Case Number: 2010-1024-F

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Folder Title: China (October to November 1998) [3]
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. paper	WTO Accession -- China and Taiwan (1 page)	c. 1998	P1/b(1)
001b. paper	Early Voluntary Sectoral Liberalization (1 page)	c. 1998	P1/b(1)
001c. draft	Update on Prison Labor (2 pages)	c. 1998	P1/b(1)
001d. paper	ADB Vice Presidency (1 page)	c. 1998	P1/b(1)
001e. report	Biography (3 pages)	04/20/1998	P1/b(1)
001f. report	Biography (3 pages)	05/12/1998	P1/b(1)
001g. report	Biography (3 pages)	04/22/1998	P1/b(1)
002. agenda	Deputies Committee Meeting. Record ID: 9806392. (1 page)	09/18/1998	P1/b(1)
003. agenda	Annotated Agenda: Deputies Committee Meeting. (6 pages)	09/1998	P1/b(1)
004. draft	Memorandum for William Daley from Timothy Hauser. Subject: Your Meeting with Ambassador Barshefsky (7 pages)	09/22/1998	P1/b(1)
005. memo	For Charlene Barshefsky from Cassidy, Papovich, Lund, Field, and Burns. Subject: Proposed Trade Strategy for China. (7 pages)	09/02/1998	P1/b(1)

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Clinton Presidential Records
National Economic Council
Malcolm Lee
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China (October to November 1998) [3]

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RESTRICTION CODES

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

SEP 25 1998

BRIEFING

MEMORANDUM FOR SECRETARY RUBIN

FROM: Timothy F. Geithner (Initialed)/TFG
Assistant Secretary (International Affairs)

SUBJECT: Briefing for Meetings with Chinese Officials

MEETING I:

DATE/TIME/LOCATION: Monday, September 28, 1998; 2:00; Diplomatic Room

PARTICIPANTS:

China	Treasury
Foreign Minister Tang	Secretary Rubin
Others TBD	A/S Geithner
	DAS Zelikow
	Todd Crawford

MEETING II:

DATE/TIME/LOCATION: TBD

PARTICIPANTS:

China	Treasury
PBOC Governor Dai Xianglong	Secretary Rubin
Others TBD	A/S Geithner
	DAS Zelikow
	Todd Crawford
	Anthony Marcus

MEETING III:

Possible meeting with Finance Minister Xiang. May be combinable with Meeting II.

BRIEFING:

Overview and Key Points
Tab 1: Economic Assessment and Summary Statistics
Tab 2: Background Papers
Tab 3: Biographies (~~Secret~~)

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MEETING WITH FOREIGN MINISTER TANG JIAXUAN
OVERVIEW AND KEY POINTS

PURPOSE: Minister Tang is in the U.S. for the meeting of the U.N. General Assembly. His call on you is essentially a courtesy call, but should still be used to reinforce our message on China. In Washington, Tang is also expected to meet with NSA Berger (with a possible Presidential drop-by), Secretary Albright, and a number of lawmakers, including Senator Roth and Speaker Gingrich.

During the meeting, Minister Tang is likely to:

- Welcome the **warm relations** between China and the U.S.
- Express concern about **regional and global economic developments.**
- Reaffirm China's **commitment not to devalue** the renminbi.
- Protest new USG restrictions on **wood packing material** from China.
- Ask about the U.S. position on admitting Taiwan to the WTO before China.

During the meeting, you should:

- Concur on the **warmth of bilateral relations**.
- Share Tang's concerns about the **global economy**.
- Reiterate that a **stable renminbi** is first and foremost in China's interest.
- Observe that Treasury fulfilled its JEC and State Visit **commitment to send a technical assistance** mission to China.
- Express disappointment that we were not able to make faster progress on **WTO accession** before the Summit. Observe that China's proposals appeared to reflect retrenchment, not progress, and that it is now time for China to make additional, meaningful offers on key issues.
- Express satisfaction that China has supported APEC's consensus for concluding a comprehensive agreement on **early voluntary sectoral liberalization** (EVSL) by November and request that the Chinese review their current offer with a view towards improving commitments in all sectors.
- Urge better compliance with bilateral agreements on **prison labor**.
- *If needed:* Explain that the restrictions on **wood imports** are being imposed for sound phytosanitary reasons.
- *If needed:* Note that Taiwan's WTO accession package is virtually complete and that we will consider each application on its merits, but that some WTO members are impatient to benefit from Taiwanese membership.

MEETING WITH PBOC GOVERNOR DAI XIANGLONG
OVERVIEW AND KEY POINTS

PURPOSE: Governor Dai requested this meeting. He will want to discuss the developing nations' financial crisis and efforts to address it, especially the G-22 meeting which the Chinese requested. He will also want to reassure you about China's economy, its reform program, and its exchange rate policy. You should use the meeting to express our concerns about the slowing -- or reversing -- pace of reform in China. (See economic assessment for details).

During the meeting, Governor Dai is likely to:

- Express concern about **regional and global economic developments**, and particularly about Japan.
- Reaffirm China's **commitment not to devalue** the renminbi.
- Review the state of **financial sector reform**.
- Ask about the **Bank of China's application** for a licence for a third U.S. branch
- Express disappointment that we did not support China's candidate for an **ADB Vice Presidency.**

During the meeting, you should:

- Share Dai's concerns about the **global economy** and encourage him to join with other Asian economies to press Japan to restore stability to its financial sector and restart economic growth.
- Concur with China's view that a **stable renminbi** is first and foremost in China's interest.
- Note that Treasury **fulfilled its commitment to send a technical assistance** mission to China.
- Express concern about the lack of evident progress on **SOE reform**, and about retrograde steps in the banking sector, including instructions to increase lending.
- Suggest that China should continue to **focus on long-term goals**, and warn against loosening monetary or fiscal policy in ways that might exacerbate long run fiscal and NPL problems. Emphasize that the **Asia crisis should energize** -- not slow -- the reform process
- Express disappointment that we were not able to make faster progress on WTO accession before the Summit. Observe that in financial services particularly, China stands to benefit greatly from a larger foreign presence.
- *If needed:* Note that the U.S. follows a policy of national treatment with regard to applications by foreign banks for entry into the United States.

MEETING WITH FINANCE MINISTER XIANG HUAICHENG
OVERVIEW AND KEY POINTS

PURPOSE: Since Minister Xiang is your counterpart, he will want to use the meeting to advance the already-warm relations between Treasury and MoF. He will also want to reassure you about the state of the Chinese economy, and discuss concerns about the global environment. You should use the meeting to raise bilateral concerns, especially regarding fiscal policy. (See economic assessment for details).

During the meeting, Minister Xiang is likely to:

- Express concern about **regional and global economic developments**, and particularly about Japan.
- Reaffirm China's **commitment not to devalue** the renminbi.
- Review the state of the **Chinese economy** and reform program.

During the meeting, you should:

- Emphasize the **need to be realistic about growth prospects** and caution against creating overly optimistic expectations. (*State Planning and Development Commission Minister Zeng Paiyan reaffirmed the 8% target as recently as September 23*).
- Suggest that China should continue to **focus on long-term goals**, and warn against loosening fiscal policy in ways that might exacerbate long run fiscal problems. Emphasize that the Asia **crisis should energize** -- not slow -- the reform process
- Share Xiang's concerns about the **global economy** and encourage him to join with other Asian economies to press Japan to restore stability to its financial sector and restart economic growth.
- Concur with China's view that a **stable renminbi** is first and foremost in China's interest.
- Note that Treasury fulfilled its JEC and State Visit **commitment to send a technical assistance** mission to China.
- Express concern about the lack of evident progress on SOE **reform**, and about retrograde steps in the banking sector, including instructions to increase lending.
- Express satisfaction that China has supported APEC's consensus for concluding a comprehensive agreement on **early voluntary sectoral** liberalization (EVSL) by November and request that the Chinese review their current offer with a view towards improving commitments in all sectors.
- Urge better compliance with bilateral agreements on prison labor
- Express the hope for **continued close relations** between MoF and Treasury and look forward to next year's JEC.

China -- Economic Assessment

Economic Prospects: Even if China meets its 8% GDP growth goal -- which few expect -- 1998 will be the slowest year since 1990. Most of the slowdown is due to sluggish domestic demand, as evidenced by falling prices, although the weakening external environment is playing an increasingly significant role. In view of this, much of the weight of growth is being placed on fixed investment, which rose 17.4% in the first eight months of 1998. The summer's catastrophic floods are placing an additional burden on the economy, although recovery and reconstruction efforts might ironically provide a fillip to growth.

Key Challenges: China's most pressing policy challenge -- recognized by the leadership -- is to resolve the twin problems of the financial sector and state-owned enterprises. There are some indications, however, that the reform effort is being slowed -- and in some cases reversed -- to ameliorate short-run employment effects. Financial market restructuring is the most advanced, but the challenge is immense and recent attempts to boost lending could exacerbate the NPL problem in the future. SOE restructuring is moving slowly, if at all, while a massive housing sector reform program appears to have stalled. It also appears that the government is taking steps to discourage -- or prevent -- imports.

Fiscal Policy: While the official deficit is small -- about 1.5% of GDP -- it excludes policy lending and a large number of off-budget funds, which bring the overall deficit to an estimated 6-8% of GDP. The government is hoping to stimulate the economy through greater infrastructure investment, financed in part through a new domestic bond issue, but it is doubtful that worthwhile projects can be identified, designed, and implemented sufficiently rapidly. The tax system is weak, causing revenues to stagnate and raising concerns about the advisability of additional deficit financing, particularly given the need for additional resources to pay for reform and to ameliorate its short-run costs.

Monetary Policy: Until recently, monetary policy was kept tight as the government fought inflation and imposed increasingly binding budget constraints on SOEs. As growth began to slow, the PBOC lowered interest rates repeatedly in an attempt to boost investment, and another cut is expected soon. The rate cuts have been generally ineffectual, however, as banks chose to buy low-risk government paper instead of increasing lending. The government responded by ordering banks to increase lending, although this risks undermining the financial market reform.

Financial sector restructuring: Major aspects of bank reform announced so far center around recapitalization of the four major banks, in part through a $32.5 billion bond issue that is being financed through a lowered reserve requirement, and which will apparently *not* bring new money into the system. Banks have been instructed to begin lending only on commercial grounds, the order that led them to prefer government bonds to lending. The order to increase lending -- both generally and for flood relief in particular -- is likely to direct more funds to SOEs-- where banks see implicit government guarantees -- rather than to the more productive and efficient non-state sector, which is generally starved for capital. Banks have also been instructed to adopt western-style accounting and classification systems by year-end.

Resolution of the sector's problems also requires addressing the bad debt overhang and -- most of all -- restructuring the banks so that future lending will be made on economically-efficient grounds. The Chinese intend to set up an RTC-type entity to handle the bad loans, although the timing for this is uncertain, and the shortage of banking expertise makes commercialization a daunting challenge. Decontrol of interest rates could allow banks to charge risk-adjusted rates, and therefore increase lending to the non-SOE sector, but it does not appear to be under consideration at this time.

Structural Reform: During the September 1997 Bank/Fund meeting Premier Zhu announced that the SOE problem would be resolved within three years. Little appears to have been done since then, and details of the proposed reforms have not been announced. Indeed, there are some indications of retrograde steps, including plans to impose domestic price and production controls in order to bolster SOE profits. The delay probably reflects a desire to keep unemployment under control and reappraise China's plans, which reportedly included the construction of *chaebol*-like conglomerates. Zhu has also pledged complete commercialization of housing and sweeping health care reform, although these too appear to have stalled.

The government is also undergoing sweeping reform, which involves reducing the number of ministries by 11 and laying-off 4 million employees. Some ministries -- including MoF and the PBOC -- have already been restructured or have restructuring underway.

External Accounts: While China does not release part-year balance of payments figures, all indications are that it continues to run a healthy surplus. While export growth has been slowing -- actually falling in August on a year-over-year basis -- the trade surplus remains healthy: in the first eight months of 1998 it reached $31.4 billion, 23% ahead of 1997's record pace. The breakdown is somewhat less encouraging: exports rose just 5.5% in the first eight months of the year, while imports edged up just 0.4%. FDI flows were $27.4 billion, down 1.5% (although contracted investment rose 6%).

The government has taken vigorous steps to bolster the balance of payments. These include greatly strengthened enforcement of foreign exchange regulations, apparently designed to choke import growth, as well as a crackdown on black market currency trading, rule changes designed to discourage hedging the *renminbi*, and improved incentives for exporters and investors. Chinese leaders at several levels continue to reiterate their determination not to devalue the currency.

Despite the balance of payments surplus, reserves have been virtually flat throughout 1998. Part of this can be explained by relaxed surrender requirements, which have allowed exporters to retain foreign exchange that would earlier have found its way into reserves and by counting of exports that have been shipped but not paid for. Part of the discrepancy will probably be reflected through higher errors and omissions, some of which reflects capital flight, however. China's external debt is modest, at an estimated $131 billion (14.5% of GDP) at the end of 1997, with a debt service ratio below 7.5%. The debt numbers contain a $38 billion discrepancy from those provided by BIS, however.

Bilateral Issues and Relations:

- U.S. Bank Exposure to China: Total U.S. bank outstanding exposure stood at $2.5 billion as of end-1997.

- Trade Balance: The U.S. trade deficit with China has grown rapidly, and was the second largest U.S. deficit in 1997, at $49.7 billion (the deficit with Japan was $55.7 billion). In the first six months of 1998, the deficit was $25.1 billion, up from $21.2 billion in the corresponding period last year. Year-to-date imports from China rose 17.1%, while exports rose 11.9%.

- U.S. FDI in China: At the end of 1997, U.S. direct investment in China totaled $5 billion.

- Financial Services Presence: Six U.S. banks have a total of 13 branches in China. Only one -- Citibank's branch in Pudong -- is permitted to conduct business in *renminbi*, although this privilege is soon to be extended to Shenzhen as well.

- Tax Treaty: The U.S. and China have a tax treaty in force.

CHINA
Summary Statistics

Population: 1.24 billion (1997)
Per Capita Income: $ 727 (1997)

Population Growth Rate: 1.5%
Fiscal Year: Calendar

GROSS DOMESTIC PRODUCT	1994	1995	1996	1997	1998p
GDP ($ bn)*	540.5	704.6	817.0	900.0	950
Real GDP Growth	12.6%	10.5%	9.7%	8.8%	5.5%
Gross Domestic Investment (% of GDP)	41.2%	40.8%	39.6%	38.2%	38.5%
Gross National Savings (% of GDP)	42.6%	41.1%	40.5%	42.1%	41.9%
GOVERNMENT BUDGET (% of GDP)					
Expenditure (incl. net lending)	13.6%	12.9%	12.9%	13.6%	13.7%
Overall Balance (official)	-1.6%	-1.7%	-1.5%	-1.5%	-1.4%
INFLATION/MONEY					
Retail Price Inflation	21.7%	14.8%	6.1%	0.8%	-2.0%
Money Supply Growth (M3)	34.5%	29.5%	25.3%	17.3%	15.0%
One Year Time Deposit Rate	11.0%	11.0%	7.5%	5.7%	5.2%
EXCHANGE RATE					
Nominal (RMB/US$)	8.5	8.3	8.3	8.3	8.3
Real Effective (Index 1990=100)	78.6	82.8	86.9	92.0	n.a.
BALANCE OF PAYMENTS ($ bn)					
Exports	102.6	128.1	151.2	182.7	190
(% Change)	33.1%	24.9%	18.0%	20.8%	4.2%
Imports	95.3	110.1	131.5	136.5	143.3
(% Change)	12.2%	15.5%	19.4%	3.8%	5.0%
Trade Balance	7.3	18.0	19.7	46.2	46.7
Current Account Balance	7.7	1.6	7.3	35.5	27.2
(% of GDP)	1.4%	0.2%	0.9%	3.9%	2.9%
Overall Balance of Payments	30.5	22.5	31.7	35.7	22.5
INTERNATIONAL RESERVES					
Gross Reserves ($ bn)	51.6	73.6	105.0	139.9	140.6
Months of Imports (G&NFS)	5.6	6.5	8.2	10.0	10
EXTERNAL DEBT					
Total Debt ($ bn)	95.0	106.6	116.2	121.2	141.3
(% of GDP)	17.6%	15.1%	14.2%	13.5%	14.9%
of which: short-term ($ bn)	10.4	11.9	14.1	n.a.	n.a.
Debt Service Ratio (%X G&NFS)	11.6%	10.6%	10.9%	9.8%	6.9%

CREDIT RATING	Sept.
Standard & Poor's	BBB+
Moody's	A3

Sources: IMF and Treasury Department Data; Consensus Forecasts

OASIA/INA/A. Marcus
Sept. 23, 1998

BACKGROUND FOR MEETINGS WITH CHINESE OFFICIALS

JAPAN

Japan's economy faces serious and worsening difficulties, including a deepening loss of market confidence, following an extended period of weak growth and increasingly severe banking system strains. The Japanese economy entered a recession in 4Q97 with a GDP contraction of 1.5% (saar), followed by a sharper contraction of 5.2% in the first quarter of 1998 and a 3.3% contraction in 2Q98. The banking situation is the most serious immediate problem.

If the banking situation does not significantly deteriorate, we expect a modest resumption of growth in the second half of 1998, as stimulus spending begins to flow. However, we do not expect the rebound to be large enough to prevent a significant negative growth rate for the year as a whole, and we expect growth in 1999 to be well below potential.

OASIA/IMI

J. F.

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

SEP 24 1998

INFORMATION

MEMORANDUM FOR SECRETARY RUBIN
DEPUTY SECRETARY SUMMERS

FROM: Timothy F. Geithner (Initialed)/
Assistant Secretary (International Affairs)

SUBJECT: Report on Jim Fall's Technical Assistance Mission to China

The Treasury-led technical assistance mission to Beijing last week opened the door for possible future financial sector technical assistance from Treasury and clarified how existing TA from several agencies is organized and might be augmented. This overture was an outgrowth of the June Presidential Summit and the May Joint Economic Committee meetings. Based on statements of the Vice Minister of Finance and the Deputy Governor of the People's Bank of China, the Chinese appeared genuinely appreciative of Treasury's response in organizing the mission.

DAS Jim Fall and representatives of Treasury's Technical Assistance Office, the Federal Reserve Board, the SEC and the Comptroller of the Currency spent three full days last week with the Ministry of Finance, the People's Bank of China, the China Securities Regulatory Commission and State Tax Administration. The initial joint presentations by the U.S. agencies conveyed to the Chinese for the first time the range of TA potentially available from the U.S. agencies and simultaneously linked this TA to priority financial reforms of the Chinese.

The Fed, the SEC and the OCC have existing short-term advisory relations with counterpart agencies in China, mostly focused on training. This mission served to cement these ongoing, positive contacts.

Treasury's TA program, which has for some years been built around long-term resident advisors attached to policy-level, reform-committed officials, is a new, unfamiliar, and possibly uncomfortable concept for the Chinese. Yet, ironically, it may be timely for Chinese consideration. Treasury's TA presentation on this mission comes against a long and expensive background in which most international and bilateral agencies have determined for the Chinese what might be helpful in the form of financial studies, training and short-term advice. This work has then been rendered or superimposed on the Chinese, giving the Chinese the opportunity to use the TA as they saw fit, give it "Chinese characteristics" or to ignore it.

The Treasury team on this mission explained what Treasury has offered select countries and suggested that the Chinese consider how this TA might assist in the country's financial reform priorities. Our impressions were that the Chinese initially appeared quite ill at ease with this burden. Even the Vice Minister of Finance seemed fixated on seeking out training opportunities for Chinese officials in the U.S. Yet, he repeated several times the importance of direct contacts between the Ministry of Finance and the Treasury Department.

Follow up discussions during the week with senior-level sub cabinet officials indicated interest in Treasury assistance on debt management, tax policy and administration, a deposit insurance system, and the establishment of an RTC-type agency. The Chinese promised to coordinate in responding to these discussions. That response, if it materializes, will provide a measure of Chinese interest in Treasury TA for the future.

DAS Fall explained to the Chinese that these Beijing consultations might best be viewed as preliminary and exploratory since funding for a Treasury advisory program in China is not yet in hand and there could be certain barriers for these outlays (e.g. Jackson-Vanik). Fall suggested to the Chinese that if they felt Treasury's TA were crucial and needed immediately that the Chinese (with their robust reserves) might wish to fund the TA themselves. This was not rejected out of hand by the Chinese, but probably is unrealistic. Fall offered as a kind of transitional arrangement the possibility that the Finance Ministry or others send a couple of small groups of two or three policy officials in specific disciplines to Treasury for a day of meetings with relevant specialists. The ball now rests in the Chinese court. I will keep you apprized of any developments.

Fall met with Ambassador Sasser who was very supportive of this inter-agency initiative and promised any follow up in Beijing that you thought might be helpful.

cc: Assistant Secretary Stanley Roth, Department of State
Dr. Kenneth Lieberthal, National Security Council

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001d. paper	ADB Vice Presidency (1 page)	c. 1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1177

FOLDER TITLE:

China (October to November 1998) [3]

2010-1024-F
vz1801

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001e. report	Biography (3 pages)	04/20/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1177

FOLDER TITLE:

China (October to November 1998) [3]

2010-1024-F
vz1801

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001f. report	Biography (3 pages)	05/12/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1177

FOLDER TITLE:

China (October to November 1998) [3]

2010-1024-F
vz1801

RESTRICTION CODES

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001g. report	Biography (3 pages)	04/22/1998	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1177

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TREASURY CLEARANCE SHEET

NO.________
Date________

MEMORANDUM FOR: ☒ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY ☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION ☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH ☐ TESTIMONY ☐ OTHER

FROM: Timothy F. Geithner
Assistant Secretary (International Affairs)

SUBJECT: Briefing for Meetings with Chinese Officials

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance
☐ Domestic Finance
☐ Economic Policy
☐ Fiscal
☐ FMS
☐ Public Debt
☐ Inspector General
☐ IRS
☐ Management
☐ Enforcement
☐ ATF
☐ Customs
☐ FLETC
☐ Secret Service
☐ General Counsel
☐ Mint
☐ Savings Bonds
☐ Other
☐ Policy Management
☐ Scheduling
☐ Public Affairs/Liaison
☐ Tax Policy
☐ Treasurer
☐ E & P
☐ Under Secretary (International)
☐ Legislative Affairs
☐ OCC

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
A. Marcus	ADM	9/24	INA	622-1218
REVIEWERS				
T. Crawford	TC	9/24	INA	622-0359
D. Zelikow	DMZ	9/24	IN	622-7222

SPECIAL INSTRUCTIONS

☐ Review Officer　　Date　　☐ Executive Secretary　　Date

DO F 80-02.1 (04/89)

FAX TRANSMISSION

U.S. DEPARTMENT OF COMMERCE
Office of the Secretary
Office of Policy and Strategic Planning
14TH & CONSTITUTION AVENUE, NW, RM 5835
WASHINGTON, DC 20230
TELEPHONE: (202) 482-4127
FAX: (202) 482-4636

To: Malcolm Lee

Date: 9/22/98

Fax #: 456-9298

Pages: 18, including this cover sheet

From: Kari Dohn

Subject:

COMMENTS:

3 China-related papers:

(1) outcomes expected for JCCT

(2) draft memo on China options (close hold) (for ideas only)

(3) TPCC report to be released next week (China chapter)

Draft Sept 18/1998

Outcomes Sought for the 12th Session of the U.S.-China Joint Commission on Commerce and Trade (JCCT)

Market Access, Sectoral Cooperation, and Project Finance

1. Announce a joint U.S.-China action plan under the JCCT to increase U.S. exports during the next year, particularly for small and medium sized firms, in priority sectors (medical equipment, energy/environment, information technologies, and airport infrastructure). Joined by U.S. industry in these sectors, respective market development cooperators, and Chinese counterparts represented on the JCCT business delegation, Secretary Daley and MOFTEC Minister Shi would announce the plan during the JCCT in Washington, D.C.
2. Assess ongoing sectoral working group activities and modify where appropriate sub-groups affected by Chinese government reorganization to better address U.S. exporter interests.
3. Announce awards on possible advocacy projects in power generation, environment, aviation and airport infrastructure, and other high priority sectors.
4. Working with China's State Development Planning Commission, intensify project recourse financing dialogue with the goal of gathering transactional experience to provide the basis for future project finance models; identify specific sectors and opportunities in which Exim and Chinese organizations can work more closely, including those under the Daley/Shi action plan under 1 above, to support U.S. exporter (particularly SME) interests.
5. Announce resolution of outstanding market access concerns in the following areas:
   - Remove State Power Corporation restrictions on imports of 600MW power generating equipment;
   - Postpone, pending consultations, proposed pharmaceutical price and profit controls which may be enacted October 1 of this year;
   - Announce China's decision to license Code Division Multiple Access wireless communications technology for national use and deployment;
   - Resolve U.S. exporter problems associated with the implementation of recent State Administration for Foreign Exchange controls directives.

Export Controls

1. Enhance and expedite procedures under the end-use arrangement agreed to during the Summit.
2. Initiate a dialogue to expand the current scope of end-user certificates to include items controlled for nuclear proliferation, missile technology, and chemical and biological purposes.
3. Schedule a visit to Beijing during the fall of 1998 by Under Secretary for Export Administration Reinsch and subsequent visits to the United States in 1999 by appropriate Chinese counterparts.
4. Announce that the United States and China will establish a program of regular semi-annual export controls consultations with our Chinese counterparts similar to consultations underway currently with Hong Kong counterparts.

5. Obtain clarification from China on the relationship of the People's Liberation Army to commercial sectors and on developments in transferring former PLA-owned enterprise assets.

Arbitration, Commercial Disputes, and Commercial Law

1. Announce specific steps with a time line of implementation, as agreed to during the Summit, that China will take to ensure that arbitration awards on behalf of foreign investors will be promptly and fairly enforced in local Chinese courts.
2. Agree to an action plan on outstanding commercial disputes before the JCCT Commercial Law Working Group which identifies specific steps all parties will pursue to resolve outstanding issues.
3. Schedule joint commercial law programs in e-commerce and corporate law; consider scheduling programs focusing on the judicial handling of commercial disputes. Continue senior level government-to-government exchanges between Commerce's General Counsel and appropriate MOFTEC and other senior officials on the Chinese side, including under the auspices of joint commercial law seminars.

Trademark and Software Compliance

Related to our commercial law focus:

1. Announce China's commitment to enhance enforcement and substantially reduce trademark counterfeiting of marks registered in China and unregistered well-known marks owned by U.S. companies. Enhanced enforcement will be implemented by:
   - o establishing statutorily imposed minimum penalties (fines and prison terms) for individuals and higher minimums for persons other than individuals;
   - o requiring seizure of counterfeit goods and destruction of such goods unless other dispositions are consented to by the trademark owner.
   - o committing to resolve existing trademark infringement cases, particularly Underwriters' Laboratories.
2. Schedule reciprocal visits in late 1999 by Commerce's Commissioner of Patent and Trademark and appropriate Chinese counterparts.
3. Announce plans by both governments to establish government-wide legitimate software compliance programs (including mandatory budgeting for software expenditures in all IP budgets) in order to enhance IPR enforcement of legitimate and licensed software.

Standards, Testing, and Certification

1. Enhance joint efforts to initiate and expand contact points and confidence building measures between conformity assessment bodies.
2. As agreed to during the 11th session of the JCCT, identify an effective inquiry point in China to provide interested U.S. companies with information on standards and other aspects of conformity assessment.
3. Agree to regular workshops, bringing together senior management from Chinese standards and certification organizations and U.S. private sector conformity assessment bodies, including a workshop planned for the spring of next year.

4. Schedule reciprocal visits in late 1999 by senior officials from the National Institute of Standards and Technology and China's State Administration of Commodity Inspection and other appropriate organizations in 1999.

Summit-related Initiatives

1. Expand the scope of commercial activities with all relevant Chinese government organizations with the implementation of JCCT Summit-related initiatives mentioned above (commercial law, export controls) and other initiatives underway (aviation and airport infrastructure, insurance, and possibly housing).
2. To highlight joint efforts in establishing a U.S.-China Residential Building Council, invite a housing delegation to the United States, including possibly during MOFTEC Minister Shi's visit.
3. Announce specific sectors, with corresponding sponsoring organizations on each side, for the Multi-Agency Infrastructure Mission planned for the spring of 1999.

~~CONFIDENTIAL~~

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20504

6392

September 19, 1998

MEMORANDUM FOR

MR. LEON FUERTH
Assistant to the Vice President for National Security Affairs

MR. THOMAS PICKERING
Under Secretary
Department of State

MR. LAWRENCE SUMMERS
Deputy Secretary
Department of the Treasury

MR. WALTER SLOCOMBE
Under Secretary
Department of Defense

MR. TIMOTHY HAUSER
Acting/Under Secretary
Department of Commerce

MR. PETER BURLEIGH
Acting U.S. Permanent Representative to the United Nations

MR. RICHARD FISHER
Deputy USTR for Policy Coordination
U.S. Trade Representative

MR. JOHN PODESTA
Deputy Chief of Staff to the President

MS. LAEL BRAINARD
Deputy Assistant to the President for International Economic Policy and Deputy Director

MR. JOHN HOLUM
Director, Arms Control and Disarmament Agency

GEN. JOSEPH RALSTON
Vice Chairman, Joint Chief of Staff

SUBJECT: Informal Deputies Committee Meeting on China (C)

There will be an informal Deputies Committee meeting on China on Wednesday, September 23, 1998 from 11:00 a.m. - 12:30 p.m. in the White House Situation Room. Attendance is limited to principal plus one. An agenda is attached. (C)

Glyn T. Davies
Executive Secretary

Attachment
Tab A Agenda

~~CONFIDENTIAL~~
Classified by: Glyn T. Davies
Reason: 1.5(b, d)
Declassify On: 09/16/2008

DECLASSIFIED
E.O. 13526
White House Guidelines, September 11, 2006
By VL NARA, Date 1/30/2013
2010-1024-F

~~CONFIDENTIAL~~

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. agenda	Deputies Committee Meeting. Record ID: 9806392. (1 page)	09/18/1998	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1177

FOLDER TITLE:

China (October to November 1998) [3]

2010-1024-F
vz1801

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. agenda	Annotated Agenda: Deputies Committee Meeting. (6 pages)	09/1998	P1/b(1)

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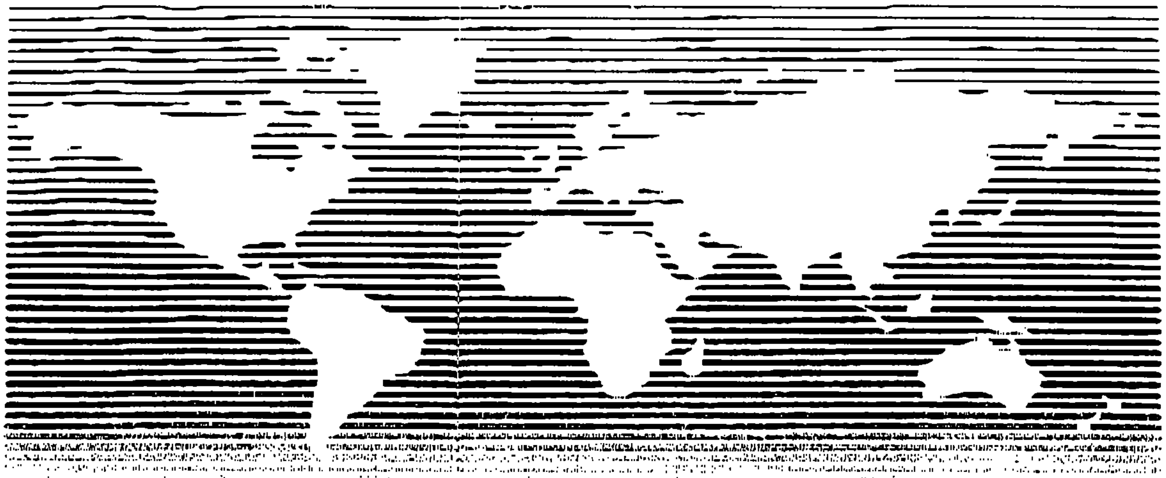


FROM: **Hank Levine**
Deputy Director for Economic Affairs
Office of Chinese and Mongolian Affairs
U.S. Department of State, Washington, DC

TEL: 202-647-6796
FAX: 202-647-6820

TO: Malcolm Lee
Jeff Bader

☐ **PER DISCUSSION** ☐ **FOR CLEARANCE** ☐ **FYI**

Looks like Chinese now want Sec. Herman to go there first. Hope it can work....

Hank

cc: Bob [illegible]
David Thaler

MINISTRY OF LABOUR AND SOCIAL SECURITY
THE PEOPLE'S REPUBLIC OF CHINA
中华人民共和国劳动和社会保障部

Address: 12 Hepingli Zhongjie, Beijing, P. R. China 地址：中国北京一和平里中街12号
Telephone: (0086 10)64227116, 64213431-702/704 电话：64227116, 64213431-702/704
Facsimile: (0086 10)64211624 Postcode: 100716 传真：64211624 邮政编码：100716

Mr. Andrew James Samet
Deputy Under Secretary for International Affairs
U.S. Department of Labor
Fax:001-202-219 5980

September 10, 1998

Dear Mr.Samet,

Thank you for your kind efforts in promoting the significant exchange of ministerial visits between DOL and MOLSS.

As Ms.Darcy Zotter (2nd Secretary of the U.S Embassy in Beijing) might have informed you earlier, Minister Zhang Zuoji has decided to postpone his visit to the United States to the next year due to the flooding in southern China. I apologize for any inconvenience entailed to your side by the postponement.

Minister Zhang Zuoji sincerely hopes that Secretary Herman can visit China at Her Excellency's convenience before the end of this year. We initially propose that the visit take place in late October or the first half of November. I would be very keen to know about your response and advice and a formal invitation signed by Minister Zhang will be sent to you soon after your side's confirmation.

I look forward to welcoming you in Beijing..

Yours sincerely,

Lin Maizhu
Deputy Director-General
Dept. of International Cooperation
Ministry of Labor and Social Security, P. R. China

Levine, Henry A

From: Levine, Henry A
To: Shirk, Susan L; Romberg, Alan D.; Keith, James R; Ruffo, Susan L.
Subject: labor dialogue
Date: Thursday, August 06, 1998 4:36PM

Finally connected with Bob Shepherd at Labor (he works for Andy Samet), who conveyed the following:

DOL and Chinese have been communicating directly by faxed letters; Chinese had proposed early Sept. visit by their labor minister; Labor counteroffered late Sept.; in July 15 letter Chinese said they would study this. No further response. Tentative DOL thinking (not yet discussed with Chinese) would be for Sec. Herman return trip to China in the spring.

Chinese interested in two days in Washington, 1 day in LA (to see mayor, "labor administrative dept.", and a factory); and one other city. DOL thinking of Baltimore as other city because Chinese interest includes Social Security and there is a DOL district office the minister can visit.

Chinese have expressed interest also in meeting with Sec. Shalala at HHS on healthcare.

Darcy Zotter from Embassy Beijing (now in US on leave) has spoken with DOL in last couple of days; she has explained that Chinese have 3 main objectives: discussing social security; pension reform; and reemployment/retraining. Over the past year they have also raised issues such as mine safety and other occupational health and safety.

DOL wants to use the minister's visit to help clarify China's priorities and what kind of cooperation China wants, e.g., technical assistance, sending experts to the US, etc.; In considering Chinese proposals, DOL wants also to see "how forthcoming China will be on issues of interest to us", e.g., worker rights.

DOL does plan a meeting for Chinese with AFL-CIO, at DOL, probably with AFL International Division and the Solidarity Center.

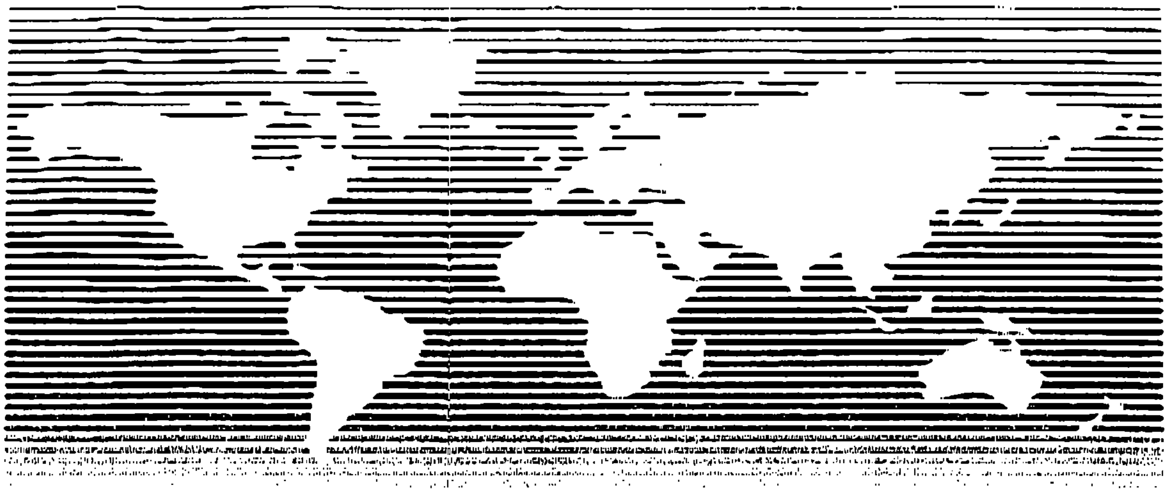
Shepherd said that he plans to have Darcy Zotter, following her return to Beijing, be the main point of contact in planning details of the visit.

I expressed our interest in remaining in the loop. Also noted that late Sept. timeframe is getting pretty crowded with senior Chinese visitors and we need some coordination.

Comment: seems to me US companies with interest in pension and healthcare would have an interest in exposure to the Minister. Also some obvious overlap with Commerce follow-up items from summit in pension/insurance. end comment.

Special note for Malcolm Lee: might be useful to get Labor and other intested agencies together to discuss: how timing of visit could be coordinated with other senior visitors; how it fits into other summit follow-up, esp. JCCT and other Commerce items; and how interests of both labor and US companies can be promoted by the visit. Interested in pulling concerned parties together? Interested in having someone else do it?

cc: JBader, MLee, DForest



FROM: Hank Levine
Deputy Director for Economic Affairs
Office of Chinese and Mongolian Affairs
U.S. Department of State, Washington, DC

TEL: 202-647-6796
FAX: 202-647-6820

TO: E - Dave Norlands
cc: Malcolm Lee
Jeff Bader

☐ PER DISCUSSION ☐ FOR CLEARANCE ☐ FYI

Dave — Just got attached wire piece re FMC + China. Steve Miller in EB/TRAN was not aware of this, but is checking. Given Stu's strong interest in Japan problem, wanted to alert you too! Will keep you

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. draft	Memorandum for William Daley from Timothy Hauser. Subject: Your Meeting with Ambassador Barshefsky (7 pages)	09/22/1998	P1/b(1)

COLLECTION:

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National Economic Council
Malcolm Lee
OA/Box Number: CF 1177

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b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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005. memo	For Charlene Barshefsky from Cassidy, Papovich, Lund, Field, and Burns. Subject: Proposed Trade Strategy for China. (7 pages)	09/02/1998	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Economic Council
Malcolm Lee
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FOLDER TITLE:
China (October to November 1998) [3]

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
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