

June 2, 1989
**Telegram No. 048 725 from the Czechoslovak
Embassy, Beijing**

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Summary:

Saul describes the economic situation in China in the context of the Tiananmen Square protest movement.

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Secret

No. 048 725

Impact of the economic situation on events in the PRC. The question of further economic reform.

The inflation, as well as the corruption and privileges of some groups of citizens, have a negative impact on the social status of students and other strata of the Chinese urban population, causing quite a wide dissatisfaction.

The income of a Beijing undergraduate is about 40 yuan a month, while one lunch in a student canteen costs 6-7 yuan, forcing students to engage in individual intra-university and street trade in which a half of Beijing undergraduate students is involved.

Two views on the further development of economic reforms in China. One from a Chinese State Planning Commission's officer: the economic reform will now be in dead-end. Neither will it go backwards, nor a step forward. General Secretary Chao, as a protagonist of the economic reform, has resigned /based on an alleged intra-party information/, changes within the leadership are to come.

Another view from the Soviet analysts: the retreat in economic reforms which outpaced the political reforms too far is not excluded.

The return to administrative management of the economy from the center is possible, as the decentralization to provinces and in the credit area has not proved itself as successful. There is a general consensus that further development of the economic reform has reached its limits - stagnating agriculture, increasing disproportion between overheated manufacturing and a substantially slower pace of the development of the raw materials' branches and infrastructure. From the Club of Economic Councilors of the Socialist System Countries /cer./.

SAUL 0268