

FOIA MARKER

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Folder Title:

China (February to March 1999) [1]

Staff Office-Individual:

National Economic Council-Lee, Malcolm

Original OA/ID Number:

CF 1176

Row:	Section:	Shelf:	Position:	Stack:
23	5	5	3	V

Withdrawal/Redaction Sheet

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. paper	Indicative List of Key Outstanding Issues. (3 pages)	c. 01/1999	P1/b(1)
002. email	Malcolm Lee to Record at 05:01 PM. Subject: [None] (1 page)	03/29/1999	P1/b(1)
003. paper	Page from unknown document on Chinese Accession. (1 page)	02/26/1999	P1/b(1)
004. email	White House Situation Room to Jeffery Bader, Holly Hammonds, Kenneth Lieberthal et al. at 8:21 AM. Subject: Premier Zhu (4 pages)	02/23/1999	P1/b(1)
005. cable	re: Letter from William Clinton to President Jiang Zemin. Record ID: 9900365. (8 pages)	02/08/1999	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1176

FOLDER TITLE:

China (February to March 1999) [1]

2010-1024-F

vz1811

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]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

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)]

b(1) National security classified information [(b)(1) of the FOIA]
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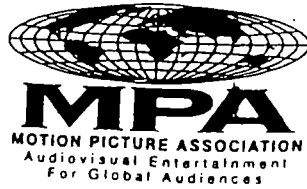
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JACK VALENTI
CHAIRMAN
AND
CHIEF EXECUTIVE OFFICER

Feb. 8 '99

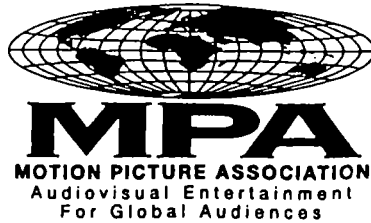
1600 EYE STREET, NW
WASHINGTON, D.C. 20006
TELEPHONE: 202/293-1966
TELECOPIER: 202/452-9823

Dear Sandy,

I want you to
see the letter I
have dispatched
to Charlene
at USTR.

Thanks

Jack



JACK VALENTI
CHAIRMAN
AND
CHIEF EXECUTIVE OFFICER

February 8, 1999

1600 EYE STREET, NW
WASHINGTON, D.C. 20006
TELEPHONE: 202/293-1966
TELECOPIER: 202/452-9823

Dear Charlene

I understand negotiations for China's entrance into the WTO are nearing the finish line.

I put this as honestly and as candidly as I can: The motion picture industry cannot be thrown over the side as we were in GATT, as we were in Canada. In order for China's WTO admittance, there must be confirmable commitments by China to allow us access to their marketplace, which is now severely restricted.

I attach a two-year plan which I presented to high-stationed officials in the Chinese government. No response. That two-year plan is the minimum our government should insist as part of China's entry into WTO. Anything less is just unacceptable. Intellectual Property produces more international revenues than aircraft, than autos and auto parts, than agriculture.

China cannot be allowed entry into WTO with current restrictions in place. It makes a mockery of trade doctrine.

I need your help!

The Honorable Charlene Barshefsky
United States Trade Representative
Winder Building
600 17th St., NW
Washington, DC 20506

Warmly,

A Specific Two-Year Plan for China/US Cinema Cooperation: June, 1998 to June, 2000.

1. Gradually increase number of films from the seven major U.S. film companies over the next two years. From June, 1998 to June, 1999, a total of 17 films to be imported into China. From June, 1999 to June, 2000, a total of 25 films. In June, 2000, China and the U.S. film industries to analyze the marketplace, to prepare for the next two years.
2. Increase the number of Chinese distribution companies involved in the distribution of U.S. major company films to at least two distribution entities, more if possible. By enlarging the number of distributors, China's film industry benefits from expanded performance and knowledge of how exhibition and marketing work.
3. China and the U.S. industry should discuss how to reduce the high taxation on American films in China.
4. U.S. companies will assist the Chinese film industry in training in production, marketing and distribution, if China finds this useful. This training would include interns working with American companies to learn the latest techniques in marketing and distribution. The U.S. industry will advise China on how to help young Chinese filmmakers enroll in and study at the best film schools. U.S. companies will assist the Chinese film industry in training in the new technology, digital, the Internet, satellite delivery and cable.
5. China and the U.S. industries plan together as to how best to involve each other in the co-production of films.
6. The American industry to showcase Chinese films through film festivals in 1998 and 1999 in the United States.

SOME FACTS ABOUT Chinese/American film industries: In the last four years, the seven major U.S. companies have been allowed to exhibit a total of 28 films in China. The total box-office for these films was \$115 million. Note: TITANIC is still in exhibition so that total box-office number will rise. Due to taxes and expenses, the U.S. companies have been able to retrieve only 12-15% in revenues from these films.

In the US, more than 90% of all theaters are owned by independent businessmen with no connections to the major studios. Theater owners exhibit films they believe will attract paying audiences to their theater. That is their sole objective. New opportunities are opening up for exhibition of Chinese (and other non-English language films) on American cable systems and on satellite-to-home delivery of entertainment product.

Making and distributing movies is a very risky business. Of every ten movies released theatrically by the American companies, only four actually make a profit.

file 15
THE WHITE HOUSE
WASHINGTON

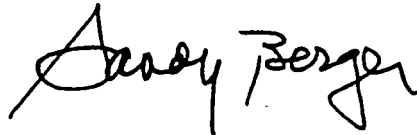
January 21, 1999

Dear Jack:

I appreciate your sending me a print of "Stagecoach," which the President is forwarding to Jiang Zemin. In his letter to Jiang, the President urged him to open China's market to American films. I will let you know should we hear anything back from President Jiang or his people on this.

We stand ready to provide you whatever help we can in your continuing efforts to open China's market and protect the intellectual property rights of our creative people in the film industry.

Sincerely,



Samuel R. Berger
Assistant to the President
for National Security Affairs

Mr. Jack Valenti
President and Chief Executive Officer
Motion Picture Association of America,
Inc.
1600 Eye Street, N.W.
Washington, D.C. 20006

FRTZ

Bonnie

aew to Co. Reps.

FVI: Malcomb Lee

DRAFT - not for
circulation

MEMORANDUM

TO: Lael Brainard

FR: Holly Hammonds
Matt Schaefer

RE: APEC Schedule

DT: February 23, 1999

Key APEC Dates leading up to the 1999 Leaders meeting are as follows:

April 26-28: Small/Medium Enterprises Ministers (Christchurch)

April 29-May 7: Senior Officials Meeting (Christchurch)

April 29: Finance Deputies (Washington, D.C.)

May ?: Finance Ministers (Penang, Malaysia)

May 21-23: APEC Business Advisory Council (Tokyo)

June 26: Informal Senior Officials Meeting (Auckland)

June 28-30: Trade Ministers (Auckland)

July 27-30: Human Resources Development Ministers (Washington, D.C.)

August 5-13: Senior Officials Meeting (Rotorua)

Sept. 7-8: Informal SOM (Auckland)

Sept. 9-10: Joint Foreign & Trade Ministers (Auckland)

Sept. 12-13: Leaders Meeting (Auckland)

APEC SECRETARIAT
Calendar of Events held beginning February 1999

As of 03 February 1999

Month/Year	APEC Events	Other Related Events
February, 1999		
1 - 10 Feb Wellington, New Zealand	SOM I and related meetings	
• 3 - 5 Feb Yokohama, Japan	EWG: 5th Coal Flow Seminar	
✓ 5 - 7 Feb Bandar Seri Begawan, Brunei Darussalam	1st 1999 Meeting of ABAC	
• 8 - 9 Feb Honolulu, Hawaii, United States of America	EWG: Expert Group on Clean Fossil Energy Steering Committee Meeting	
+ 22 - 23 Feb Kitakyushu-City, Japan	IPR: APEC Symposium on Intellectual Property Rights	
25 - 26 Feb Kitakyushu-City, Japan	IPR: Meeting of Intellectual Property Rights Experts Group	
March, 1999		
Mar (to be advised) Kuala Lumpur, Malaysia	Finance Ministers Process Technical Working Group Meeting	
2 - 4 Mar Tsukuba, Japan	IST: APEC Symposium on High Performance Metal Matrix Composites for Manufacturing Technology of Advanced Materials	
2 - 5 Mar Hong Kong, China	16th Meeting of IST WG	
3 - 4 Mar Bangkok, Thailand	IIRD: APEC Chief Human Resources Officers (CHRO) Meeting (Phase II)	
8 Mar Miyazaki, Japan	TEL: Interconnection Task Force Meeting	
8 Mar Miyazaki, Japan	TEL: Information Seminar on International Charging Arrangements for Internet Services	
9 Mar Miyazaki, Japan	TEL: MRA Task Force Meeting	
9 Mar Miyazaki, Japan	TBI: Human Resource Development Seminar	
• 9 Mar Melbourne, Australia	EWG: Expert Sub-Group on Energy for Sustainable Communities Meeting	
• 9 Mar Melbourne, Australia	EWG: Joint Working Group Session/Renewable Energy Industry Workshop	
• 9 - 10 Mar Brunei, Brunei Darussalam	EWG: 10th Meeting of the Expert Group on Energy Data & Outlook	

APEC SECRETARIAT
Calendar of Events held beginning February 1999

As of 03 February 1999

Month/Year	APEC Events	Other Related Events
<u>March, 1999</u>		
9 - 11 Mar Canberra, Australia	11th Meeting of TP WG	
* 10 - 12 Mar Melbourne, Australia	EWG: 14th Meeting of Expert Group on New & Renewables Technologies	
10 - 13 Mar Miyazaki, Japan	19th Meeting of TBI WG	
12 - 23 Mar Kuala Lumpur, Malaysia	Meeting of Finance Working Group	
+ 22 - 23 Mar Chinese Taipei	IST: APEC R&D Leaders Forum on Telecommunications Technology	
+ 22 - 24 Mar Mexico City, Mexico	EWG: Workshop on Energy Efficient Retrofittings at Commercial Buildings (EWG 06/99)	
22 - 26 Mar Taipei, Chinese Taipei	EWG: Workshop on Technology Development & Utilization of Renewable Energy	
23 - 24 Mar APEC Secretariat, Singapore	BMC Meeting	
25 - 26 Mar Mexico City, Mexico	EWG: 14th Meeting of the Expert Group on Energy Efficiency & Conservation	
* 29 - 30 Mar Mexico City, Mexico	EWG: 5th Meeting of Steering Committee on Energy Standards	
<u>April, 1999</u>		
Apr (to be advised) Santiago, Chile	EC: Economic Outlook Symposium	
Apr (to be advised) 29 Washington DC, United States of America	APEC Finance Deputies Meeting	
+ 2 - 3 Apr Kaohsiung, Chinese Taipei	MRC: Sustainability of marine Environment: What Can the Private Sector Do?	
* 6 Apr Bangkok, Thailand	EWG: ANMED Database Project Steering Committee Meeting	
* 6 Apr Bangkok, Thailand	EWG: Sub-Group on Environmental Cooperation Meeting	
* 7 - 8 Apr Bangkok, Thailand	EWG: 4th Meeting of the Expert Group on Minerals & Energy Exploration & Development	
+ 7 - 10 Apr Hong Kong, China	MRC: Training Course on Remote Sensing of Harmful Algal Bloom	
14 Apr Canberra, Australia		PECC Coordinating Group Meeting

APEC SECRETARIAT
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As of 03 February 1999

Month/Year	APEC Events	Other Related Events
<u>April 1999</u>		
15 - 16 Apr Canberra, Australia		PECC Standing Committee Meeting
19 - 20 Apr Oakland, California, United States of America	EWG: Energy Infrastructure Investment Workshop	
19 - 21 Apr Singapore		World Conference on Model Cities
19 - 23 Apr (to be advised), Chile	15th Meeting of TPT WG	
20 - 23 Apr Lima, Peru		PECC Minerals Conference
21 Apr Oakland, California, United States of America	EWG: Inaugural Meeting of the EWG Business Network	
21 Apr Oakland, California, United States of America	EWG: Expert Group Chairs' Meeting	
21 Apr Oakland, California, United States of America	EWG: Energy Regulators' Forum Meeting	
22 - 23 Apr Oakland, California, United States of America	~~19th Meeting of TPT WG~~	
22 - 24 Apr (to be advised), Malaysia	APEC Public-Business/Private Sector Dialogue on Sustainable Urbanisation for the 21st Century	
26 Apr Christchurch, New Zealand	Policy Level Group on SME Meeting	
27 - 28 Apr (to be confirmed); Christchurch, New Zealand	SME Ministerial Meeting	
29 Apr - 7 May Christchurch, New Zealand	SOM II and related meetings	
<u>May 1999</u>		
May (to be advised) Penang, Malaysia	APEC Finance Ministers Meeting	
10 - 14 May (to be advised), Republic of the Philippines	MRC: Symposium on Harmful Algae Management and Mitigation (MRC 01/97)	
10 - 14 May Hong Kong, China	20th Meeting of HRD WG	

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Month/Year	APEC Events	Other Related Events
May, 1999		
11 - 14 May Manzanillo, Mexico	14th Meeting of TWG	
14 - 19 May Hong Kong, China		PRBC 32nd International General Meeting
17 - 19 May Cairns, Australia	10th Meeting of FWG	
17 - 20 May Cairns, Australia	12th Meeting of MRC WG	
21 - 23 May Tokyo, Japan	2nd 1999 Meeting of ABAC	
27 - 28 May Singapore		APEC Roundtable by ISEAS
31 May - 2 Jun Auckland, New Zealand	ASC: APEC Study Center Consortium Conference	
June, 1999		
+ 2 - 5 Jun Seoul, Republic of Korea	IEQ: APEC FDI Mart	
3 - 4 Jun Auckland, New Zealand		PECC Trade Policy Forum
* 7 - 10 Jun Tokyo, Japan	3rd Meeting of ATC EG	
8 - 11 Jun Taipei, Chinese Taipei	IST: Workshop on Cleaner Production by Design - Opportunities for Innovation & Apprenticeship in Pollution Prevention	
* 12 - 14 Jun Davao City, Republic of the Philippines	ATC: Seminar-Workshop on Sustainable Agriculture	
15 - 17 Jun Seoul, Republic of Korea	TWG: Best Cases on Tourism and Cultural Festivals in APEC Member Economies Symposium	
21 - 23 Jun Wellington, New Zealand		Women Leaders' Network Meeting
24 - 26 Jun Auckland, New Zealand		Business Symposium
27 Jun Auckland, New Zealand	Informal SONG	
28 Jun Auckland, New Zealand	Trade Liberalisation Seminar	
28 - 30 Jun Auckland, New Zealand	APEC Trade Ministers Meeting (TMM begins in evening of 28th)	

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Month/Year	APEC Events	Other Related Events
<u>July, 1999</u> 5 - 7 Jul APEC Secretariat, Singapore	BMC Meeting	
<u>August, 1999</u> Aug (to be advised) (to be advised), China	EWG: APEC Coal TLF Workshop (EWG 05/99T)	
5 - 13 Aug Rotorua, New Zealand	SOM III and related meetings	
Aug (to be advised) (to be advised), United States of America	17th Meeting of IST WG	
<u>September, 1999</u> Sept (to be advised) (to be advised), Peru	20th Meeting of TEL WG	
7 - 8 Sept Auckland, New Zealand	Informal SOM	
9 - 10 Sept Auckland, New Zealand	11th APEC Ministerial Meeting	
10 - 11 Sept (to be advised)		CEO Forum
11 Sept Auckland, New Zealand	ADAC Meeting	
12 - 13 Sept Auckland, New Zealand	7th Informal APEC Economic Leaders' Meeting	
<u>October, 1999</u> Oct (to be advised) (to be advised), Australia	EWG: ANMED Database Project Steering Committee Meeting	
Oct (to be advised) (to be advised), Australia	EWG: GEMED Forward Program Review Meeting	
Oct (to be advised) (to be advised), Australia	EWG: Sub-Group on Environmental Cooperation Meeting	
Oct (to be advised) (to be advised), Australia	EWG: Third Environmental Cooperation Workshop	
Oct (to be advised) Taipei, Chinese Taipei	EWG: 7th Annual Clean Coal Energy Technical Seminar	
+ 17 - 19 Oct (to be advised), Chinese Taipei	HRD/SME: APEC Human Resources Management Symposium on SMEs	
19 Oct Manila, Republic of the Philippines		PECC Coordinating Group Meeting

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF ADMINISTRATION
WASHINGTON, D.C. 20503

February 24, 1999

MEMORANDUM FOR ALL EXECUTIVE OFFICE OF THE PRESIDENT EMPLOYEES

FROM: MARK LINDSAY 
DIRECTOR
OFFICE OF ADMINISTRATION

SUBJECT: Transition of EOP Publications Office

The Office of Administration is pleased to announce that on April 1, 1999, the EOP Publications Office will transition from paper to electronic distribution of documents. The Fax-on-Demand system, which is not Y2K compliant and is no longer cost effective to upgrade, will also cease at that time. This decision was based on a thorough cost analysis study conducted by IS&T which determined that the average cost per copy for the electronic document distribution via the Presidential publication server is \$0.02 while the average cost per copy for the Publications Office to distribute paper/fax documents is \$6.34.

Additionally, Library and Research Services statistics show that calls to the Fax-on-Demand system have declined from 39,457 in FY 1996 to 11,355 in FY 1998 and the decline continues in FY 1999. Telephone calls requesting paper copies of documents have declined from 37,745 in FY 1996 to 17,911 in FY 1998 and this decline also continues in FY 1999.

EOP agencies are encouraged to distribute documents through their home page on the Internet. If you do not already have an agency home page on the Web, the Information Services and Technology Division will assist you in creating one. Should agencies wish to continue paper distribution of documents, they are encouraged to use the Government Printing Office (GPO) or a commercial clearinghouse for this purpose. The General Services Division, Graphic Design and Printing Management Branch of OA, the OA liaison with the Government Printing Office, can assist you in using GPO and the staff of the EOP Publications Office will gladly work with you to find alternative distribution sources.

The staff currently assigned to the EOP Publications Office transfers to IS&T effective April 1, 1999 to assist in the electronic distribution of documents via the White House Home Page. Their institutional memory and expertise will still be available to assist in the transition. Additional information is attached at enclosure (1).

With this transition, the distribution of White House and EOP documents moves into the 21st century.

Enclosure

EOP AGENCIES AND THEIR METHODS OF PUBLICATION DISTRIBUTION

As a prelude to discontinuing the physical distribution of paper copy documents for the EOP Agencies, Library and Research Services Division undertook a study of how EOP agencies currently distribute publications and how they handle incoming telephone calls relating to their publications.

Susan Hawthorne and Karen Barbuschak reviewed the historical files for the Publications Office and found no documents requiring EOP agencies to use the services of the Publications Office. This is as expected since the nature of the documents range from classified to general unclassified distribution. Distribution procedures are at the discretion of each agency. Some agencies wish to control the distribution of even the unclassified while others have a long-standing relationship with GPO for distribution of very large-volume publications.

White House Office

The main publications coming out of the White House Office are the press releases and briefings. Press Office distributes print copies to members of the press. Paper copies are distributed to the public by the EOP Publications Office. Electronic copies are available from the White House Web site, e-mail, and the fax-on-demand system.

Questions from the public regarding press releases are handled by Public Affairs and the EOP Publications Office.

Office of the Vice-President

The primary publication coming out of this office is also press releases. Almost no paper distribution is done. This office prefers electronic distribution using the White House Web site, e-mail, and in-house faxing. The OVP "rarely" uses the EOP Publications Office.

Any questions regarding releases are referred back to the OVP's Press Office or Domestic Policy.

Council of Economic Advisers

The primary publication of CEA is the annual Economic Report of the President. There is occasional demand for the testimony or speeches of the Chairman. Paper copies are distributed through the EOP Publications Office not GPO. The Chairman of CEA wants all citizens to have access to a free copy of the Economic Report regardless of whether they can access the Internet or not. CEA relies heavily on the Publications Office to meet this need as they have little staff in-house to do mail outs. CEA publications are also available electronically through GPO Access and links on the White House Web site. The Economic Report also appears on the CD-ROM of the Budget of the United States Government.

Questions regarding CEA Publications are directed to the Press Office if inquirer is a reporter. Otherwise, calls are directed to the Chief of Staff's office which also serves as the central information office for CEA.

Council on Environmental Quality

The main documents produced by CEQ are annual reports on various environmental topics and the NEPA guidelines. Paper distribution is primarily through GPO, although the office maintains some in-house mailing lists. Electronic copies can be obtained from their Web site.

Questions regarding CEQ publications come in on their main line and are then referred to the appropriate staff member.

National Security Council

The main document produced by NSC is the annual National Security Strategy. This and any other statements or press releases are released through the White House Press Office. Paper distribution is done through the EOP Publications Office. NSC rarely, if ever, uses GPO. Electronic copies are available on the White House Web site.

Any questions regarding NSC publications are referred to their Defense Policy office.

Office of Management and Budget

OMB produces several types of publications. The main one is, of course, the Budget of the United States Government and related volumes. OMB also produces Circulars and Bulletins which provide guidance to other agencies, and occasional reports mandated by Congress.

The Budget and related volumes are distributed in paper by GPO. They are also available electronically via a link on OMB's Web site to GPO Access. A CD-ROM is also produced annually by GPO containing the Budget and the Economic Report of the President. Circulars and Bulletins are available in print from the EOP Publications Office and most Circulars are also available on the fax-on-demand. All Circulars appear in the Federal Register and would therefore also be on GPO Access. OMB Forms are only available on the fax-on-demand not in print.

Questions regarding OMB publications are referred to their Public Affairs office. Press releases come out of their Communications office.

Office of National Drug Control Policy

ONDCP produces several types of publications: the annual Drug Strategy, a budget summary, Performance Measures of Effectiveness, bulletins, and occasional white papers. They do some in-house mail outs, but most distribution is through a contract with a document clearinghouse which handles both paper distribution through GPO and electronic distribution by loading documents onto the Web for ONDCP.

ONDCP has an 800 number on the Web for any questions regarding publications. Calls are then referred to the appropriate office as are any calls coming in on the main line.

Press releases are handled by their Public Affairs office.

Office of Policy Development

Most publications coming out of OPD are issued in conjunction with other federal agencies which arrange for their distribution. The occasional independent report issued by OPD is distributed by GPO. The NEC also has a Web site.

Office of Science and Technology Policy

OSTP issues a biennial report plus occasional one time reports on various topics. Most distribution is done in-house with each division maintaining its own mailing list. Copies are also sent to NTIS for sale. OSTP has a new Web site to which most publications are being added.

Any questions regarding publications come in on the main line and are then referred to the appropriate division.

President's Foreign Intelligence Advisory Board

The reports they prepare are for the President and are classified. They do not prepare any publications for distribution.

United States Trade Representative

Reports issued by USTR are mandated by Congress. The two main reports are both annual: Annual Report of the President on Trade Agreements, and, National Trade Estimate Report on Foreign Trade Barriers.

Printing is done by a private contractor in conjunction with GPO. GPO makes some copies available for sale, but USTR distributes most through in-house mail outs. Each member of the House and Senate receives a copy of the two main documents mentioned. Each division within USTR also maintains their own mailing list for distributions to embassies, etc. Copies may also be picked up from the USTR Public Affairs office in the Winder Building. USTR also maintains a Web site for electronic distribution of its publications.

Any questions regarding publications start with the Public Affairs office, then to the Policy Coordination office which has responsibility for most publications, and then to specific divisions if necessary.

CHINA WTO TALKING POINTS

February 16, 1999

- 1999 represents an important opportunity for China to demonstrate its seriousness about joining the World Trade Organization. The visit of Chinese Premier Zhu Rongji to the United States and the launch of a new global Round of trade negotiations at Seattle in December provide clear opportunities for progress in WTO negotiations.
- The Clinton Administration has consistently indicated that China's accession to the WTO must be on a commercially-meaningful basis, and that China must open its market to U.S./foreign goods, services, and agricultural products. A viable commercial package must also address the spectrum of our bilateral trade concerns.
- It is in China's own economic interest to undertake the economic reforms we are advocating in a WTO package to improve productivity, increase efficiency, and raise living standards among the people of China. A solid WTO package would advance the rule of law in China. The recent decline in foreign direct investment in China - FDI may fall to \$15 billion in 1999, down from \$43.6 billion last year - is a very clear indicator that around the world, China's trading partners are looking for more open and fair trade terms with China. It is in the interests of the United States that China embrace international norms.

Is the United States lowering the bar in negotiations with China to get a deal during Zhu Rongji's visit?

- No. We have consistently indicated that China's accession must address the spectrum of U.S. trade concerns on commercially-meaningful terms. We have long taken the position -- shared by U.S. industries -- that WTO accession is the most effective way to address the full range of issues necessary to effectively open China's market. We hope the Chinese government recognizes the importance of engaging in comprehensive market-opening reforms.

U.S. industries indicate that the Administration is looking for new "bottom lines" in its WTO negotiations with China.

- We are working with the full range of U.S. industries, Congress, and other constituencies that are interested in our trade relationship with China. There is no search for a "bottom line." Economic conditions in Asia have changed substantially over the last 18 months, and we want to ensure that our negotiating objectives are contemporary and represent the full range of trade concerns.

Why is the issue of China's accession to the WTO now, so suddenly on the agenda for the Zhu meeting?

- We have had an active dialogue with China on bilateral trade issues and WTO accession for some time, as our negotiators have met with their Chinese counterparts virtually every month over the last two years. We have made some important progress in that time, but progress has been uneven, and at a rate which is not commensurate with China's emergence as a leading global exporter.

We have annual MFN renewal as clear leverage to cut off China's trade benefits in the United States. Why does the United States want China to join the WTO?

- China's accession to the WTO would put China's trade practices under multilateral surveillance. As a member of the WTO, China's trade practices would be subject to clear rules and enforcement terms. Accordingly, China's membership in the WTO would advance the rule of law.

Is this the last chance for China to join the WTO?

- 1999 is an important opportunity for China to more effectively undertake economic reforms that better integrate China into the global economy. That's what WTO accession would do. With the upcoming WTO Ministerial and the launch of a new round of trade negotiations, it only becomes more difficult for China to meet an ever-higher standard of market-opening commitments down the road.

Wouldn't WTO accession require a change in law to provide permanent MFN for China?

- The first objective must be to secure a comprehensive WTO package. We will be consulting with Congress in this process. We would consider supporting permanent MFN, after we have secured a comprehensive market-opening package that addresses goods, services, and agricultural trade concerns.

Won't the "Zhu Summit" be a failure if it fails to deliver a WTO package?

- No. A WTO package would most certainly provide the best market access certainty for U.S. farmers, manufacturers, and service industries in China. At the same time, these negotiations are as complex as they are important. We will measure progress by substantive commitments, not by time or a particular meeting. Make no mistake, we will continue to press our full range of bilateral trade concerns with China before, during and after the Zhu meeting.

- Zhu Rongji's visit is not just about progress on WTO. Certainly economic and commercial issues, including regional economic and financial issues, will be an important part of the agenda because of Zhu's stewardship of China's economy. In addition, the Vice President and Zhu will cohost a meeting of the U.S.-China Forum on Environment and Development. We also will be discussing other important U.S. interests in China, including security, nonproliferation, and human rights.

Sharon H. Yuan

02/22/99 11:39:00

AM

Record Type: Record

To: Lael Brainard/OPD/EOP, Malcolm R. Lee/OPD/EOP

cc: Melissa G. Green/OPD/EOP

Subject: China WTO

CHINESE OFFICIAL ASKS U.S. TO GIVE ON MAJOR ELEMENT OF WTO DEAL

Date: February 19, 1999 - Inside US Trade -

Chinese vice minister Long Yong-tu has asked the United States to make it easier for China to enter the World Trade Organization by showing more flexibility regarding deadlines for taking on full trade obligations, according to informed sources. Under this informally floated approach, China could make an initial market access deal with the promise of further concessions without agreeing to a specific deadline for making them, these sources said.

During last week's visit, Long asked the U.S. to have a more flexible approach on such end points, sources said. For example, he suggested that China may be able to agree to a "front-loading" of concessions in certain sectors in exchange for more flexibility on what the end points would be, a U.S. official said.

According to the official, the U.S. told Long that it must have certainty about the market access and the conditions under which companies would operate under a WTO deal. "From our point of view the end points are critical," he said. But he held open the possibility that such certainty could be achieved in a number of ways.

He said that the U.S. and China last week explored different approaches to different sectors in the hope of finding configurations that could attract more support of the Chinese leadership for a WTO deal.

But he ruled out as insufficient the idea that China would make initial market access concessions as a downpayment with the promises of a future installment of concessions in the upcoming multilateral negotiations. The U.S. would need to have "greater up-front certainty" than that, he said.

Up to now, the U.S. has pushed for market access on the date of China's entry that must grow over time with a specific deadline for China's compliance with WTO obligations. The U.S. had emphasized that it was flexible on the length of the transition periods that China would need to phase in its new obligations, but that it must consent to a specific end point.

The European Union has also advocated setting specific deadlines for China's acceptance of full WTO trade concessions, and EU officials are consulting in Washington this week on the Chinese accession. But officials emphasized that this is a part of a regular process and is not an extraordinary step.

Trading partners will likely have a chance to catch up with the latest developments on China's

accession at an informal meeting in Geneva scheduled tentatively for March 19. Officials stressed that it is not an informal meeting of the working party.

U.S. industry representatives advocating a quick entry for China into the WTO have argued that an initial small WTO entry deal could be made more acceptable if it is seen as a downpayment with an additional installment of concessions to be negotiated in multilateral negotiations, sources said.

These representatives also argue that any trade barriers that remain at the time of China's accession could be attacked under the multilateral dispute settlement system, private-sector sources said.

But U.S. business sources advocating a strong deal point out that the U.S. would have less leverage over China once it is a WTO member than it has now with China still seeking to get in. They point out that it would be unlikely that China would be willing to make difficult policy changes without U.S. pressure that it has up to now refused to make under U.S. pressure.

These sources also point out this approach would put an incredible strain on the dispute settlement system, which is already facing challenges from the current dispute between the U.S. and the European Union over bananas. That dispute would pale by comparison of what would ensue if China were asked to comply with a politically difficult ruling, these sources said.

Long's visit was meant to convey that China is serious about making a new effort to strike a WTO deal, much as Chinese premier Zhu Rongji indicated to Federal Reserve Board Chairman Alan Greenspan weeks ago, sources said. However, neither expression of interest has translated into concrete proposals for additional concessions, sources said.

For example, China has not indicated any willingness to narrow the list of products whose distribution it wants the Chinese government to control, sources said. The list of carveouts from the distribution deal now covers about twelve items of major export interest to the United States, including cars, pharmaceuticals, alcoholic beverages, petroleum products, fertilizers, books and magazines, sources said.

Up to now, U.S. officials insisted that this distribution offer was insufficient to make a WTO deal. In addition, sources said China has shown little willingness to make additional concessions on services.

China's expectations for last week's meetings were for the U.S. to reveal its bottom line for a deal, informed sources said. But U.S. trade officials have insisted in meetings with U.S. industry groups that any demands presented to China in the preparation for the Zhu visit would not constitute a bottom line and do not constitute lowering the bar.

For example, they have insisted that they would not agree to any arrangement for phasing out tariffs or non-tariff barriers in a way that would put all the concessions towards the end of the transition period, sources said. But in some important areas, China has insisted on that approach, such as the Information Technology Agreement, where it wants to phase out tariffs over a long period of time and in uneven installments (Inside U.S. Trade, Feb.12, p. 1).

U.S. officials are poised to travel to China in a matter of days to see how they can advance the negotiations, sources said. They are likely to remain in China until U.S. Trade Representative Charlene Barshefsky visits there early next month, sources said.

Barshefsky will be in China from March 3-5, preceded by Assistant USTR for China Bob Cassidy, who will leave for China this weekend, and Special Agriculture Negotiator Peter Scher, who will be there after a visit to Tokyo.

Informed sources said that U.S. officials this week did not seem optimistic that a deal can be achieved.

Zhu is scheduled to land in Los Angeles on April 7, with a visit to Washington on April 8 & 9. He will travel to either Denver or Chicago, visit in New York on April 12-13, and attend an event at the Massachusetts Institute of Technology from April 14-15 before leaving for Canada, sources said.

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004. email	White House Situation Room to Jeffery Bader, Holly Hammonds, Kenneth Lieberthal et al. at 8:21 AM. Subject: Premier Zhu (4 pages)	02/23/1999	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
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FOLDER TITLE:

China (February to March 1999) [1]

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financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information
concerning wells [(b)(9) of the FOIA]

Congress of the United States
House of Representatives
Washington, DC 20515

February 11, 1999

Let's Make China's Accession to the WTO Contingent Upon Congressional Approval

Dear Colleague:

U.S. officials have been negotiating China's accession into the World Trade Organization (WTO) for almost 10 years. China has consistently failed to meet the WTO basic market access entry requirements throughout this period. Nevertheless, some in the Clinton Administration appear to be interested in advancing WTO negotiations for China prior to a planned visit of Chinese Premier Zhu Rongji in April.

We believe that any accession plan for China must be contingent upon Congressional approval. Thus, the week of February 22, we are introducing a bill to do just that, and writing to ask you to be an original cosponsor of the measure.

China has continued to proceed with a trade policy that assaults the competitiveness of U.S. corporations and the standard of living of the American worker. As the trade deficit with China averages more than \$1 billion a week, it is clear Congress needs to assert its prerogative on the vital U.S. trade relationship with the Chinese.

The stakes are high, the Chinese economy is doubling in size every eight to ten years, but remains largely closed to U.S. exports. In 1988, the U.S. had a \$3.5 billion trade deficit with China; by 1997 it surged to \$50 billion. In 1999, the deficit is projected to reach nearly \$70 billion.

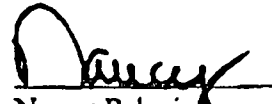
Even if China agrees to accede to the WTO under commercially acceptable terms, we have no guarantee it will implement a deal. This year, China has actually cut market access for U.S. firms and has provided hefty new export subsidies for its products.

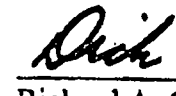
The accession of China to the WTO is too important an issue for the Congress to abdicate its Constitutional authority over trade matters. Our bill simply says that a joint resolution must pass both the House and Senate before the U.S. government can support the admission of China to the WTO. In addition, this bill will give the Administration additional negotiating leverage with China.

Thanks for your attention to this issue. If you would like to cosponsor, or if you have any questions, please contact Kate McAuliffe with Mr. Gephardt at 5-2671.

Sincerely,


David Bonior


Nancy Pelosi


Richard A. Gephardt

BARSHEFSKY SAYS CHINA VISIT WILL BE CHANCE TO GAUGE WTO INTENTIONS

U.S. Trade Representative Charlene Barshefsky yesterday (Feb. 11) said that her visit to China in March will give her a better understanding of China's position regarding entry into the World Trade Organization. She insisted that the U.S. had made some progress on this issue during the three days of talks held with Chinese Vice Minister Long Yong-tu this week.

"I would not call it dramatic, but we've made some progress," she told reporters after a Feb. 11 hearing before the House Ways & Means trade subcommittee. "I will be out in China probably first week in March, and at that point perhaps have a better sense of their intentions."

Long met with U.S. officials this week in a further effort to explore U.S. demands for a deal that would get China into the WTO, according to informed sources. The visit by Long was meant to allow the U.S. to further explain to China what must be included in a package on WTO accession, one Administration official said.

"The purpose of his visit was to understand in a more comprehensive sense what constitutes a commercial package," the official said. The U.S. underscored the need to have market access, as well as progress on services and the trading rules, he said. U.S. officials told Long that they need market access at the day of accession, and that market access would have to increase over time, according to the official.

Other sources insisted that the meetings did not constitute negotiating sessions and were aimed at determining whether a basis for continued negotiations could be established through a U.S. list of demands.

The U.S. is in the process of trying to scale back demands for a deal in consultation with selected industries, but China so far has not addressed some of the key issues that would have to be solved in a minimally acceptable deal. For example, "nothing has been settled" on the crucial issue of distribution, the official said.

Both industrial and agricultural companies have insisted that they must have the right to distribute their product in China to have meaningful market access. Otherwise, U.S. firms can only ship products to a Chinese port and depend on Chinese companies for bringing it to the market.

The issue of distribution is being handled as a services issue after the U.S. agreed in March of 1997 to treat it separately from trading rights. This separation allowed then-China negotiator Lee Sands to claim a breakthrough on the WTO protocol, which lays out the rules that China will follow on its entry into the WTO.

Some private-sector sources said that China did indicate in the recent visit of Deputy U.S. Trade Representative Richard Fisher that it could make further concessions on distribution and some services areas. U.S. China negotiator Bob Cassidy is scheduled to go to China later this month, in addition to agriculture negotiator Peter Scher and Barshefsky, the U.S. official said.

Barshefsky emphasized to the trade subcommittee that China must make meaningful concessions in terms of WTO obligations because failure to do so would hurt the WTO. "An accession of China on terms different from WTO members would weaken the WTO, would subject other developing countries to extraordinary competitive challenges by China, would potentially lessen commitments of other countries and would set a lower standard for accession of other countries including Russia which are not as far along in their accession," she said. "So accession on weak terms is simply not in the cards."

The visits are part of an initiative to dislodge the long-stalled negotiations in preparation for the visit of Chinese Premier Zhu Rongji in April. U.S. officials have refused to provide details about their efforts, including in congressional briefings, sources said.

The current consultations with industry are aimed at determining how the Asian financial crisis has changed the trade landscape, one official said. For example, insurance companies that once pressed for country-wide market opening are now "more practically" focused on "critical" cities for doing business, he said.

Similarly, China's use of export subsidies has come more into the forefront than a year ago, he said. China now uses subsidies to offset the price disadvantage its products suffer in comparison to other Asian exports from countries whose currencies have deteriorated.

But an industry source said that the current effort to reach a deal with China would have to involve a "huge sell out" on the part of the U.S. if the two sides are to reach an agreement. The two sides are very far apart and the concessions U.S. industry needs are so "alien" to China that it will be hard to achieve, he said.

Some sources advocating early entry of China into the WTO have insisted that a deal is possible because Zhu is personally involved in this set of talks. But government officials and informed private-sector sources have raised questions about his own position in the Chinese hierarchy and his ability to deliver a deal.

Sources also said that Chinese officials have been downplaying expectations for the Zhu visit in terms of trade by pointing out that trade is only one of many elements in the bilateral relationship, U.S. sources said. In addition, Chinese officials argue that China is interested in a deal but not at any price, and an agreement requires movement on both sides, according to these sources.

Rep. Doug Bereuter (R-NE) this week cast doubt on Zhu Rongji's ability to deliver a deal at his upcoming

visit by raising questions about his position in China. "I am not sure that the Premier can really make those kind of commitments that are required," he said. Bereuter also seemed to signal he would back a scaled back list of U.S. demands in the talks, which up to now have "perhaps been unrealistic."

Bereuter pointed out that Zhu has enormous problems in China. He has been promising to do "many, many important" things for China aimed at fitting it into the international community, Bereuter said.

"He probably overpromised dramatically what he can do in the next three years," he said. "I really suspect in times of mounting unemployment... he is going to find it very difficult not only to implement his economic reform goals, [but the Chinese] are going to find it increasingly difficult the longer they wait to make the concessions, changes necessary" to enter the WTO.

Bereuter said he hoped current optimism in the Administration about making a deal with Zhu is not misplaced, and said he believed the "odds are strongly against" making a deal. Senior Administration officials have said they believed there is a 30 percent chance of striking an agreement with Zhu that could lead to a deal on WTO entry by the end of the year (*Inside U.S. Trade*, Feb. 5, p. 1).

Bereuter accused the Administration of not having a "strategic plan" to induce China to make the necessary concessions, such as the one proposed in his bill to snap back tariffs to pre-Uruguay Round levels if China fails to provide effective market access. Those snapbacks on average would be about 4 percent, he said.

He said the Administration has not come out in support of his bill, despite some quiet support from USTR staff members.

Bereuter said he would more actively push the bill this year by asking the House leadership to back action on the issue, even if it does not mean action on his version of the bill. Bereuter said he would emphasize the need for action even if it is not his bill.

If there is no action, he said he is prepared to criticize on the House floor not only the Administration, but the congressional leadership and the Senate Finance and House Ways & Means Committees.

Bereuter said the Administration should demand that China at least not create new trade barriers as it has done over the past few months, and pull back some of the newly created barriers. The creation of these new barriers shows that China "apparently has no sensitivities to American political difficulties" stemming from the rising trade deficit and increased barriers.

Bereuter suggested that China could loosen the "extraordinarily tight" restrictions on insurance, financial services and banking. In light of the difficulties facing the U.S. agriculture sector, China could also consider buying more U.S. commodities, he said. In addition, China should "stop pulling the [U.S.] chain" with Airbus airplane orders every time the government is unhappy with the United States, Bereuter said.

U.S. Chamber Letter on China

February 10, 1999

The Honorable Charlene Barshefsky
United States Trade Representative
The Office of the United States Trade Representative
Winder Building
600 17th Street, N.W.
Washington, D.C. 20506

Dear Ambassador Barshefsky:

The U.S. Chamber of Commerce believes that China's bid to join the World Trade Organization (WTO) represents an important opportunity to secure strong multilateral discipline on one of the world's fastest growing trading nations. We would like to reiterate that the U.S. Chamber of Commerce strongly supports China's accession to the WTO on commercially viable terms. U.S. economic vibrancy and job creation would strongly advance through open trade with

Asia, and China in particular.

The U.S. Chamber of Commerce realizes that the visit by Premier Zhu Rongji of the People's Republic of China in April of this year represents an important opportunity to reach a bilateral agreement on China's WTO accession. We do not, however, believe the current proposal by China on telecommunications and information technology services can provide an adequate base upon which free trade and cooperation can thrive. The proposal is heavily "back-loaded," allowing China to postpone full liberalization actions for up to twenty years. During this time, China would have the latitude to solidify its domestic hold on telecommunications, while minimizing foreign involvement and reaping the financial and commercial advantages of being a WTO member.

Through the year 2000, China's Ministry of Information Industry will invest billions of dollars in the telecommunications sector. The current Chinese government stance, which bans investment in the management and operation of basic telecom-

INSIDE U.S. TRADE - February 12, 1999

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munications, as well as value-added services, would be allowed to continue practically unchanged for up to another twenty years. With vast opportunities and an estimated U.S. \$7.5 billion at stake in the development of the Chinese telecommunications market, it is essential that China liberalize its telecommunications industry by adopting and implementing the pro-competitive principles of the General Agreement on Basic Telecommunications in the WTO.

The U.S. Chamber of Commerce would like to see China offer a "front-loaded" package, laying the groundwork for open competition, including the ability to distribute exports throughout China. China's accession to the WTO must take place on commercially viable terms. Accepting the current Chinese telecommunications proposal would disadvantage 2.3 million U.S. high tech workers. Furthermore, ongoing efforts to ensure full implementation of commitments by current signatories of the

Agreement on Basic Telecommunications Services would be undermined. Finally, accepting the current Chinese proposal would set a dangerous precedent for other countries seeking WTO accession.

We strongly urge the U.S. Trade Representative to insist that China adhere to the integrity of the WTO principles, including the Agreement on Basic Telecommunications Services. The members of the U.S. Chamber of Commerce appreciate the efforts that you and your colleagues are making to bring about a more open global trading system. We hope that Premier Zhu's expected visit to Washington, D.C. in April will bring progress towards this goal.

Sincerely,

Willard A. Workman

BARSHEFSKY SAYS CHINA VISIT WILL BE CHANCE TO GAUGE WTO INTENTIONS

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The U.S. is in the process of trying to scale back demands for a deal in consultation with selected industries, but China so far has not addressed some of the key issues that would have to be solved in a minimally acceptable deal. For example, "nothing has been settled" on the crucial issue of distribution, the official said.

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Barshefsky emphasized to the trade subcommittee that China must make meaningful concessions in terms of WTO obligations because failure to do so would hurt the WTO. "An accession of China on terms different from WTO members would weaken the WTO, would subject other developing countries to extraordinary competitive challenges by China, would potentially lessen commitments of other countries and would set a lower standard for accession of other countries including Russia which are not as far along in their accession," she said. "So accession on weak terms is simply not in the cards."

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But an industry source said that the current effort to reach a deal with China would have to involve a "huge sell out" on the part of the U.S. if the two sides are to reach an agreement. The two sides are very far apart and the concessions U.S. industry needs are so "alien" to China that it will be hard to achieve, he said.

Some sources advocating early entry of China into the WTO have insisted that a deal is possible because Zhu is personally involved in this set of talks. But government officials and informed private-sector sources have raised questions about his own position in the Chinese hierarchy and his ability to deliver a deal.

Sources also said that Chinese officials have been downplaying expectations for the Zhu visit in terms of trade by pointing out that trade is only one of many elements in the bilateral relationship, U.S. sources said. In addition, Chinese officials argue that China is interested in a deal but not at any price, and an agreement requires movement on both sides, according to these sources.

Rep. Doug Bereuter (R-NE) this week cast doubt on Zhu Rongji's ability to deliver a deal at his upcoming

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US seeks progress toward Chinese entry to WTO

By Tony Walker and Stephen Fidler
in Washington

The US and China are intensifying efforts to reach an agreement on Beijing's entry to the World Trade Organisation during a visit to the US in April by Zhu Rongji, China's premier.

The initiative comes as relations between the two countries are at a low point, damaged by disagreements over human rights, China's acquisition of missile technology from the US, and tension over Taiwan.

Agreement on a timetable for Chinese entry to the WTO was "feasible" during the visit, a senior administration official said. However, in a sign of the difficulties the administration may face even if it succeeds in agreeing the terms for Chinese

entry, prominent Democrats from the House of Representatives said they would introduce a bill making it contingent on Congressional approval.

The Clinton administration is hoping progress towards China's entry will demonstrate to sceptics the advantages of a constructive dialogue with Beijing.

Representatives Richard Gephardt, the House minority leader, Nancy Pelosi and David Bonior sent a letter last week inviting Congressional colleagues to be co-sponsors of a bill they would introduce next week. The bill would require a joint resolution of the House and the Senate before the US government could support the admission of China to the WTO.

The letter said the US trade deficit with China was expected

to grow this year to \$70bn. "The accession of China is too important an issue for the Congress to abdicate its constitutional authority over trade matters," it said.

Some lawmakers are concerned that in its effort to get something out of the Zhu visit, the administration may make too many concessions to China. But administration officials deny this.

Senior US officials, including Madeleine Albright, secretary of state, and Charlene Barshefsky, trade representative, are expected in China over the next few weeks. Long Yongtu, China's chief trade negotiator, was in Washington last week and told US officials he had been given increased authority to negotiate.

.....
Determined effort, Page 3

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China to make determined effort for entry into WTO

By James Kyng In Beijing and
Guy de Jonquieres In London

China has galvanised its trade officials to draw up proposals for what is intended to be its most credible offer yet for entry into the World Trade Organisation.

The activity has been spurred by a confluence of factors. The first is that Zhu Rongji, the prime minister, realises that a planned visit to Washington in April could be the last opportunity for China to conclude an entry deal before the US presidential election next year and another WTO negotiating round, expected to begin later in 1999.

Beijing is also motivated by a desire to subdue growing arguments for Taiwan's admission into the WTO before China. Beijing insists it be granted WTO entry before Taiwan, its bitter rival since the end of a civil war in 1949. But its claim to prior entry has been somewhat undermined by the fact that Taiwan has reached bilateral agreements on admission with all members but Canada and Hong Kong.

A third reason for the reinvigoration of China's 13-year bid is the official perception that Beijing must do more to



The China connection

woo foreign investment during a year of acute difficulties for the domestic economy. One official, who declined to be identified, said that China might struggle to attract \$15bn in inward investments in 1999, compared with an official \$43.6bn last year.

But the incentives to liberalise run into powerful arguments that China would be better off insulating an economy buffeted by the Asian crisis and enfeebled by chronic oversupply, unemployment and a sickly state banking system.

These conflicting dynamics appear to underline the maxim sometimes quoted by Chinese trade officials: dealing with Chinese ministries is more difficult than facing the US. Therefore, Chinese analysts argue that without considerable concessions from Washington and the European Union, no Chinese deal will be possible.

Chinese officials said liberalisation was being considered in several areas, albeit according to a post-entry timetable that would give

Chinese industries several years to prepare.

■ **Financial services.** China may allow foreign banks to engage in local currency business in more cities than the two now permitted, Shanghai and Shenzhen. But, officials said, there was great reluctance soon to allow foreign banks the important concession of taking renminbi deposits from Chinese companies. New licences may well be granted to a few foreign insurers this year, but the lifting of geographical limits for foreign insurers looks

Liberalisation is being considered in several areas

unlikely in the near future.

■ **Retail, trade and distribution.** Officials said there could be a gesture on retail, perhaps in opening more areas of China - such as the centre and west of the country - to foreign supermarket and other retail joint ventures. Letting foreign distributors to operate, though, is seen as more problematic.

Officials said that foreign trading companies would be

allowed to establish joint ventures in nine cities, in addition to the currently permitted Shanghai and Shenzhen. They will also be allowed to buy equity stakes in local trading companies.

■ **Telecoms.** Argument within the government in this area is intense. Wu Jichuan, minister of Information Industry, shows little inclination to allow direct foreign equity participation in domestic services.

■ **Tariffs.** Beijing recently lowered tariffs on 1,014 commodities and announced it might remove licence controls or quotas on around 300 commodities by 2005. Officials also said that import tariffs on cars, heavy trucks and selected electronics could be lowered. But it was unclear whether the proposed reductions would be enough to satisfy the US and EU, which are keen to see tariff peaks - of around 80 per cent for cars - eliminated.

■ **Agriculture.** This may be the most difficult. US officials have told the Chinese that a strong accord on agriculture is essential. Foreign diplomats said China was considering a limited liberalisation of quotas for some agricultural imports, including grains. But Chinese flexi-



Zhu Rongji greets Bill Clinton during the US president's visit to Beijing last June

AP

bility is seen as limited by a deep sense that grain production is a matter of national security, and by widespread subsidies for grain prices.

From China's perspective, a principal benefit of WTO entry would be permanent

Most Favoured Nation trading status with the US. But permanent MFN gives Congress leverage over the negotiations.

Additional reporting by Nancy Dunne, Stephen Fidler and Tony Walker in Washington

BARSHEFSKY SAYS APRIL MEETING CRUCIAL TO QUICK CHINA WTO ENTRY

U.S. Trade Representative Charlene Barshefsky this week said that a renewed effort to advance negotiations with China on its entry into the World Trade Organization this spring may represent the last opportunity for some time to conclude the negotiations. If China decides not to make the necessary concessions, its accession may well lag, she told the Senate Finance Committee on Jan. 26.

The renewed U.S. effort for a deal is being made in light of the proposed visit of Premier Zhu Rongji to the United States in April, Barshefsky said. "As this approaches, China has an opportunity, perhaps the last for some time to come, to resolve the issues which remain outstanding," she said.

Barshefsky said that the U.S. hopes China will take this opportunity, but acknowledged that China may not. "WTO membership may thus not come for some time," she said. But she implied that the U.S. would not accept a continuation of unfair trading practices by China in that case. "We will not hesitate to make sure that we are treated fairly in China," she said.

This is an apparent reference to the possibility that the U.S. would initiate a Section 301 case against China or invoke formal consultations on trade barriers with China under a bilateral trade agreement, which prohibits import substitutions. That option has some support in the Commerce Dept., sources said.

A similar message has been floated by staff-level officials to business groups in recent weeks (*Inside U.S. Trade*, Jan. 22, p. 1). But neither approach up to now has found interagency backing in the Administration.

Barshefsky identified agriculture as a main sticking point in the negotiations, and said that the U.S. could assess the progress in this area once it meets with China this month and next. But she also said this was not the only problem by emphasizing that there are a "number of areas" in which China's offers fall short.

Deputy U.S. Trade Representative Richard Fisher is scheduled to be in China this week and USTR China negotiator Bob Cassidy will travel there in a few weeks, sources said.

In advance of the talks, U.S. negotiators have met with agriculture industry representatives to explore possible flexibility on their demands. For example, in a meeting with meat industry representatives, a U.S. official made it clear that a deal, if it were to come together, would most likely fall short of the industry's demands for tariff reductions and market access, sources said.

He said that China is refusing to budge from a tariff offer that is double what the U.S. is demanding, and is not likely to drop an additional 17 percent value-added tax, sources said. The response from the meat industry was that

this deal as described would be unacceptable, sources said. Similarly, wheat producers have made it clear that a final deal must include a resolution of a long-standing fight over China's refusal to accept U.S. wheat from the Pacific northwest over fears that it might carry TCK smut.

Negotiators also met with other key commodity groups, such as grain industry representatives, sources said. "They want to make sure they have all their ducks lined up in case a deal should come together," one source said.

But another private-sector source said that this exercise is similar to what the Administration has done in the past leading up to other unsuccessful efforts connected with high-level visits to strike a WTO deal with China. Private-sector sources also differ in their assessment of whether U.S. agriculture and industry groups would fight against a deal they consider to fall short of their initial demands.

Some outside observers speculated this week that China may be in a better position to force U.S. concessions on a WTO deal at this time. They pointed out that in the wake of the Brazilian currency devaluation, China has enormous leverage over the U.S. by holding to its promise of not devaluing its currency. Such a devaluation would set off a whole new round of devaluations in Asia, and the U.S. may be willing to do some favors for China to not have it stray from this course, they speculated.

However, these sources emphasized that they have no indication that such a dynamic is actually in play and that there are no signs that the Administration would actually entertain such a quid pro quo. In public, senior Administration officials have emphasized that it is in China's own interest to avoid the economic crisis that would occur if China devalued.

Barshefsky suggested there was a simple approach to the agriculture agreement by negotiating minimum access commitments for key commodities, including beef, as part of a tariff-rate quota system. These commitments would amount to "guaranteed access fully enforceable in dispute settlement" because at issue would be "simply whether a number has been met," she said.

"The goal here is to make the system on agriculture as self-enforcing as possible and as numerically oriented as possible to ensure genuine market access," which has eluded the U.S. up to now in areas such as beef, according to Barshefsky.

Her description seemed to gloss over the fact that the U.S. and China have not been able to agree on the critical details of such a system for years. They have not reached agreement on the base years for such tariff-rate quotas nor on the key issue of whether a minimum access commitment would lead to sales by private companies or whether government agencies would seek to control purchases of imports, sources said. Some agriculture sources have previously said that China will maintain control over the supply of basic commodities, regardless of whether that is formally reflected in an agreement.

Similarly, the two sides have not agreed on future growth rates for the quotas negotiated, sources said.

Barshefsky also highlighted that the U.S. could use the WTO dispute settlement system for Chinese barriers that it considered in violation of international rules once China was a member. She said that the U.S. has asked China in the context of the accession talks to spell out its existing trade barriers, and is trying to negotiate a phaseout. "If a non-tariff barrier has not been notified, then that barrier cannot be enforced in China," she said.

She said the U.S. approach lets the U.S. understand the range of barriers existing in China and makes it clear what is in violation of the WTO, she said. "We're basically saying to China, 'if you didn't tell us the barrier existed, then as a legal matter, it cannot exist in the future, it cannot be enforced or that would be a clear violation of WTO commitments.'"

Barshefsky in this context did not repeat long-standing U.S. complaints that China is an extremely secretive society even for basic government decisions affecting trade and that the rule of law is not firmly established there.

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U.S. WORKS ON SCALING BACK DEMANDS FOR CHINA WTO ACCESSION TALKS

Administration trade officials are actively preparing to scale back some of the earlier demands the U.S. had wanted China to meet in a deal to enter the World Trade Organization as part of their effort to explore whether an agreement is possible in the run up to the April visit of the Chinese Premier Zhu Rongji, according to informed sources. The list will "refine or prioritize" U.S. demands, but does not constitute the absolute "bottom line" that China has been asking the U.S. for months to reveal, they said.

The list is being developed based on comments U.S. officials have solicited from selected U.S. industries as U.S. negotiator Bob Cassidy prepares to go to China either later this month or early next month. His visit will likely be followed by one of U.S. Trade Representative Charlene Barshefsky, for which no firm date has been set yet, these sources said.

U.S. EXAMINES SCALED-BACK CHINA OFFER . . . begins page one

Barshefsky's visit would follow one by Deputy U.S. Trade Representative Richard Fisher to China, who some officials insist received more positive signals from the Chinese government on WTO accession than have been made apparent. But other sources said the expectations for Fisher's visit had been so low on the U.S. side that any expression of Chinese interest in the WTO would have made the visit less negative than expected.

The general perception is that Chinese officials gave no strong indication to Fisher that they wanted to make new concessions on WTO entry, one source said. Business representatives who have taken their own soundings in recent weeks insist there is no movement on WTO entry from the Chinese side. "It is very difficult to read whether China will engage," one source said.

Some sources argue that Barshefsky would not consider a trip to China if there had not been some encouraging signals. But other sources said her trip could also be aimed at demonstrating that she has made every possible effort to reach a deal should the U.S. and China fail to achieve one.

Cassidy has met with U.S. industry representatives, particularly in agriculture and telecommunications, according to these sources. Those two sectors have been very difficult to negotiate, but the U.S. and China have also not yet resolved critical issues in these areas, such as the right of companies to distribute their goods in China.

The list is also likely to exclude demands that go beyond what current WTO members are obligated to do, some sources said. For example, the U.S. has demanded that China sign on to the plurilateral government procurement agreement, to which not all WTO members are a party. Similarly, U.S. efforts to eliminate a 17 percent value added tax could be scrapped, since other WTO members have not made this commitment, sources said.

Pressing U.S. industries to reveal their bottom lines for a possible China deal would ensure that business representatives would not actively fight against it by expressing opposition to Congress.

Congress does not have a role in the direct approval of a potential deal, but would have to approve permanent most-favored nation status for China upon WTO entry.

Any deal must make enough business groups sufficiently happy so that there is a critical mass that will not fight the agreement, one source said. Business sources speculated this week that some major companies would prefer even a minimal accession deal because it would avoid the annual MFN fight.

In addition, they say, these companies argue that WTO entry would allow the use of the dispute settlement

Hopes for Improved Ties With China Fade

By JANE PERLEZ

WASHINGTON — Seven months after President Clinton's return from a picture-perfect trip to China, the promise of a new era in Chinese-American relations has faded, leaving the Administration grappling with an unexpected round of repression of human rights in China and a mounting perception in Congress that Beijing is threatening American security interests.

The high expectations set by Mr. Clinton in China have run up against a pessimistic tone set by political forces in both countries that Administration officials say are more intent on confrontation than cooperation.

Instead of showing signs of progress in its policy of "constructive engagement" with China, the Administration is facing a squall of China-bashing in Congress.

Even American business, which the Administration's China policy has particularly tried to assist and the loudest advocate of closer ties, is complaining about Beijing's new restrictions that the Administration has been unsuccessful modifying.

Stung by a bipartisan Congressional inquiry's findings that China stole sensitive American military technology, Administration officials say they are warily waiting for even more explosive details expected to be announced in March in a declassified report by the members of Congress who headed the inquiry.

And later this month, the Pentagon is expected to send to Congress its long-delayed classified report on se-

curity questions in the Taiwan Strait.

Officials and experts who have had sections of the report read to them said the Pentagon would find that in the early 1990's China had 60 missiles pointed at Taiwan but that since then the number has more than doubled. In three years, it predicts, China could have more than 600 missiles on its side of the strait.

That assessment, another Administration official said, is sure to create a "a new wave of calls about the China threat," in the region.

In the face of those obstacles, the Administration says its policy of "constructive engagement" still holds.

In the next two months, before a visit to Washington by Prime Minister Zhu Rongji on April 8, the Administration will be working hard to find some issue on which the two nations can find common ground, most likely the possibility of China's admission to the World Trade Organization.

Even that common ground may be elusive. As the Chinese economy suffers from slower growth, rising unemployment and stalled economic reforms, the incentive for the Chinese to make trade concessions so they can join the trade organization has diminished, economists say.

"The Administration thought after the Clinton trip that it had come to some tolerable *modus vivendi* with China," said Jonathan B. Pollack, a defense strategist at the Rand Corporation who recently visited China. "But it doesn't run very deep, there's a clear sense that the underpinnings are very fragile, and there's a very clear potential for a real reversal in the relationship."

The most immediate thorn for the Administration is how to deal with the regression in China's human rights policies in the last two months.

Administration officials argue that they never expected continued improvement in human rights after Mr. Clinton left China in July and that there is "no quick fix," as Harold Koh, the Assistant Secretary of State for human rights, said recently.

But the long prison sentences of 11 to 13 years imposed on three democracy campaigners in December took officials here by surprise.

"Obviously we were are unhappy about the arrests and have said so publicly, and from the President on down privately," said Samuel R. Berger, the President's national security adviser.

Traditionally, the clearest path for the Administration to register its objection to such a crackdown is to sponsor a resolution condemning China at the annual meeting of the United Nations Human Rights Commission in Geneva. That is an annual opportunity for countries to record their disquiet at China's human rights policy in a forum that the Chinese authorities take seriously despite its relative obscurity.

Last year, in the face of a seemingly improved human rights climate in China and to the gratification of Beijing, the Administration decided for the first time since 1990 not to offer such a resolution.

But now, in what an official described as almost "insurmountable"

New trouble with Beijing on rights, trade and security.

pressure from Congress, the Administration is in the midst of a heated debate about whether to reverse last year's course and condemn the Chinese for the crackdown. Such a reversal could be embarrassing for Mr. Clinton, who at the end of his China trip said, "China has the right leadership at the right time."

The White House opposed moving against the Chinese in Geneva, Administration officials said, but became alarmed when a moderate Republican, Representative Doug Bereuter of Nebraska, chairman of the International Relations Subcommittee on Asia, said there would be an "explosion" in Congress if the Administration stayed quiet at Geneva.

Mr. Berger said the White House was now looking at what recommendation to make to Mr. Clinton about the Geneva conference, which starts on March 22 and runs until April 30. Inconveniently for the Administration, Prime Minister Zhu's visit to Washington is scheduled for the middle of the Geneva gathering.

On national security, the Administration faces a confluence of issues that may only intensify the problems in the relationship with China.

At the top of the list is the Administration's proposal, which China has vehemently criticized, to push forward plans for developing a theater

missile defense system with Japan, South Korea and possibly Taiwan. The system, which is still in the design stage, has been promoted with new urgency by the Administration since the surprise firing by North Korea of a missile that flew over Japan and into the Pacific in August.

The Administration says the system would protect Japan and South Korea from North Korean missiles, but Taiwan's Government has shown interest in being part of the system, an interest the Administration has not discouraged.

The Chinese have interpreted the recent push on the theater missile defense system as hostile to their interests. A Pentagon official suggested that this was hardly surprising, since the system would affect the "heart of their military posture."

The coming release of a Pentagon report on the system, requested last year by Congress, is likely to heighten the debate. The Chinese have already raised the issue in a way that does not please the Administration.

During a visit to Washington in January, a senior Chinese arms control official, Sha Zukang, warned the Administration that pushing ahead with the missile defense system would sink any chance of China's joining a major international mechanism for controlling the spread of missile technology, the Missile Technology Control Regime. Nations that belong to the regime are bound not to export missile parts.

Mr. Sha made the warning at the same conference at the Carnegie Endowment for International Peace where Mr. Berger announced that Washington would like China to join the control regime this year.

From the Administration's point of view, the brightest picture for achieving some progress with the Chinese in time for the Prime Minister's visit appears to be paving the way for China's entry to the World Trade Organization.

Urging China to make concessions so it can join the world's most important trade organization has been the focus of Mr. Clinton's efforts in the last three years to open China economically and politically.

But Western economists assert that this is one of the most inopportune times to be moving China toward the trade group. Instead of easing market access, American corporations complain, China has been tightening the rules for Western investors in the last few months, particularly in telecommunications.

And to belong to the trade organization, China would have to make such fundamental changes as freeing up the distribution system of roads and warehouses, which are now almost entirely in the hands of the military. The American business sector's frustration with the Administration's lack of progress at furthering investment in China is actually as much a frustration with the Chinese who refuse to be as market-oriented as some in business expect.

Mr. Berger said that the Administration wanted to persevere with the W.T.O. issue and that another delegation from the United States Trade Representative's office would go to China soon. He said that even though China was going through economic dislocations, the Chinese would also like to be part of the World Trade Organization before the Taiwanese, who are close to membership.

But he also acknowledged that the Chinese had to face the reality that the only way they could win membership was to make enough concessions to allow United States market access to China and to adhere to the rules of the organization.

"We've always said we would be flexible, but it must be an agreement that is justifiable on market grounds," he said.

Otherwise, Mr. Berger said, there is little chance that Chinese membership will be approved by Congress.

U.S. mulls tough turn on China trade policy

By Rich Miller
USA TODAY

2/5/99

WASHINGTON — The United States is considering shifting its trade policy toward China from the carrot to the stick.

Administration officials think the strategy they've followed in recent years, offering China the carrot of entry into the World Trade Organization (WTO) in return for opening up of its markets, may be nearing the end of its usefulness.

If the United States doesn't achieve a trade breakthrough during Chinese Prime Minister Zhu Rongji's visit here in April, some U.S. officials are ready to move toward a more confrontational approach using threats of sanctions as sticks.

U.S. Trade Representative Charlene Barshefsky hinted at a change in tactics last month.

"As (Zhu's) visit approaches, China has an opportunity, perhaps the last opportunity, to resolve the issues which remain outstanding (on WTO entry)," she said in a speech. "We hope China will take it. But delay in trade reform is not an option."

Some U.S. officials have been more blunt in private conversations with the Chinese.

U.S. Deputy Trade Representative Richard Fischer was in Beijing last week for talks on China's membership in the WTO. Officials described the meetings as productive, but there was no breakthrough.

WTO membership would give China trade privileges it doesn't enjoy now. The United States would be required to permanently grant China so-called most favored nation trading status, rather than reviewing it each year.

But China's WTO membership also would be good for the United States because it would lock the world's most populous country into the Geneva-based organization's global trade rules.

"A good WTO package is still the best answer to opening up China's market," Barshefsky's spokesman, Jay Ziegler, says.

But many experts doubt that China is willing to take the tough steps needed to open up its markets in return for entry into the WTO. That's because those steps would hurt domestic firms at a time when they are already suffering from the fallout from the global crisis.

The administration has yet to reach a consensus on what the United States should do if major progress is not made in the WTO talks in the coming weeks.

While there's agreement that some change in strategy would be needed, there are differences over the specifics. Some officials oppose too tough a stance, arguing that the United States needs China's help in stabilizing Asia's shaky economy and in dealing with the North Korea military threat.

The United States has a wide variety of trade differences with China, covering areas as diverse as agricultural products, automobiles and telecommunications equipment.

**U.S. DEPARTMENT OF TREASURY
OFFICE OF EAST ASIAN NATIONS**



Date: February 19, 1999

To: Malcolm Lee, NEC
456-9290

From: Deborah Crane, China Desk

Phone: 202 622-0748

Fax: 202 622-0349

Subject: Key Points for LHS Meetings in China

- Premier Zhu Rongji
- Minister of Finance Xiang Huaicheng
- PBOC Governor Dai Xianglong

Give me a call if you have comments or questions.

6 pgs. follow

Meeting with Premier Zhu Rongji

Your meeting with Premier Zhu presents an important opportunity on two fronts. First, it's an occasion to flesh out Zhu's goals and ambitions with regard to the proposed summit this spring. The focus is certain to be economic, but it would be invaluable to find out what Zhu has in mind as "deliverables." Second, as Zhu is the chief architect of China's economic reform program, your meeting is a chance for a tete-a-tete on the future of the Chinese economy and financial system, WTO accession, and the shape of future economic growth in Asia. For his part, Zhu will be keen to hear your views on the U.S. and global economy, as China is becoming increasingly dependent on the international trade and financial system for its own livelihood, and on economic prospects in Russia (Zhu departs for Moscow the day after your meeting -- see Tab 7 for Russia update).

Key Points

- Both sides eager to make Washington visit a success -- highest official bilateral meeting this year. Helpful to hear your views on what could be accomplished.
- Window of opportunity to reach agreement on WTO accession package in connection with April visit. Appreciate direction that you have recently given the negotiations.
- Appreciate what China did during Asia crisis -- bilateral assistance and maintenance of a stable exchange rate. Asia now turning corner -- concern shifting to China's problems.
 - Continue to agree that stable yuan serves China for now.
 - Fiscal stimulus appropriate -- risk of stagnation/recession is real. Can't rely on improving external environment.
 - Challenge is finding ways to stimulate private sector growth (e.g. ensuring bank restructuring/recapitalization frees up lending for private firms).
 - Handling of GITIC (and closure of other failing financial institutions) provides an opportunity to demonstrate transparent, fair and expeditious process. Encourage consideration of formal dialogue with creditors to explore options other than liquidation.
 - Enhancing credibility of economic statistics important.
- China and Japan are the cornerstones for Asian recovery. Japan is doing its utmost, but is still not likely to see strong growth for several years. Onus is falling on China to remain stable, pursue structural reforms, and maintain momentum of liberalization.

Background: Your meeting with Zhu is a critical opportunity to get a handle on the government's next steps with regard to the exchange rate, economic reform, and WTO accession.

It's also the best opportunity – given your strong relationship – to get a sense of what Zhu wants to achieve from the visit this Spring. This would allow both sides to begin doing the groundwork now, and ensure a successful summit at a time of political and economic upheaval throughout Asia.. For his part, Zhu likely wants to find a solution to the WTO accession problem, and he may view you as the person to do business with (for details on trade/financial services issues see Tab 5.)

Meeting with Finance Minister Xiang

Your meeting with Minister Xiang is an opportunity to pursue three main topics: 1) the challenge of designing an effective fiscal stimulus package and this year's growth projections; 2) the scope and pace of financial sector reform and the potential budgetary cost of bank recapitalization; and 3) slow progress on financial sector liberalization and a financial services offer for the WTO. Xiang may also ask about technical assistance, but, following Jim Fall's technical assistance mission last September, this ball is in China's court. Xiang may also confirm China's hosting of the JEC, but discussion of details is probably best left for your dinner with Vice Finance Minister Jin.

Key Points

- Believe risks of stagnation/recession are real. Understand need for fiscal stimulus. Can't rely on improving external environment.
- Recognize the complexity of the policy challenge. Action required on multiple fronts. No longer a trade off between long term (reform and restructuring) and short term (growth). Growth now requires further progress on reform, esp. financial sector.
 - Key challenge is to bring short term stimulus/social support on budget and away from indirect stimulus through banking system and SOEs.
 - Must find ways to promote private sector -- source of real dynamism in economy.
- Cost of bank recapitalization also likely to be enormous, with some private estimates of NPLs as high as 30-40% and growing.
 - Monetary loosening appropriate (real interest rates rose in 1998 despite nominal cuts), but this policy tool relatively untested and may not yield significant impact on growth.
 - Steps toward state commercial bank reform appear promising. But fear calls for banks to resume role of policy lending to SOEs and infrastructure projects may jeopardize progress.
 - Experience in rest of Asia is instructive. China insulated for now by closed capital account and implicit guarantee of banks, but the problem still exists and will hamper growth and integration with world financial system.
- Would like to see this process reflected in a revised WTO offer -- including financial services. We've come too far to let this process languish.

Background: While China's growth rate remains high by regional standards, many believe the official estimate of 7.8% to be double the true figure, and certainly well below the 9% growth

level needed to keep employment stable. Successive nominal interest rate cuts in 1997-98 have failed to have much effect on investment and consumption, and Beijing is once again turning to state-led investment to support growth. Minister Xiang has indicated that the government will boost fiscal spending in 1999 in order to compensate for declining private consumption and investment. The fiscal deficit for 1999 is likely greatly to exceed this year's 280 billion renminbi revenue gap. Spending is likely to be financed, in part, through government bond issues, the demand for which remains high. Quasi-fiscal operations run through the four state commercial banks are also likely to be sizeable.

Meeting with PBOC Governor Dai Xianglong

Your meeting with Dai is an opportunity to elicit current thinking about the exchange rate, currency controls, and state and central bank reform. China has repeatedly pledged not to devalue the yuan, but given stagnant exports and slow structural reforms, there is some pressure for a competitive devaluation. Currency controls – designed to close the loopholes in China's foreign exchange control system – have met with complaints from the foreign business community. And while progress is being made in restructuring the PBOC to make it less vulnerable to local political influence and on state commercial bank reform (i.e., shifting to commercial criteria as basis for lending), it is too early to determine how effective the reform and restructuring will be. The process of opening the market for foreign financial institutions remains piece-meal and on an "experimental" basis. No firm commitment to opening has been made in GATS.

- Note China's contribution to regional recovery by maintaining a stable exchange rate. Recognize that there was considerable pressure to devalue when the yen was falling. Convey view that a stable yuan continues to serve China well for now.
- Ask about the future for the yuan. Chinese officials made the argument that structural reforms to eliminate inefficiencies and boost industrial performance and exports were a better choice than devaluation. But structural reforms have lagged in 1998.
- Exports are flat, capital flight is apparently continuing, and growth is down – perhaps well below official estimates. Has thinking on the exchange rate changed?
- What is Dai's view of the currency controls? New circulars were introduced to close loopholes in existing regulations, but implementation is hampering legitimate current account transactions. More work needed to streamline/enhance transparency of process.
- Monetary loosening appropriate (real interest rates remain high in 1998 despite nominal cuts), but seems unlikely to yield significant impact on growth (due to weak consumer confidence and large amount of bad bank debt making banks reluctant to lend).
- Ask about progress on central bank reform (switching to FRB-type system) and commercial bank reform. Are banks finding it difficult to meet dual objectives of shifting to lending on the basis of creditworthiness and increasing lending (to infrastructure projects) to support growth?
- Foreign financial institutions can contribute importantly to development of China's financial sector. We're looking for more complete GATS offer with some liberalization up front. Local currency business, especially with Chinese customers, is key.

Background: The nominal value of the yuan has remained steady since 1995. The real effective exchange rate appreciated substantially from 1994 - 1997, but depreciated during 1998, falling back to early 1997 levels. The plunge in the value of other regional currencies, including the

yen, put pressure on Beijing to consider a competitive devaluation. Had the yen fallen much below 145 to the dollar, this might have occurred. But China recognized the damage that such a move would cause, and has so far held the line. While many regional currencies have recovered, slow domestic demand and flat exports continue to provide some pressure for devaluation. The surge in capital flight during 1998 -- as reflected in the very slow growth of reserves despite a sizeable trade surplus, would indicate that many saw a devaluation in the offing.

With regard to banking sector reform, the pace of progress is difficult to judge. Recent announcements of the establishment of RTC-type institutions to take bad debt off the books is a positive sign. Yet instructions last year for state commercial banks to support growth by expanding overall lending were clearly a step in the wrong direction.

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