Case Number: 2010-1024-F

FOIA MARKER

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Folder Title: China (February to March 1999) [3]				
Staff Office-Individual: National Economic Council-Lee, Malcolm				
Original OA/ID Number: CF 1176				
Row: 23	Section: 5	Shelf: 5	Position: 3	Stack: V

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. paper	Chinese Accession Services Proposal. (14 pages)	c. 01/1999	P1/b(1)
002. paper	Commerce Comments and Suggested Language for Protocol Proposal. (1 page)	02/11/1999	P1/b(1)
003. email	Jeffery Bader to Kenneth Lieberthal at 10:08 AM. Subject: Re: Draft Protocols for China/WTO. (2 pages)	02/11/1999	P1/b(1)
004. email	Jeffery Bader to Kenneth Lieberthal at 9:50 AM. Subject: Re: Draft Protocols for China/WTO. (1 page)	02/11/1999	P1/b(1)
005. email	Henry Levine to Susan Shirk and SAS. Subject: USTR Protocol Paper. (1 page)	02/11/1999	P1/b(1)
006. draft	Protocol Issues (7 pages)	02/10/1999	P1/b(1)
007. email	Kenneth Lieberthal to Malcolm Lee and Holly Hammonds. Subject: FW: Question. Annotated. (1 page)	02/08/1999	P1/b(1)
008. list	China Interagency Team. [partial] [CIA Act] (1 page)	02/04/1999	P3/b(3), P6/b(6)
009. draft	State Views on USTR Proposal. (1 page)	c. 01/1999	P1/b(1)
010. letter	William Clinton to President Jiang Zemin. (4 pages)	02/03/1999	P1/b(1)
011a. paper	Overview and Key Points. (4 pages)	02/03/1999	P1/b(1)
011b. draft	Memorandum for Lawrence Summers from Edwin Truman. Subject: Bankruptcy (3 pages)	02/03/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (February to March 1999) [3]

2010-1024-F
vz1813

RESTRICTION CODES

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

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
011c. paper	Background on China WTO Accession (2 pages)	02/03/1999	P1/b(1)

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

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

TO: Malcolm Lee

cc: Jeff Bader

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

Malcolm: per my voicemail, my first effort to organize my thinking. No answers, just some questions. Will continue to develop. Hank

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006. draft	Protocol Issues (7 pages)	02/10/1999	P1/b(1)

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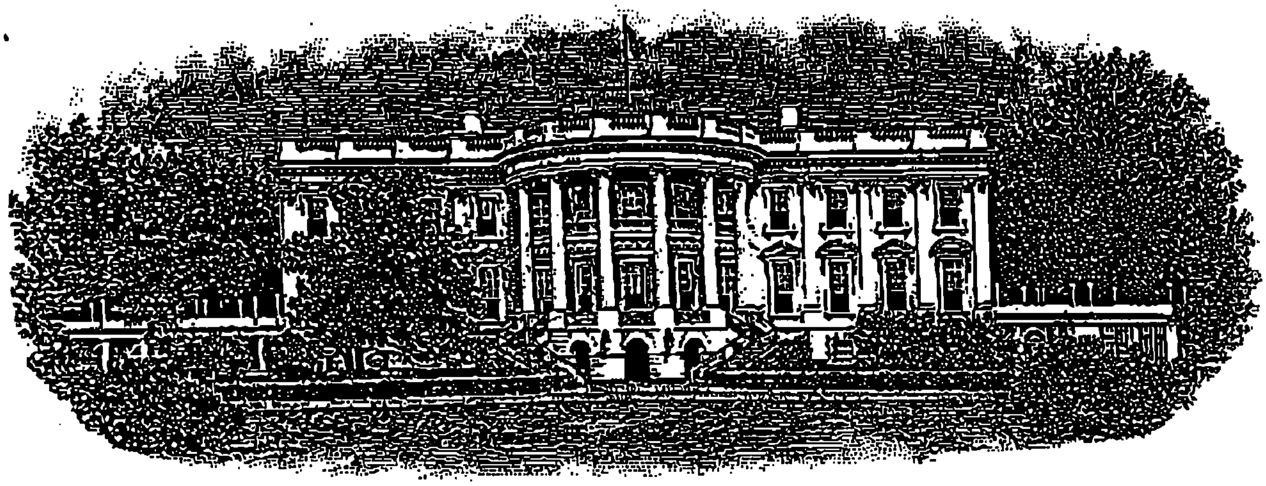

FAX Transmission

National Economic Council
The White House

To: Malcolm Lee c/o Bob Goldberg

Phone: 	**Fax:** 011-8610-6532-6422

Date: 	**Pages:**

From: **Sharon Yuan**
202-456-5355
202-456-2878 (fax)

Comments: URGENT. Please pass to Malcolm. Thanks!

S

For Immediate Release

Contact: **Morrie Goodman**
Maria Tildon

EARLY STEEL NUMBERS TELL ENCOURAGING STORY BUT MORE REMAINS TO BE DONE, COMMERCE SECRETARY WILLIAM DALEY SAYS

Washington, DC: The latest Commerce figures show a reduction in total steel imports, Commerce Secretary William Daley announced today.

"Preliminary data for December 1998 showed steel imports, particularly from Russia and Japan, decreased compared with November 1998, indicating that the Administration's diplomatic initiatives and tough enforcement of U.S. trade laws are working," Daley said.

Responding to the recent surge in imports of foreign steel and following through on President Clinton's commitment to the Congress earlier this month, the Commerce Department today released preliminary steel import data for the month of December 1998 -- more than 20 days earlier than the normal release date.

Based on the preliminary import figures, imports of steel mill products from all countries decreased 32 percent in December from November's import levels. Imports of hot-rolled steel products from all countries decreased 67 percent in December from November's import levels, while imports of these products from Japan and Russia decreased 77 and 90 percent respectively.

"One month does not make a trend, but we are nonetheless encouraged by this data. At the same time, we will continue to monitor these imports and press Japan for continued reductions. As we have said, failure on Japan's part to demonstrate a significant decrease in overall steel exports to the United States will result in swift action by the Administration," said Commerce Secretary William M. Daley. "We believe these early figures will allow us and the industry to make more informed decisions based on the most current information available."

The early release of steel import data to the public is unprecedented. The Department of Commerce typically makes import data available to the public 45 days after the end of the relevant month. However, given the high degree of import penetration, the history of unfair trade with respect to the steel industry, and the reliability of the early data, the circumstances meet the Administration's newly adopted guidelines permitting the release of preliminary import data in extraordinary situations to address import surges.

Early release of data is one of several steps taken by the Administration to address the recent massive increases in steel imports into the United States. In addition to pressing the major steel trading nations to reduce their exports; Commerce shifted resources to expedite the pending dumping cases; and committed to issuing the preliminary dumping determinations in these cases by February 12, nearly a month earlier than usual. In late November, Commerce also issued critical circumstances determinations on hot rolled steel from Japan and Russia. This was the first time Commerce applied its new policy of making critical circumstances determinations prior to the preliminary dumping determination which put importers on notice that they could be liable for dumping duties up to 90 days earlier than normal.

The data released today is preliminary and is likely to change somewhat between now and the release of the final December statistics next month.

###

PRESS BRIEFING ON DECEMBER STEEL IMPORT DATA
THURSDAY, JANUARY 28, 1999
11:00 AM EST
SEC'Y DALEY
TALKING POINTS

- Today, as part of the Administration's comprehensive steel plan in response to the significant surge in imports of foreign steel and its impact on America's steel industry and workers, the Commerce Department took the unprecedented step of releasing preliminary data on steel imports.

- I am pleased to report that preliminary data for December 1998 showed steel imports, particularly from Russia and Japan, decreased compared with November 1998, indicating that the Administration's diplomatic initiatives and tough enforcement of U.S. trade laws are working.

- When compared to the import figures for November, the preliminary December numbers show a marked reduction in total steel imports, as well as imports of hot-rolled steel products, particularly from Japan and Russia.

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007. email	Kenneth Lieberthal to Malcolm Lee and Holly Hammonds. Subject: FW: Question. Annotated. (1 page)	02/08/1999	P1/b(1)

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U.S. Department of Labor

FAX TRANSMISSION

DEPUTY UNDER SECRETARY FOR
INTERNATIONAL LABOR AFFAIRS
200 CONSTITUTION AVENUE, N.W.
WASHINGTON, D.C. 20210
TELEPHONE: (202) 219-6043
FACSIMILE: (202) 219-5980

To: Malcolm Lee

Date: 202-456-9290 2-10-99

Pages: [4] including this cover sheet.

Fax #: 202-456-9290

From: Andrew Samet

Subject: Minister Zhang Zuji's Visit ti the U.S.

COMMENTS:

F.Y.I.

If you experience problems receiving this fax, please call (202) 219-6043.

Working for America's Workforce

cc: Mac
Jorge
Bob Shepard
Greg
David Thaler
Jim Perlmutter

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

Address: 12 Hepingli Zhongjie, Beijing, P. R. China
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地址：中国北京一和平里中街12号
电话：64297116, 64213431-702/704
传真：64211624 邮政编码：100716

February 10, 1999

Mr. Andrew James Samet
Deputy Under Secretary
International Affairs
U.S. Department of Labor
Fax.: 001202-2195980

Ref.: Minister Zhang Zuji's Visit to the U.S.

Dear Andrew,

With regard to Minister Zhang's upcoming visit to the U.S., we have worked out a draft proposal for the visiting program, which contains flight numbers and suggestions for meetings. Attached please find the draft proposal for the visiting program.

It is expected that there would be a ministerial meeting in the Department of Labor in the morning of March 29, 1999. Minister Zhang looks forward to exchanging views with senior DOL officials on labor market, unemployment insurance and labor legislation. After the meeting there could be arrangement of a ceremony for signing the MOU and press conference for half an hour. In the afternoon Minister Zhang will be ready to meet representatives of trade unions and employers' organisations.

It would be appreciated if you could arrange a meeting for Minister Zhang with senior officials from the Department of Health to discuss the legislation and operational procedures of medical insurance system in the morning of March 30, 1999. In the afternoon of March 30 Minister Zhang would like to visit the Administration of Social Security to learn about the American legislation and operation of pension system, fund collection and management.

For the afternoon of March 31, we would like to ask you to arrange a visit to a government social insurance agency in Los Angeles for the delegation to look at the operation of the social security schemes.

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

Address: 12 Hepingli Zhongjie, Beijing, P. R. China 地址：中国北京－和平里中街12号
Telephone: (0086 10)64297116, 64213431-702/704 电话：64297116, 64213431-702/704
Facsimile: (0086 10)64211624 Postcode: 100716 传真：64211624 邮政编码：100716

I would highly appreciate if you could prepare a detailed program incorporating our suggestions and forward it to us at your soonest convenience.

Warm wishes and regards.

Sincerely yours,

Lin Maizhu
Deputy Director General
Department of International Cooperation
Fax: 0086 10 84221624

c.c.: Mr. Andrew Rothman, first Secretary,
Ms Darcy F. Zotter, second Secretary, US Embassy in Beijing
Fax: 65326422

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

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地址：中国北京－和平里中街12号
电话：64297116、64213431-702/704
传真：64211624 邮政编码：100716

Draft Proposal of the Program of Minister Zhang's Visit to the U.S.

March 28 (Sunday)	
14:35	Leaving Toronto for Washington D.C. by UA3248
15:55	Arriving in Washington D.C.
March 29 (Monday)	
a.m.	Meeting at DOL and a half hour MOU signing ceremony press conference
p.m.	Meetings with representatives of trade unions and employers' organisation
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After lunch	leaving for Baltimore by car
p.m.	Meeting at Administration of Social Security Returning to Washington D.C. by car
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8:35	Leaving Washington DC. for Los Angeles by AA077
11:20	Arriving in Los Angeles
p.m.	Visiting a government social insurance agency
April 01 (Thursday)	
a.m.	free time
p.m.	Departure from Los Angles for Beijing

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
008. list	China Interagency Team. [partial] [CIA Act] (1 page)	02/04/1999	P3/b(3), P6/b(6)

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

FOLDER TITLE:
China (February to March 1999) [3]

2010-1024-F
vz1813

RESTRICTION CODES

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

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China Interagency Team

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Meg Lundsager Whit Warthin	Treasury Treasury	622-0168 622-1733	622-5304 622-0604
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[redacted] P3/(b)(3), P6/(b)(6) [008]			
Bill Corbett Ed Gresser	USTR USTR	395-9586 395-9419	395-9674 395-9674
Malcolm Lee	NEC/NSC	456-9299	456-9290

Office of Chinese and Mongolian Affairs
Department of State
Washington, DC 20520

Fax Cover Sheet

DATE:	02/10/99	**TIME:**	8:15 AM
TO:	Jeff Bader, Malcolm Lee		
FAX:			
FROM:	Susan Ruffo	**PHONE:** **FAX:**	202-647-6782 202-647-6820
RE:	Minister of Labor Visit		

Number of pages including cover sheet: 4

Message:

Jeff and Malcolm,

FYI – The Embassy got this letter today from MOLSS. Looks like the message got through – they specifically say they will be ready to meet labor reps.

Susan

AR/02

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

Address: 12 Hepingli Zhongjie, Beijing, P. R. China
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传真：64211624 邮政编码：100716

February 10, 1999

Mr. Andrew James Samet
Deputy Under Secretary
International Affairs
U.S. Department of Labor
Fax.: 001202-2195980

Ref.: Minister Zhang Zuji's Visit to the U.S.

Dear Andrew,

With regard to Minister Zhang's upcoming visit to the U.S., we have worked out a draft proposal for the visiting program, which contains flight numbers and suggestions for meetings. Attached please find the draft proposal for the visiting program.

It is expected that there would be a ministerial meeting in the Department of Labor in the morning of March 29, 1999. Minister Zhang looks forward to exchanging views with senior DOL officials on labor market, unemployment insurance and labor legislation. After the meeting there could be arrangement of a ceremony for signing the MOU and press conference for half an hour. In the afternoon Minister Zhang will be ready to meet representatives of trade unions and employers' organisations.

It would be appreciated if you could arrange a meeting for Minister Zhang with senior officials from the Department of Health to discuss the legislation and operational procedures of medical insurance system in the morning of March 30, 1999. In the afternoon of March 30 Minister Zhang would like to visit the Administration of Social Security to learn about the American legislation and operation of pension system, fund collection and management.

For the afternoon of March 31, we would like to ask you to arrange a visit to a government social insurance agency in Los Angeles for the delegation to look at the operation of the social security schemes.

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

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I would highly appreciate if you could prepare a detailed program incorporating our suggestions and forward it to us at your soonest convenience.

Warm wishes and regards.

Sincerely yours,

Lin Maizhu
Deputy Director General
Department of International Cooperation
Fax: 0086 10 84221624

c.c.: Mr. Andrew Rothman, first Secretary,
Ms Darcy F. Zotter, second Secretary, US Embassy in Beijing
Fax: 65326422

MINISTRY OF LABOUR AND SOCIAL SECURITY
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中华人民共和国劳动和社会保障部

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The Asia Insider

U.S. Chamber's Asia Team

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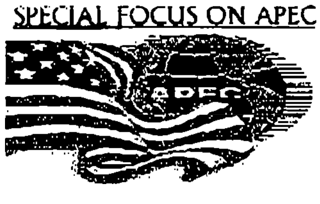
SPECIAL FOCUS ON APEC



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In This Issue ...

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Amb. Bolger on APEC p.3
Interview with NZ ABAC p.4
U.S. Chamber News p.6
Conferences & Events p.8

U.S. Chamber Advocates Ambitious Agenda for APEC

In 1994, members of the Asia-Pacific Economic Cooperation (APEC) forum declared their commitment to achieve "free and open trade" in the Asia-Pacific region by 2010 in the case of developed countries and 2020 in the case of developing ones. Since then, APEC has gone about the business of meeting this commitment. The group has had mixed results, scoring an early breakthrough by agreeing to reduce tariffs on information technology products, but suffering a disappointment in last year's attempt to expand tariff cuts to eight other sectors. Clearly, the path ahead will be tough.

The U.S. Chamber of Commerce believes that the United States should continue to press other APEC members to take some of the more challenging steps now. The temptation is strong to shift the burden of implementing unpopular decisions to the next generation of leaders. Japan's unwillingness to commit to market-opening of its forestry and fishery sectors as part of last year's APEC meeting reflects this. The great danger, of course, is leaving all of the most difficult reforms until the very end. By contrast, taking the medicine of reform in equal doses instead of waiting until the last minute will be easier politically. For this reason, the U.S. Chamber urges APEC member economies to move boldly to:

- improve **regulatory transparency** and eliminate inconsistent measures;
- accelerate implementation of **Uruguay Round commitments**;
- eliminate **tariff and non-tariff barriers**;
- expand business opportunities for **small and medium-sized businesses**;
- harmonize domestic and international **standards** in a manner that ensures transparency and non-discrimination for APEC economies;
- adopt an **investment code** that exceeds existing standards as reflected in bilateral investment treaties and the Uruguay Round agreements;
- provide effective and nondiscriminatory protection of **intellectual property rights** and harmonize internationally recognized standards on copyrights, patents, trademarks, industrial design and trade secrets;
- improve market access for financial, audiovisual and other **services**; and
- adopt by 2000 the Uruguay Round **Government Procurement Code**.

Clinton Administration Responds to Cox Report

On February 1, the Administration released its response to the policy recommendations of the Cox committee, the panel assembled to investigate technology transfers to China and their impact on U.S. national security. The Cox report, named for the panel's chairman, Congressman Christopher Cox (R-CA), outlined a series of suggested administrative and legislative action to address perceived threats to U.S. national security. The Administration released an unclassified version of these recommendations together with its response.
(continued on p. 6)

Malcolm R. Lee
02/08/99 01:12:38 PM

Record Type: Record

To: Lael Brainard/OPD/EOP, Sharon H. Yuan/OPD/EOP

cc:
Subject: Draft China WTO Agenda for Circulation

agndaf7.wpd

agndaf72.wpd

Lael: Alternative agendas. I pressed Cassidy for paper on protocol issues. He said he will not have any paper to circulate for tomorrow's deputies meeting other than the list of key outstanding issues developed for the last deputies meeting, which includes general descriptions of, but not options for, key protocol and market access issues. He said the options paper on protocol issues is not even ready for Charlene, as Cathy Field just returned from Beijing. He wants to come back to "an interagency group" following this round of consultations to develop options on protocol issues. I told him deputies need to agree on approach and treatment of specific issues going forward. His plan is to raise the specific protocol issues with Long, see where he is on them, then come back to the interagency group.

I did get from Lund a copy of the turgid protocol paper Fisher had shown me on the plane. I will pass it to you. A later paper describing options has been drafted, but Kristina did not feel comfortable giving it to me Friday. She only passed me the earlier paper after others had left the office. I will get it to you, and keep working on getting the other paper. The paper I got will give a deeper sense of issues, but should not be circulated.

I think we can begin a discussion on the key protocol issues tomorrow, and ask Fisher to describe how USTR wants to handle the most important from our perspective (I think these include antidumping, safeguards and subsidies). This will be an initial discussion where we should lay down certain factors (precedents, if any, for comparable market or non-market economies, importance to U.S. business and Congressional interests, creative options (e.g., changing form but not substance on NME's. If we want to cover market access issues as well, I would recommend focusing on the major protocol issues now rather than going through all eight identified in the list provided by USTR in the last meeting. This will be an ongoing process. If we want to do the latter, you can go with the second version of the agenda with a shorter list of protocol issues. We can recirculate the USTR list of issues again for tomorrows' meeting.

I also have draft papers from State describing protocol issues and preliminary, uncleared EB staff thoughts. Helpful descriptions of provisions.

Finally, under legislative, did you want to include discussion of permanent MFN strategy? See how I handled it under the agenda.

You should also lay down a marker on leaks given the very damaging Inside US Trade headline from last friday.

ML

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
009. draft	State Views on USTR Proposal. (1 page)	c. 01/1999	P1/b(1)

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

FOLDER TITLE:
China (February to March 1999) [3]

2010-1024-F
vz1813

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
010. letter	William Clinton to President Jiang Zemin. (4 pages)	02/03/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

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Cox-Dicks Report and Administration response:

The issue:
As detailed in the attached articles, a special House Committee has produced a voluminous report (the Cox-Dicks report) on what they believe to be a long-term effort by China to acquire US nuclear secrets and classified technology. The report includes a series of recommendations on how the United States should better control sensitive exports, including of supercomputers, tighten security at certain labs, and institute mandatory review of certain foreign investments.

White House process:
The NSC (Steinberg) has chaired an interagency process to ensure a prompt response to Congress, and to seek declassification of as much of the report as possible. The classified and unclassified (see attached) versions of the White House response were sent to Cox and Dicks yesterday, as well as to Hastert and Gephardt.

NEC:
The NEC has participated in this process, ensured that econ agencies were at the table, ensured that Commerce and Treasury drafted or cleared on all relevant parts of the White House response, and helped draft the response to the Committee's recommendation that foreign investments in national security-sensitive areas be subject to mandatory review (we said they almost certainly should not but would consult). Economic agencies generally report satisfaction with NSC coordination on this part of the process.

Matters requiring attention going forward:
- Hill consults and briefings -- none requested yet
- Coordinated message and outreach strategy -- not clear enough is being done on this
- Managing China related issues.
- Declassification effort -- this effort is proceeding under NSC; NSC has promised a report to hill by end Feb. (This report is highly classified and many parts may not be able to be declassified for a long time).

Fax

Office of China – U.S. Trade Representative

202/395-3900 (ph); 202/395-3512 (fax)

Name: **China Interagency Team (attached)**
Organization:
Fax:
Phone:
From: **Robert B. Cassidy, AUSTR for China**
Date: February 4, 1999

Comments: China Interagency Session, **Friday, February 5,** 1999 - **Rm. 203, Winder Bldg., 2:00 - 3:30 p.m....**

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

BRIEFING

MEMORANDUM FOR ASSISTANT SECRETARY TRUMAN

FROM: Daniel Zelikow DMZ
Deputy Assistant Secretary for Asia, the Americas and Africa

SUBJECT: Briefing for NSC Principals Committee Meeting on China

DATE & TIME: Wednesday, February 3 from 6:00 p.m. to 7:30 p.m.

LOCATION: White House Situation Room

BRIEFING: Key Issues
Tab A: [redacted] – taken out
Tab B: Economic Assessment
Tab C: Background on WTO
Tab D: Background on GITIC

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
011a. paper	Overview and Key Points. (4 pages)	02/03/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

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China -- Economic Assessment

Economic Prospects: It seemed inevitable that China would announce that it met -- or came very close to -- the 8% GDP growth goal for 1998. Even if the reported 7.8% growth figure were true -- which few believe -- this would mark the slowest growth since 1990. Most of the slowdown is due to sluggish domestic demand, as evidenced by falling prices, although the weakening external environment is playing an increasingly significant role. Much of the weight of growth is now being placed on fixed investment, financed by a surge in bank lending.

Key Challenges: China's long-run policy challenge -- recognized by the leadership -- is to resolve the twin problems of the financial sector and state-owned enterprises. More immediately, the authorities have chosen to emphasize growth and employment stimulation, even at the cost of the reform effort. Banking reform, which had been the most advanced, is being partially undermined by directives for banks to increase lending, which will likely exacerbate the long-term NPL problem. SOE restructuring is moving slowly, if at all, while a massive housing sector reform program also appears to have stalled. The government has also taken a number of steps to discourage -- or prevent -- imports. At the recently-concluded Economic Work Conference leaders indicated that they would "spare no effort" to increase exports, although not through devaluation.

Fiscal Policy: While the official deficit is small -- about 1.5% of GDP -- it excludes policy lending and a large number of off-budget funds, which bring the overall deficit to an estimated 6-8% of GDP. The fiscal deficit for 1999, as a share of GDP, is likely to be similar in magnitude. The government is trying to stimulate the economy through greater infrastructure investment, financed in part through a recent $12 billion domestic bond issue, but it is unclear how the money is being spent, and doubtful that worthwhile projects can be identified, designed, and implemented so quickly. The tax system is weak, causing revenues to stagnate and raising concerns about the advisability of additional deficit financing, particularly given the need for additional resources to pay for financial and corporate reform and to ameliorate short-run costs.

Monetary Policy: Until recently, monetary policy was kept tight as the government fought inflation and imposed increasingly binding budget constraints on SOEs. As growth began to slow, the PBOC lowered interest rates repeatedly in an attempt to boost investment, most recently on December 7. The rate cuts have been generally ineffectual, however, as banks chose to buy low-risk government paper instead of increasing lending. The government responded by ordering banks to increase lending, despite the threat to financial market reforms.

Financial sector restructuring: Major aspects of bank reform announced so far center around recapitalization of the four major banks, in part through a $32.5 billion bond issue that is being financed through a lowered reserve requirement, and which will apparently *not* bring new money into the system. Early last year, banks were instructed to begin lending only on commercial terms, the order that led them to prefer government bonds to lending. The recent order to increase lending is likely to direct more funds to SOEs, where banks see implicit government guarantees, rather than to the productive but capital-starved non-state sector. Banks have also been instructed to adopt western-style accounting and classification systems by year-end. In addition, the PBOC is being reorganized to insulate it better from local political pressures.

Resolution of the banking sector's problems also requires addressing the bad debt overhang and restructuring the banks so that future lending will be made on economically-efficient grounds. The Chinese intend to set up an RTC-type entity to handle the bad loans, although the timing for this is uncertain, and the shortage of banking expertise makes true commercialization a daunting challenge. Decontrol of interest rates could allow banks to charge risk-adjusted rates, and therefore increase lending to the non-SOE sector.

The recent closing of GITIC -- a large non-bank financial entity controlled by the province of Guangdong -- was a landmark in bank regulation. It may reflect a new willingness to deal forcefully with financial sector problems, although the failure of the company -- in one of China's wealthiest provinces -- underlines the depths of the sector's problems. At least two other "ITICs" have defaulted on loans recently, and others are believed to be in difficulty.

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

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

External Accounts: China continues to run a healthy, although smaller, surplus. While export growth has been slowing -- actually falling on a year-over-year basis for the past few months -- the trade surplus remains sizeable, reaching $43.5 billion in 1998,-$3.1 billion ahead of 1997's record pace. The breakdown is somewhat less encouraging: exports were up just 0.5%, while imports fell by 1.5%. FDI flows were $31.4 billion in the first nine months of the year, down 1% from 1997's pace, also a record.

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

Despite the balance of payments surplus, reserves remained flat for much of 1998. Reasons for this include the relaxation of surrender requirements (which allowed exporters to retain foreign exchange that would earlier have found its way into reserves), counting of exports that have been shipped but not paid for, and the depreciation of yen-denominated assets. Some of the discrepancy will inevitably be reflected through higher errors and omissions, some of which reflects capital flight. Reserves have now begun to inch up, reaching $145 billion at end-December. The increase may reflect repatriation of capital by SOEs.

China's external debt is modest, with total external debt (public and private) estimated at $141 billion (14.9% of GDP) at the end of 1998, and a debt service ratio below 7%. The short-term debt numbers are $38 billion below those provided by BIS, however, despite the general downward bias in BIS reporting.

Bilateral Issues and Relations:

- U.S. Bank Exposure to China: Total U.S. bank outstanding exposure stood at $2.5 billion as of end-1997.
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OASIA/INA/A. Marcus Dec. 15, 1998

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
011b. draft	Memorandum for Lawrence Summers from Edwin Truman. Subject: Bankruptcy (3 pages)	02/03/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (February to March 1999) [3]

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RESTRICTION CODES

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

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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China -- Economic Assessment

Economic Prospects: It seemed inevitable that China would announce that it met -- or came very close to -- the 8% GDP growth goal for 1998. Even if the reported 7.8% growth figure were true -- which few believe -- this would mark the slowest growth since 1990. Most of the slowdown is due to sluggish domestic demand, as evidenced by falling prices, although the weakening external environment is playing an increasingly significant role. Much of the weight of growth is now being placed on fixed investment, financed by a surge in bank lending.

Key Challenges: China's long-run policy challenge -- recognized by the leadership -- is to resolve the twin problems of the financial sector and state-owned enterprises. More immediately, the authorities have chosen to emphasize growth and employment stimulation, even at the cost of the reform effort. Banking reform, which had been the most advanced, is being partially undermined by directives for banks to increase lending, which will likely exacerbate the long-term NPL problem. SOE restructuring is moving slowly, if at all, while a massive housing sector reform program also appears to have stalled. The government has also taken a number of steps to discourage -- or prevent -- imports. At the recently-concluded Economic Work Conference leaders indicated that they would "spare no effort" to increase exports, although not through devaluation.

Fiscal Policy: While the official deficit is small -- about 1.5% of GDP -- it excludes policy lending and a large number of off-budget funds, which bring the overall deficit to an estimated 6-8% of GDP. The fiscal deficit for 1999, as a share of GDP, is likely to be similar in magnitude. The government is trying to stimulate the economy through greater infrastructure investment, financed in part through a recent $12 billion domestic bond issue, but it is unclear how the money is being spent, and doubtful that worthwhile projects can be identified, designed, and implemented so quickly. The tax system is weak, causing revenues to stagnate and raising concerns about the advisability of additional deficit financing, particularly given the need for additional resources to pay for financial and corporate reform and to ameliorate short-run costs.

Monetary Policy: Until recently, monetary policy was kept tight as the government fought inflation and imposed increasingly binding budget constraints on SOEs. As growth began to slow, the PBOC lowered interest rates repeatedly in an attempt to boost investment, most recently on December 7. The rate cuts have been generally ineffectual, however, as banks chose to buy low-risk government paper instead of increasing lending. The government responded by ordering banks to increase lending, despite the threat to financial market reforms.

Financial sector restructuring: Major aspects of bank reform announced so far center around recapitalization of the four major banks, in part through a $32.5 billion bond issue that is being financed through a lowered reserve requirement, and which will apparently *not* bring new money into the system. Early last year, banks were instructed to begin lending only on commercial terms, the order that led them to prefer government bonds to lending. The recent order to increase lending is likely to direct more funds to SOEs, where banks see implicit government guarantees, rather than to the productive but capital-starved non-state sector. Banks have also been instructed to adopt western-style accounting and classification systems by year-end. In addition, the PBOC is being reorganized to insulate it better from local political pressures.

Resolution of the banking sector's problems also requires addressing the bad debt overhang and restructuring the banks so that future lending will be made on economically-efficient grounds. The Chinese intend to set up an RTC-type entity to handle the bad loans, although the timing for this is uncertain, and the shortage of banking expertise makes true commercialization a daunting challenge. Decontrol of interest rates could allow banks to charge risk-adjusted rates, and therefore increase lending to the non-SOE sector.

The recent closing of GITIC -- a large non-bank financial entity controlled by the province of Guangdong -- was a landmark in bank regulation. It may reflect a new willingness to deal forcefully with financial sector problems, although the failure of the company -- in one of China's wealthiest provinces -- underlines the depths of the sector's problems. At least two other "ITICs" have defaulted on loans recently, and others are believed to be in difficulty.

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

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

External Accounts: China continues to run a healthy, although smaller, surplus. While export growth has been slowing -- actually falling on a year-over-year basis for the past few months -- the trade surplus remains sizeable, reaching $43.5 billion in 1998, $3.1 billion ahead of 1997's record pace. The breakdown is somewhat less encouraging: exports were up just 0.5%, while imports fell by 1.5%. FDI flows were $31.4 billion in the first nine months of the year, down 1% from 1997's pace, also a record.

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

Despite the balance of payments surplus, reserves remained flat for much of 1998. Reasons for this include the relaxation of surrender requirements (which allowed exporters to retain foreign exchange that would earlier have found its way into reserves), counting of exports that have been shipped but not paid for, and the depreciation of yen-denominated assets. Some of the discrepancy will inevitably be reflected through higher errors and omissions, some of which reflects capital flight. Reserves have now begun to inch up, reaching $145 billion at end-December. The increase may reflect repatriation of capital by SOEs.

China's external debt is modest, with total external debt (public and private) estimated at $141 billion (14.9% of GDP) at the end of 1998, and a debt service ratio below 7%. The short-term debt numbers are $38 billion below those provided by BIS, however, despite the general downward bias in BIS reporting.

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011c. paper	Background on China WTO Accession (2 pages)	02/03/1999	P1/b(1)

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