



(U) China: The Near-Term Potential for Economic, Political, and Social Crises

FROM: Michael Vance
Assistant SINIO for East Asia (S17)
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Assistant SINIO for East Asia (S17)

(C) The near-term potential for major problems in China will remain at a relatively high level over the next six months, as the possibility of a dangerous confluence of events persists. Specifically, Chinese leaders may be forced to address a convergence of crises stemming from political instability in Hong Kong and behavior by Taiwan President Chen Shui-bian that challenges Beijing's claim to sovereignty over the island. A hard landing for China's overheating economy would most likely further complicate the political landscape for the PRC leadership by introducing another key variable into the equation.

(C) Together these issues touch upon both of the Chinese Communist Party's key sources of legitimacy - its ability to maintain territorial integrity and to sustain economic development. Consequently, these three issues will likely dominate Chinese decision-makers' thinking for the next six months.

(C) The Chinese economy's ability to absorb East Asian exports has allowed it to play the role of regional economic engine. An economic slow-down in China would therefore have significant consequences for the rest of the region. A short-term decline for the Chinese economy, particularly if it derails Japan's nascent export-driven recovery, could also affect the United States, which exports over 250 billion dollars in goods and services to the region.

(C) The possibility of a crisis in the Taiwan Strait or in Hong Kong will challenge stability in the region. A major Chinese crackdown in Hong Kong could draw the United States and the international community into a human rights situation, and could endanger Sino-American cooperation in a host of fields, including counterterrorism and the Six-Party Talks. Furthermore, the US military could be drawn into a crisis in the Taiwan Strait at a time in which defense assets are already stretched thin by existing overseas commitments.

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