

FOIA MARKER

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Folder Title:

China (February to March 1999) [4]

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	Draft Comments on USTR Proposal. (3 pages)	02/03/1999	P1/b(1)
002. draft	Annotated Agenda for Principals Meeting. (4 pages)	02/03/1999	P1/b(1)
003. paper	Draft Comments on USTR Draft Proposal (4 pages)	02/03/1999	P1/b(1)
004. agenda	Annotated Agenda for NSC Principal's Committee Meeting. Record ID: 9900523 (2 pages)	02/03/1999	P1/b(1)
005a. email	Jeffery Bader to Eric Schwartz, Malcolm Lee, James Baker et al. at 8:38 AM. Subject: Waiving Sanctions (1 page)	02/02/1999	P1/b(1)
005b. draft	Memorandum for Samuel Berger from Jeffery Bader. Subject: Memorandum to the President. (1 page)	02/01/1999	P1/b(1)
005c. draft	Duplicate of 005b. (1 page)	02/01/1999	P1/b(1)
005d. draft	Memorandum for the President from Samuel Berger and Gene Sperling. Subject: Trade and Development Agency. Record ID: 9807618. (3 pages)	02/02/1999	P1/b(1)
005e. draft	Statement to Congress. (1 page)	02/02/1999	P1/b(1)
005f. draft	Justification for Termination of the Suspension on the Obligation of Funds (1 page)	02/02/1999	P1/b(1)
005g. email	Malcolm Lee to Jeffery Bader, Mona Sutphen, Nina Hachigian at 1:50 PM. Subject: China Trip Report. (3 pages)	02/02/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (February to March 1999) [4]

2010-1024-F

vz1814

RESTRICTION CODES

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

P1 National Security Classified Information [(a)(1) of the PRA]
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006. paper	Duplicate of 003. (3 pages)	02/03/1999	P1/b(1)
007. paper	Duplicate of 006. (3 pages)	02/03/1999	P1/b(1)
008. email	White House Situation Room to Lori Hendricks. Subject: China/WTO: Deputy USTR Fisher's Meeting. [with marginalia] (7 pages)	02/02/1999	P1/b(1)
009. email	White House Situation Room to Lori Hendricks. Subject: Zhu Rongji Talks. [with marginalia] (4 pages)	02/02/1999	P1/b(1)
010a. memo	From David Aaron. Subject: NSC Principals Meeting on China. (3 pages)	02/03/1999	P1/b(1)
010b. agenda	NSC Principals Committee Meeting (2 pages)	01/29/1999	P1/b(1)
010c. talking points	Talking Points (3 pages)	02/02/1999	P1/b(1)
010d. paper	Additional Background on the WTO (1 page)	02/02/1999	P1/b(1)
010e. paper	Potential Deliverables for the Zhu Visit (8 pages)	02/02/1999	P1/b(1)

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Sharon H. Yuan

02/01/99 12:11:12

PM

Record Type: Record

To: Melissa G. Green/OPD/EOP, Jake Siewert/OPD/EOP

cc:

Subject: China Trip Report

----- Forwarded by Sharon H. Yuan/OPD/EOP on 02/01/99 12:12 PM -----

Malcolm R. Lee
02/01/99 12:10:02 PM

Record Type: Record

To: Lael Brainard/OPD/EOP

cc: Sharon H. Yuan/OPD/EOP

Subject: China Trip Report

Have completed report on Japan trip, but having trouble attaching it to this e-mail from my A drive. If necessary, I'll fax it to you later this morning after I get a bit of sleep. On China, our meetings are written up in NODIS cables. Sharon: Please get them from Sitroom or Jeff Bader. 1) Fisher meeting with MOFTEC Minister Shi (from Friday). 2) Fisher meeting with Vice Foreign Minister Yang (Thursday) and with MOFTEC's Long. These latter two should be in e-mails sent to Hank Levine (China desk at State) or to Jeff Bader.

Fisher made following points in these meetings:

1. working hard to put together "dry" offer.
2. new WTO round, progress on Taiwan's accession, and growing deficit make progress by Zhu's visit critical. WTO accession talks have relieved some pressure for bilateral measures to open Japan's market. Not sustainable for much longer. Have renewed Super 301 Window likely to close for several years.
3. Protocol issues need to be part of package (Fisher went into no detail on these issues, but laid down firm marker).
4. Ambassador Barshefsky will travel to Beijing in early March to present package to Shi and to Zhu Rongji. (Zhu is in Russia in late February).

Fisher also raised a number of bilateral issues including IPR and direct selling.

Reaction:

Fisher meetings seemed to be more positive than Sasser's Tuesday meeting with Zhu. See NODIS cable reporting Zhu meeting with Ambassador Sasser.

- Meeting with Long of MOFTEC: Positive, China prepared to make concessions, hope U.S. prepared to as well. Instructions from highest authorities to conclude negotiations. As long as reasonable, China will accept. You have congress, we have our people. Risk to both sides. Zhu used line "I also may be impeached". Hope proposal is reasonable, and does not go beyond proposal of June 20. China will go a long way from June 20 position. We will consult closely with Cassidy before you table your "dry proposal", but leave your proposal intact, it needs to be your real bottom line. Hope to meet with Cassidy two times before Barshefsky comes to Beijing. Final decision will be made by Zhu himself. Protocol issues will be dealt with multilaterally.
- Meeting with Vice FM Yang: Zhu has explained position on WTO. Not easy for him to give such a positive gesture, because WTO issues are controversial here. China also affected by financial crisis in Asia and by domestic challenges. Long is in difficult situation, given controversial nature of WTO issues domestically. This negotiation has gone on for 10 years. Hope U.S. and China will approach negotiations pragmatically. We will accommodate reasonable requests from your side. This will be the perspective of the whole working team. Of course, there is a point beyond which we cannot accept. We know where that point is. With respect to the U.S. Congress, it is clear that what Congressmen have done is partially directed toward U.S.-China relations and partially for attacking President Clinton. Those people will always want more. Your trip is good because it allows us to exchange views. I wish you success. I assure you our side is sincere, I know you are.
- Meeting with MOFTEC Minister Shi: See reporting cable. Fisher one-on-one with Shi.

Next Steps

Vice FM Yang Comes to Washington - Week of Feb 8

U.S. Negotiating Team Meets with Long in Shenzhen or U.S. - Week of Feb 8

Chinese New Year - Week of Feb 16

Peter Sher to China for Agriculture Talks - Feb 21-22

Zhu/Shi/Long to Russia - Week of Feb 20

Summers Visit to China - late February

WTO Chairman's Group on China WTO in Geneva (Quad plus Australia, NZ, Singapore, India) -- Feb 27.

Barshefsky to China - First week of March

Albright to China - First Week of March

Some Key Decisions

- Should we seek to reach agreement on both market access and protocol issues prior to summit? (China will likely oppose, State will oppose)
- If so, what are our key market access and protocol priorities? USTR says it will not have final offer ready for several weeks. Need policy guidance as Cassidy pursues informal talks over coming weeks.
- What is the composition of our negotiating team in these informal talks? (I told Richard he should include State. USTR's initial inclination was to do it alone).

I asked Fisher how he would like to proceed with deputies meetings. He indicated he wants to confer with CB this coming Friday, when he will be in town. He wants to avoid a repeat of the last meeting. USTR is developing options on key issues, but will soon be conducting informal consultations with the Chinese. I will press Cassidy on these. I suggest you speak with Fisher on

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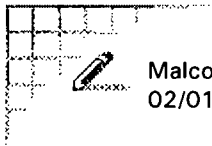
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Malcolm R. Lee
02/01/99 12:10:02 PM

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China Principals Meeting

Situation Room - tentative

6:00pm - 7:30pm, Wednesday, February 3, 1999

Staff Contact: Lael Brainard

Event:

You will be meeting with Sandy Berger and a small group to discuss the latest issues and strategy regarding China.

Lael Brainard will also attend meeting.

Attachments:

- A. Briefing memo from Malcolm Lee
- B. Meeting Agenda
- C. Annotated Meeting Agenda
- D. Read out of Fischer Meetings in China
- E. Macroeconomics - China
- F. Market Access Issues from USTR
- G. WTO China Accession
- H. COX Report and Administration Response from Holly
- I. Treasury Memo- To be Provided
- J. Commerce Memo
- K. State piece on Civil Aviation

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005c. draft	Duplicate of 005b. (1 page)	02/01/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (February to March 1999) [4]

2010-1024-F
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RESTRICTION CODES

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

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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)]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005d. draft	Memorandum for the President from Samuel Berger and Gene Sperling. Subject: Trade and Development Agency. Record ID: 9807618. (3 pages)	02/02/1999	P1/b(1)

COLLECTION:

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

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005e. draft	Statement to Congress. (1 page)	02/02/1999	P1/b(1)

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005f. draft	Justification for Termination of the Suspension on the Obligation of Funds (1 page)	02/02/1999	P1/b(1)

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005g. email	Malcolm Lee to Jeffery Bader, Mona Sutphen, Nina Hachigian at 1:50 PM. Subject: China Trip Report. (3 pages)	02/02/1999	P1/b(1)

COLLECTION:

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Malcolm Lee
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006. paper	Duplicate of 003. (3 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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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
008. email	White House Situation Room to Lori Hendricks. Subject: China/WTO: Deputy USTR Fisher's Meeting. [with marginalia] (7 pages)	02/02/1999	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
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009. email	White House Situation Room to Lori Hendricks. Subject: Zhu Rongji Talks. [with marginalia] (4 pages)	02/02/1999	P1/b(1)

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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.
- Trade Balance: The U.S. trade deficit with China has grown rapidly, and was the second largest U.S. deficit in 1997, at \$49.7 billion (the deficit with Japan was \$55.7 billion). In the first nine months of 1998, the deficit was \$42.3 billion, up from \$36.5 billion in the corresponding period last year. Year-to-date imports from China were just over \$52 billion, up 16%.
- U.S. FDI in China: At the end of 1997, U.S. direct investment in China totaled \$5 billion.
- Financial Services Presence: Six U.S. banks have a total of 13 branches in China. Only one -- Citibank's branch in Pudong -- is permitted to conduct business in *renminbi*, although this privilege is soon to be extended to Shenzhen as well.
- Tax Treaty: The U.S. and China have a tax treaty in force.

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FROM Pat Mulloy OFFICE/DESK A/S-ITA MAC PHONE NBR 202-482-3022
 SUBJECT Briefing Paper-NSC Meeting-China

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2010-1024-F

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CONCURRENCE RECORD (Prescribed by ITA A.1. 8-1)					ROUTING PURPOSE SYMBOLS (RPS) C- CONCURRENCES S- SIGNATURE	
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010a. memo	From David Aaron. Subject: NSC Principals Meeting on China. (3 pages)	02/03/1999	P1/b(1)

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Malcolm Lee
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FOLDER TITLE:

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vz1814

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]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Withdrawal/Redaction Marker

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
010b. agenda	NSC Principals Committee Meeting (2 pages)	01/29/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (February to March 1999) [4]

2010-1024-F

vz1814

RESTRICTION CODES

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

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
010c. talking points	Talking Points (3 pages)	02/02/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (February to March 1999) [4]

2010-1024-F
vz1814

RESTRICTION CODES

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
010d. paper	Additional Background on the WTO (1 page)	02/02/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (February to March 1999) [4]

2010-1024-F
vz1814

RESTRICTION CODES

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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.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
010e. paper	Potential Deliverables for the Zhu Visit (8 pages)	02/02/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (February to March 1999) [4]

2010-1024-F
vz1814

RESTRICTION CODES

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