS PROTECTION AGREEMENT AND IS CONSIDERING IMPOSING TRADE SANCTIONS.

ALTHOUGH MOST CHINESE POLICY-MAKERS WANT TO MAINTAIN GOOD RELATIONS WITH THE U.S., A SMALL BUT INFLUENTIAL NUMBER OF NATIONALISTIC GENERALS AND CONSERVATIVES

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ARGUE THAT BEIJING SHOULD TAKE A TOUGHER STANCE TOWARDS WASHINGTON. THEY BELIEVE THAT THE U.S. AND OTHER WESTERN POWERS ARE SEEKING TO CONTAIN OR BREAK UP CHINA AND THAT BEIJING SHOULD AGGRESSIVELY COUNTER SUCH ALLEGED ATTEMPTS. INDEED, CHINA HAS EXHIBITED AN INCREASING INFLEXIBILITY IN ITS DEALINGS WITH THE U.S. PARTLY AS A RESULT OF PRESSURE FROM THE HARDLINERS

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HONG KONG

ANXIETY IS GROWING AMONG HONG KONG PEOPLE OVER THE BRITISH COLONY'S RETURN TO CHINESE SOVEREIGNTY IN MID-1997. CHINA'S REPRESSION OF DOMESTIC DISSENT AND RECENT HARSH CRITICISMS OF THE HONG KONG GOVERNMENT HAVE HEIGHTENED WORRIES THAT BEIJING INTENDS TO PLAY A BIGGER-THAN-EXPECTED ROLE IN THE RUNNING OF THE POST-1997 SPECIAL ADMINISTRATIVE REGION (SAR).

ALTHOUGH BEIJING HAS GUARANTEED THE SAR WIDE-RANGING AUTONOMY IN MANAGING ITS INTERNAL AFFAIRS, CHINESE LEADERS APPEAR TO BE HAVING SECOND THOUGHTS BECAUSE THEY FEAR HONG KONG MAY BECOME A BASE FOR SUBVERSION AGAINST THE MAINLAND. THEY HAVE SAID THEY WILL DISBAND THE PRESENT LEGISLATIVE COUNCIL (LEGCO) AFTER THE HANDOVER AND REPLACE CURRENT REPRESENTATIVES WITH THEIR OWN APPOINTEES. BEIJING REGARDS THE DEMOCRATIC PARTY, WHICH CURRENTLY HOLDS A MAJORITY IN LEGCO, AS A SUBVERSIVE ORGANIZATION.

BEIJING IS ALSO SEEKING TO REIN IN HONG KONG'S POLITICAL FREEDOMS. IT WANTS TO DILUTE THE COLONY'S BILL OF RIGHTS AND HAS SUCCESSFULLY ADDED A CLAUSE IN THE ESTABLISHMENT OF THE TERRITORY'S COURT OF FINAL APPEALS THAT GIVES IT JURISDICTION OVER CASES INVOLVING 'ACTS OF STATE', WHICH INCLUDES POLITICAL DISSENT. CHINA'S SENTENCING OF DISSIDENT WEI JINGSHENG TO 14 YEARS IN PRISON FOR SUBVERSION HAS SPARKED FEARS AMONG HONG KONG PEOPLE.

SENIOR CHINESE OFFICIALS HAVE CRITICIZED THE HONG KONG GOVERNMENT FOR ITS EXCESSIVE INCREASES IN SOCIAL WELFARE SPENDING. BEIJING HAS DEMANDED A GREATER SAY IN HONG KONG'S BUDGETARY PROCESS, ALTHOUGH HONG KONG OFFICIALS ARGUE THAT THEY ARE GUARANTEED COMPLETE AUTONOMY IN MANAGING THE TERRITORY'S FINANCIAL AFFAIRS

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UNDER THE BASIC LAW, THE SAR'S MINI-CONSTITUTION.

BEIJING'S INVOLVEMENT IN HONG KONG'S AFFAIRS WILL GROW SIGNIFICANTLY IN 1996 AS KEY TRANSITIONAL ISSUES ARE DECIDED. A PREPARATORY COMMITTEE WHICH IS RESPONSIBLE FOR HELPING TO CHOOSE THE FUTURE SAR CHIEF EXECUTIVE COMES INTO EXISTENCE AT THE END OF JANUARY 1996. ONE-THIRD OF THE COMMITTEE MEMBERS COME FROM CHINA, WHILE THE REST CONSIST OF PRO-CHINA HONG KONG BUSINESSMEN AND OTHER POLITICAL REPRESENTATIVES HANDPICKED BY BEIJING.

ALTHOUGH HONG KONG RESIDENTS WORRY ABOUT BEIJING'S FUTURE ROLE IN THE TERRITORY, CHINA'S RELATIONS WITH BRITAIN HAVE SIGNIFICANTLY IMPROVED IN RECENT MONTHS. SINO-BRITISH RELATIONS SOURED IN 1992 AFTER BRITISH-APPOINTED GOVERNOR CHRIS PATTEN PROPOSED CONSTITUTIONAL REFORMS AIMED AT MAKING HONG KONG'S POLITICAL SYSTEM MORE DEMOCRATIC. CHINESE LEADERS WERE OUTRAGED AND BRITAIN'S TIES WITH CHINA SUFFERED UNTIL THE SPRING OF 1995 WHEN BEIJING DECIDED TO IMPROVE RELATIONS. TIES WERE NORMALIZED IN OCTOBER WHEN CHINESE FOREIGN MINISTER QIAN QICHEN VISITED BRITAIN AND THE TWO SIDES AGREED TO SPEED UP THEIR COOPERATION IN THE REMAINING MONTHS OF HONG KONG'S TRANSITION TO CHINESE RULE.

THE DETERIORATION IN BEIJING-TAIPEI TIES IS ALSO HAVING A NEGATIVE IMPACT ON CHINA'S RELATIONS WITH HONG KONG. THE CHINESE LEADERSHIP HAS BECOME INTOLERANT OF WHAT IT VIEWS AS ATTEMPTS BY COMPATRIOTS IN TAIWAN AND HONG KONG TO UNDERMINE TIES WITH THE MAINLAND. AS A RESULT, BEIJING HAS STEPPED UP ITS EFFORTS TO HARASS OR SILENCE ORGANIZATIONS IN HONG KONG WHICH IT REGARDS AS 'UNPATRIOTIC' OR SUBVERSIVE, SUCH AS LIBERAL POLITICAL PARTIES, INDEPENDENT TRADE UNIONS AND THE MEDIA.

BEIJING'S INCREASINGLY HEAVY-HANDED TACTICS IN DEALING WITH THE BRITISH COLONY HAS LED TO A GRADUAL DECLINE IN CONFIDENCE AMONG HONG KONG PEOPLE. THIS COULD SPARK SOME INSTABILITY, ESPECIALLY AS EMIGRATION AND CAPITAL OUTFLOWS ARE EXPECTED TO PICK UP NOTICEABLY OVER THE COMING YEAR. IN ADDITION, UNEMPLOYMENT IS ON THE RISE AND ECONOMIC GROWTH HAS BEGUN TO SLOW.

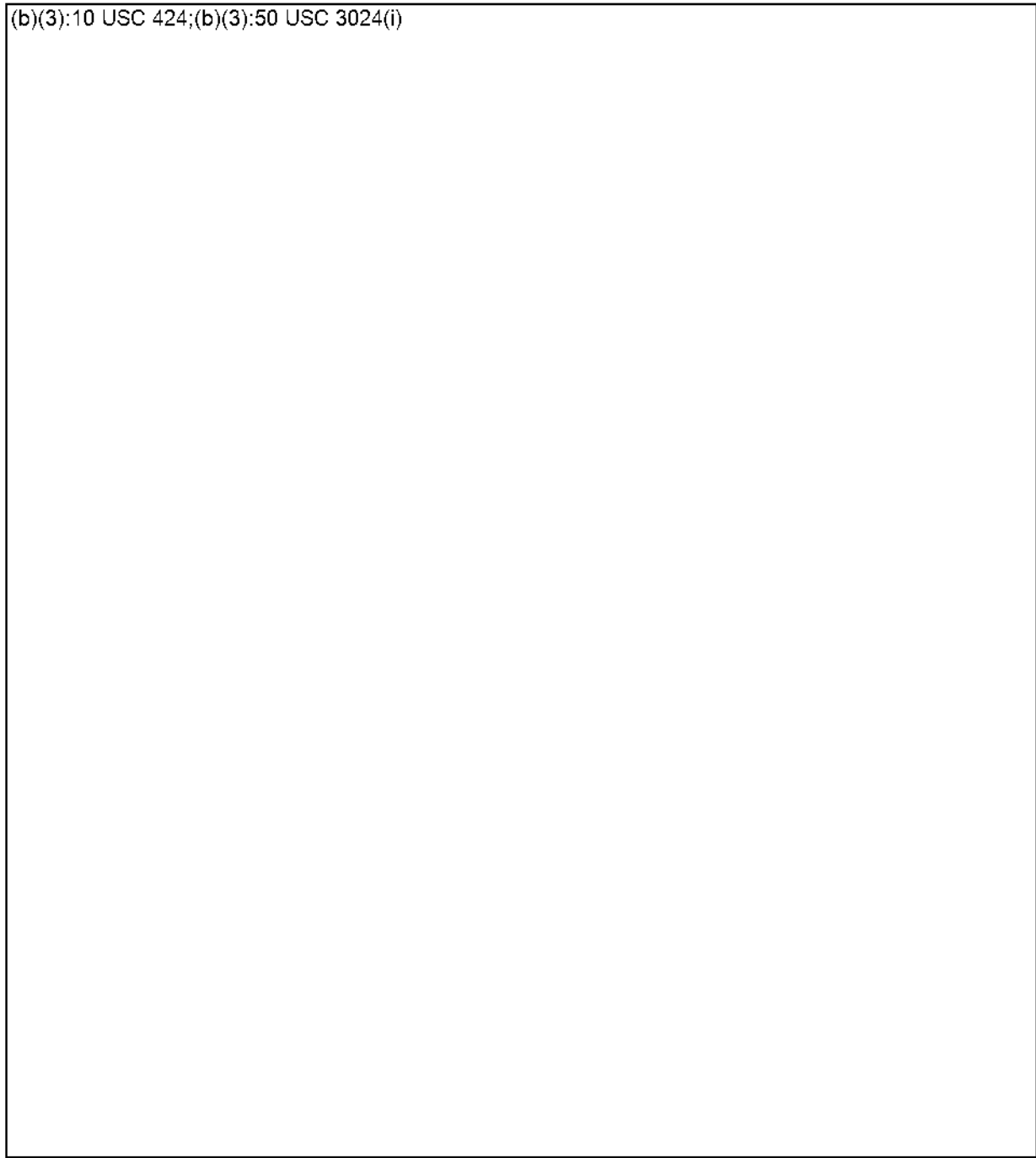
DESPITE THESE PROBLEMS, THE SITUATION IN HONG KONG IS EXPECTED TO REMAIN GENERALLY STABLE OVER THE NEXT 1 TO 2 YEARS. THE ECONOMY WILL CONTINUE TO GROW AT A MODEST (FOR HONG KONG) 5 PERCENT IN 1996 AND SOME OF THE

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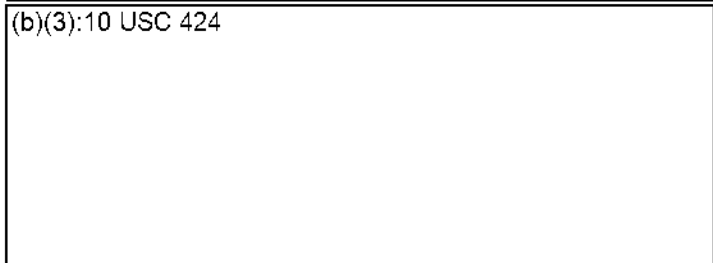
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UNCERTAINTIES OVER THE TERRITORY'S POLITICAL FUTURE ARE
LIKELY TO BE CLEARED UP IN THE COMING MONTHS.

(b)(3):10 USC 424;(b)(3):50 USC 3024(i)



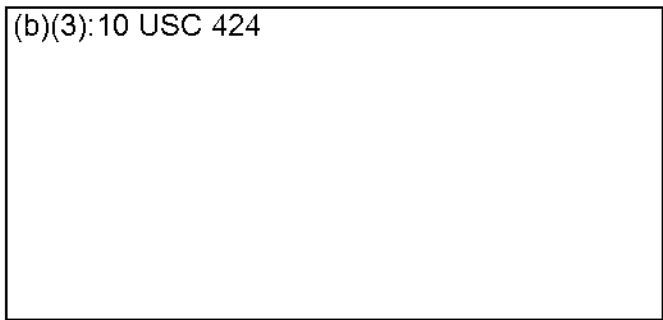
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