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China: Position of Zhao Ziyang

We are having to look closely at rumours that Zhao Ziyang's position might be under some kind of threat. Rumours to this effect first emerged in the Hong Kong press in early August, about the time that senior Party leaders were ending their discussions at the seaside resort of Beidaihe. The outcome of the discussions is unclear. A Politburo meeting at their conclusion endorsed a five-year plan for pushing ahead with economic reform, including price reform, but few details have emerged. The media have interpreted the result as involving a slowing down of reform, a view that appears to be shared by US analysts. The media have concluded from this that Zhao has suffered a setback. This is probably the origin of the rumours.

2. Our Embassy regard the rumours as merely media gossip and believe Zhao's position is strong. They interpret Beidaihe as a positive endorsement for reform and as a victory for Zhao, emphasising the similarity between the statements on reform by Zhao after the discussions to those he made before they began. They also cite a number of other factors. They can detect no signs that he is being pushed aside: they argue that the fact that he appears no longer to be in direct charge of economic policy is the inevitable result of his elevation to General Secretary. They also point to his political skill: he has, for example, avoided becoming too closely associated with the "fast price reform" school. They can see no obvious alternatives, and believe the rest of the leadership would be greatly concerned about the damage that would be caused, externally and internally,

if a second General Secretary were to fall. The FCO are also inclined to dismiss the rumours. But they appear less up-beat about Beidaihe and place more weight on the other factors mentioned by the Embassy.

3. An increasingly important factor in the situation is the state of the economy, and, in particular, inflation. This reached 23 per cent in July according to official figures (against 7 per cent in 1987) and is probably much higher in practice. Reports of panic buying and runs on banks are becoming more frequent. At the beginning of September, interest rates were raised in an attempt to curb credit growth, the main factor behind the rapid inflation. This could presage an end to the high growth strategy with which Zhao has been closely identified. But it is difficult to tell at this stage, especially as the measures that have been taken so far seem totally inadequate to have much impact on the economy.

4. The situation therefore continues to be an uncertain one. A Central Committee Plenum is due to take place soon (a date has not yet been announced) and this could help clarify the situation, both as to the progress of reform and as to personalities. Our preliminary view is that reform is now likely to slow down (which is not necessarily a bad thing given the acceleration in inflation). Because of Zhao's association with reform and with fast growth, his image may be tarnished as a result. But this seems unlikely to have a significant effect on his position in the immediate future.

5. The situation could become more unstable if inflation cannot be brought under control. There are considerable worries on this score. It is difficult to know what might happen then. The search could be on for a scapegoat. But even in that event, it is not clear that it would be Zhao.

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