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FOIA MARKER

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. draft	China CivAir Issues Paper (3 pages)	04/01/1999	P1/b(1)
001b. draft	Elements of an Agreement (1 page)	04/01/1999	P1/b(1)
002. draft	China CivAir Issues Paper (3 pages)	04/01/1999	P1/b(1)
003. memo	For the President from Lawrence Summers. Subject: Report on my Trip to Asia (4 pages)	03/02/1999	P1/b(1)
004. email	White House Situation Room to Alexander Arvizu, Holly Hammonds, Richard Holtzapple et al. Subject: Premier Zhu. (8 pages)	04/01/1999	P1/b(1)
005. draft	Memorandum to the President from Gene Sperling and Samuel Berger. Subject: Possible Civil Aviation Agreement. (2 pages)	04/1999	P1/b(1)
006. note	Handwritten Notes re: Chinese Accession Protocol (6 pages)	04/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (April 1999, Zhu Bilateral) [4]

2010-1024-F
vz1824

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.
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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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b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

MEMORANDUM FOR MALCOLM LEE

FROM: Jim Doyle (482-4246)

I don't know what format your using (for example, whether bullets are appropriate), so I've tried to keep this as simple as possible. If you would like me to e-mail this to you, please let me know.

This week Secretary Daley led the inter-agency infrastructure trade mission you proposed during your June 1998 visit. Participants included executives from eighteen U.S. companies and representatives from the Departments of Energy, Transportation and Housing and Urban Development, as well as the Export-Import Bank.

Highlights include an agreement, signed by Daley and Minister of Information Wu Jichan, to allow the commercial deployment of CDMA technology in China. CDMA is one of several competing protocols for transmitting digital telephone signals. U.S. companies, which are market leaders in CDMA technology, could have been kept out of China's market had that country precluded CDMA transmitters.

During the trip, 18 private sector contracts were signed. Among them:

- Enron Corporation will help build a 765km natural gas pipeline from Sichuan Province to markets in Hubei Province.
- Dasibi Environmental Corporation of Glendale, California, will provide air quality monitoring equipment to 20 Chinese cities.
- Hewlett-Packard of Palo Alto, California, and GE Medical Systems of Waukesha, Wisconsin, each signed agreements to export medical equipment, while Cargill and IMC Global each signed contracts to provide diammonium phosphate fertilizer.

Daley signed a MOU with China's Ministry of Construction in support of the U.S.-China Housing Initiative, which you announced last June. Ex-Im and DOE signed a MOU with China's State Development Planning Commission and China Development Bank to establish a $100 million clean energy project program.

UNITED STATES DEPARTMENT OF
COMMERCE
NEWS
WASHINGTON, D.C. 20230

OFFICE OF THE SECRETARY

FOR IMMEDIATE RELEASE
Thursday, April 1, 1999

Contact: Bill Buck
Mobile: 86-20-136-243-3004
Hotel: 86-20-81886968 x2713

U.S. SECRETARY OF COMMERCE WILLIAM M. DALEY ANNOUNCES AGREEMENT ON TELECOMMUNICATIONS MARKET OPENING

Announcement Comes at Conclusion of Business Development Mission to China

Guangzhou, China – U.S. Secretary of Commerce William M. Daley today announced an agreement on the commercial deployment of CDMA technology in China following a meeting with Minister of Information Wu Jichuan. They met to discuss the opening of the Chinese telecommunications market.

"China will allow companies to introduce CDMA networks across China. This agreement represents an important market opening by China in a sector poised for tremendous growth. American companies are market leaders in this technology and can look forward to vast market opportunities in China," said Secretary Daley.

CDMA is a U.S. technology which provides high quality telecommunication services. The announcement was made following the opening session of the China-America Telecommunications Summit (CATS). Agreements were also signed at CATS by Motorola, Hewlet Packard, IBM, and Compaq Computers and witnessed by Secretary Daley and Minister Wu.

In Guangzhou, Secretary Daley participated in a ceremony recognizing Parson's design contract for the new Guangzhou airport and attended a roundtable on Chinese energy projects. He also met with Guangdong Provincial Party Secretary Li Changchun and Guangzhou Mayor Lin Shusen, and with Governor of Guangdong Province Lu Ruihua to discuss business opportunities.

The stop in Guangzhou concludes a five-day, three-city infrastructure development mission that has seen much success. [Please see attached list of agreements.]

Secretary Daley was joined on the infrastructure mission by representatives of the following U.S. Government agencies: Robert Gee, Department of Energy, Susan Kurland, Department of Transportation, Deborah Thompson, Export-Import Bank, and Elinor Bacon, Housing and Urban Development.

- more -

The mission focused on industries including information technologies, power generation, energy exploration and development, environment, medical technologies, transportation, housing, engineering services, insurance, and entertainment.

"I brought along with me 18 American companies that want to do more business in China. They see China as a huge potential market. As China's role in the world economy grows larger, these companies will be involved at every step. They want that potential to become reality. This has been a productive trip which has helped American companies find increased access to the Chinese market," said Secretary Daley.

In Beijing, Secretary Daley met with high-level government officials, including Chinese Premier Zhu Rongji and China's State Counselor Wu Yi to discuss infrastructure market opportunities for U.S. companies.

In Shanghai, Secretary Daley launched the first U.S.-China summit to promote Year 2000 compliance, the first of several Commerce Department-sponsored seminars for businesses in overseas market.

Secretary Daley's infrastructure mission was the last visit by a U.S. Cabinet member to China before Chinese Premier Zhu travels to China.

-30-

UNITED STATES DEPARTMENT OF
COMMERCE
NEWS WASHINGTON, D.C. 20230

OFFICE OF THE SECRETARY
G 99-31

FOR IMMEDIATE RELEASE
March 29,1999

Contact: Morrie Goodman
Maria Tildon
Ph: 6420-6688 ext.1818
Cell: 1.39 123 2042

U.S. COMMERCE SECRETARY DALEY COMPLETES SUCCESSFUL FIRST DAY OF INFRASTRUCTURE MISSION TO CHINA

Beijing China - Today, Secretary of Commerce William M. Daley presided over the signing of a number of commercial agreements during the first ever interagency infrastructure trade mission to China.

"Each of the projects demonstrates the positive impact that U.S.technology, expertise, and world class equipment will have on the development of China's infrastructure and overall economy," Daley said. "In addition to benefitting the economies of both countries, these projects support our interest in a stable, strong, and open China that embraces political pluralism, free markets, the rule of law, and are a step on the path to building a more secure economic and larger international order."

Secretary Daley's infrastructure mission, the last visit by a U.S. Cabinet member to China before Chinese Premier Zhu travels to Washington next month, highlights many of America's most competitive industries including information technologies, power generation, energy exploration and development, environment, medical technologies, transportation including aviation, airport infrastructure, and light rail, housing, engineering services, insurance, and entertainment.

"These projects also focus on one of our greatest commercial challenges -- our large and growing trade deficit with China -- and the need for U.S. firms to enjoy greater market access in key sectors in China," said Daley. "Expanding exports of goods and services in these key sectors serves our longer term commercial interests," said Daley as he and China's State Counselor Wu Yi witnessed the signing of seven business agreements:

- **Enron** International China Pipeline Ltd., a wholly-owned subsidiary of Enron Corporation of Houston Texas signed a Memorandum of Understanding with China National Petroleum Corporation for the joint development of a natural gas pipeline. The 765-kilometer pipeline will transport natural gas from Sichuan Province to markets in the Hubei Province. The project will be the first onshore pipeline in China built in cooperation with a foreign company.
- **The Puqi Power Generating Company** signed a "Turnkey Contract for Engineering, Procurement and Construction (EPC)" with Hubei Electric Power Co and Shanghai Advanced Power Projects (a joint venture of Westinghouse Corporation and Shanghai Electric Corporation.) This project is one of the few power projects that has received approval from the highest authority in China in recent months and the only such project with U.S. investment. Control systems and high pressure parts are to be imported directly from the U.S. Bechtel, a major U.S. construction company, will provide construction management services.

-MORE-

- **Dasibi Environmental Corporation** of Glendale, CA signed a letter of intent with China's State Environmental Protection Administration (SEPA) to provide air quality monitoring equipment for over 20 cities in China as part of Phase II of China's Urban Air Quality Monitoring Project.
- **Hewlett-Packard, of Palo Alto,** CA signed a Memorandum of Understanding with the China National Technical Import & Export Corporation Trading Co., Ltd. ("CNTIC") to provide medical equipment including, color doppler ultrasonic diagnostic system, patient monitoring device and defibrillator.
- **GE Medical Systems**, of Waukesha, Wisconsin, signed a Memorandum of Understanding with China National Technical Import and Export Corporation (CNTIC) for a preferential loan arrangement through which hospitals in China may purchase medical diagnostic equipment such as CT, MRI and x-ray machines. The annual limit of the loan is $60 million and the duration is three years.
- **U.S.-China Industrial Exchange, Inc.,** (Chindex) of Bethesda, Maryland, signed a Letter of Intent with the China National Instruments Import & Export Corp. to use up to $30 million in U.S. Export Import Bank and Bank of China guaranteed financing for the sale of U.S.-made medical equipment. Chindex will be the exporter of medical equipment supplied by a number of small to large U.S. manufacturers from all over the country, including Acuson Corporation, Mountain View, CA; General Electric Medical Systems, Waukesha, WI; Johnsosn & Johnson Ortho-Clinical Diagnostics, Rochester, NY; Lunar Corporation, Madison, WI; Nova Biomedical, Inc., Waltham, MA; PLC Medical Systems, Franklin, MA; Steris Corporation, Mentor, OH; and XRE/TREX Medical, Lettleton, MA.
- **Cargill, and IMC Global** signed contracts to supply diammonium phospate fertilizer to China's National Chemical Import & Export Corp.
- On March 28, 1999, **Ellicott International** of Baltimore, Maryland signed a Memorandum of Understanding with the China Water Investment Corporation (CWI) to cooperate as a participant in China's 100 Dredge Project. The project is a major commitment by the Chinese government to improve river and waterway commitment in China and to prevent the loss of life and economic damage caused by the devasting flooding that has plauged China over the past several years.
- **The U.S. Export-Import Bank (Ex-Im) and the U.S. Department of Energy** signed a Memorandum of Understanding with China's State Development Planning Commission and the China Development Bank to establish a $100 million clean energy program to finance clean energy projects in China.
- The **Department of Commerce** signed a Memorandum of Understanding with China's Ministry of Construction to formalize cooperative discussions and activities to advance the achievement of the great economic potential of housing and promote the social objectives of the United States and China. This MOU supports the U.S.-China Housing Initiative, announced during the President's visit to China last June 1998.

-MORE-

Joined by 18 senior representatives of U.S. companies, Secretary Daley met with Chinese Premier Zhu Rongji where he highlighted the many areas where the U.S. and China have found common ground and worked cooperatively together, and pressed China to embrace a system where open markets, transparency, accountability, and the rule of law prevail. In particular, Daley stressed the importance of addressing serious differences on critical issues including illicit transfer of technology, and human rights.

Daley also noted in his meeting with Premier Zhu concern for the need for China to embrace greater market openess as it deepens economic reforms. Secretary Daley is scheduled to meet with China's State Economic Trade Commission Chairman Sheng Huaren and State Development and Planning Commision Vice Chairman Bao Xuding Tuesday morning, followed by a speech before the Beijing AmCham and departure to Shanghai Tuesday afternoon.

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COMMERCIAL DELIVERABLES
FOR SECRETARY DALEY'S MISSION TO CHINA
MARCH 28 TO APRIL 1 1999
FINAL

1) **Natural Gas Pipeline Project, MOU**
   Enron
2) **Puqi Power Plant, EPC Contract**
   Sithe China Holdings Limited
3) **Air Monitoring Project, LOI for Phase II**
   Dasibi
4) **MOU for Loan Program for Medical Devices**
   Hewlett Packard
5) **MOU for Loan Program for Medical Equipment**
   General Electric Medical Systems
6) **LOI for Medical Diagnostic Equipment**
   U.S.-China Industrial Exchange, Inc. (Chindex)
7) **$100 million Ex-Im Credit Facility**
8) **Housing Initiative, MOU**
9) **Contracts to supply diammonium phosphate fertilizer to China's National Chemical Import & Export Corporation**
   Cargill and IMC Global
10) **Agreement to Provide (100) American Homes -- California Gardens**
   Dessen Homes
11) **The Pudong Advanced Value-added Services Cooperation Agreement**
   AT&T
12) **Shanghai General Motors Corp. Framework Agreement for the Purchase of Components**
   General Motors
13) **Tomorrow's Square, Amendment to Management Agreement**
   Marriott International
14) **Lockheed ATM Skyline Air Traffic Management Systems**
   Lockheed Martin Air Traffic Management
15) **Guangzhou New Baiyun International Airport, highlight design contract**
   URS Greiner/Parsons
16) **Hunan GSM Base Stations**
   Motorola of Illinois
17) **Shenzhen GSM Base Stations**
   Motorola of Illinois
18) **China Postal Comprehensive Business Network**
   Hewlett Packard of California
   IBM of Rochester, NY
   Compaq Computer Corp. of Houston, TX
19) **China agreed to allow companies to introduce CDMA networks across China.**

 5B

U.S. firms cheer China's efforts to join WTO

By Paul Wiseman
and Julie Schmit
USA TODAY

HONG KONG — For U.S. businesses, the benefits of coaxing China into the World Trade Organization are obvious.

China would have to dismantle trade barriers that keep U.S. products out and abandon rules that discriminate against U.S. firms trying to do business there. Those are big steps toward it becoming the fabled market of 1.2 billion consumers that has entranced Corporate America for two decades — a vision that has remained more mirage than reality for companies thrashing through a maze of bureaucratic trade restrictions there.

"We salivate at the opportunity to compete in that domestic market," says Dick Kahler, president of Caterpillar, China.

For China, joining the WTO — the Geneva-based organization that sets and enforces the rules governing international trade — is a lot riskier. China's inefficient state-owned companies, many already losing money and drowning in debt, suddenly would face fierce, perhaps fatal, competition from foreign rivals.

But some Chinese economists argue that more open markets would benefit Chinese consumers by lowering prices, attracting more foreign investment, improving political relations with the U.S. and forcing badly run state-owned firms to cut costs and improve their products to avoid extinction.

Nonetheless, both countries are fighting an uphill battle to reach an agreement that would let China into the WTO this year. China wants to open its markets slowly and recently has offered concessions. But hopes that a deal could be reached in time for Chinese Premier Zhu Rongji's visit to Washington next week suffered a huge setback: U.S. Trade Representative Charlene Barshefsky left Beijing Tuesday after a one-day meeting, saying big gaps remained.

Agence France-Presse

Setback: Charlene Barshefsky left a meeting with Chinese Premier Zhu Rongji on Tuesday in Beijing saying big gaps remained.

Even if U.S. and Chinese negotiators reach an agreement, Congress could kill it. U.S. lawmakers are furious with China over its human rights record, its $57 billion trade surplus with the U.S. and allegations China stole sensitive technology from U.S. weapons labs.

Still, Frank Martin, president of the American Chamber of Commerce in Hong Kong, says he's "cautiously optimistic" a WTO agreement can be reached. U.S. businesses are certainly rooting for one.

Caterpillar, for instance, is currently barred from exporting small tractors to China because China is trying to protect its own manufacturers. China would almost certainly have to drop the ban if it joined the

Cont

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WTO

> "We salivate at the opportunity to compete in that domestic market."
>
> **Dick Kahler, president of Caterpillar, China**

WTO. A deal might also give Caterpillar more freedom to distribute its products in China.

If China allows more foreign investment into areas that are restricted, such as telecommunications, finance and insurance, that would result in more U.S. companies opening offices in China. That means more business for all kinds of companies, including computer networking giants, 3Com and Cisco Systems. "More companies means more need for technology," says David Tang, head of marketing, Greater Asia.

One of the biggest benefits to U.S. companies if WTO status is granted is that it would remove many of the uncertainties that they face today in the China market, says William Nuti, head of Asia operations for Cisco. "There is always this cloud of trade relations hanging over our heads."

For computer chip giant Intel, a WTO deal might mean the end of China's 6% tariff on chips and its even higher tariffs on other technology products. Intel might also be able to move products in and out of China without first having to go through a Chinese firm with "foreign trading rights." "We would like to be able to import and distribute directly," says Jim Jarrett, president of Intel, China.

Intel and other technology companies also would like to see an end to requirements that they share technology and enter into joint ventures with Chinese companies before they can invest in China.

For China, however, joining the WTO likely will yield only "modest gains," says Nicholas Lardy, economist at the Brookings Institution, a centrist think tank in Washington. An economic slowdown and the threat of demonstrations marking the 10th anniversary of the Tiananmen Square democracy movement have "diminished the regime's appetite for opening its markets further to foreign competition," he says.

Despite the recent concessions in WTO talks, China in many ways has been moving backward on trade liberalization — imposing price controls on a broad range of products, for instance, to protect Chinese companies from foreign competition and announcing new import restrictions on products from pharmaceuticals to telecommunications.

Indeed, a memo questioning the wisdom of joining the WTO has been circulating among Chinese policymakers, according to the *South China Morning Post*. The memo, written by someone using a pseudonym, urges Chinese negotiators to set "conditions the other side cannot accept."

Joining the WTO would mean a "suspended death sentence" for China's metallurgy, machinery, electronics and technology industries, the memo argues. It says China needs more time to develop its industries before exposing them to the rough and tumble of free trade.

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C2

Commerce Secretary Optimistic After Beijing Talks

By MAGGIE FARLEY
TIMES STAFF WRITER

SHANGHAI—Don't give up on China.

That was the message Wednesday from top U.S. trade officials after intensive talks here this week about bringing China into the global trading system and opening its markets.

Though "significant gaps" remain just a week before China Premier Zhu Rongji travels to Washington, China and the United States are closer than ever to an agreement on China joining the World Trade Organization, U.S. officials said here.

"We're down to the final, most difficult details," said Commerce Secretary Bill Daley. "I'm cautiously optimistic that there will be a deal."

China has given cause for optimism in the last few days, officials said. In last-minute talks with U.S. Trade Representative Charlene Barshefsky, on Monday and Tuesday, Beijing put forth significant concessions on access to its market for telecom operators, bankers, insurance agents—maybe even Hollywood.

On the table for the first time are proposals to issue more licenses for foreign insurance companies to operate in China—right now there are only two—and allow U.S. banks to have wholly owned branches within eight years. Previous negotiations had limited them to joint ventures.

On Wednesday, Daley presided over another first: a framework agreement between **AT&T** and the Chinese government to provide telecom and Internet services in Shanghai's new business district.

Until now, foreign companies have been banned from direct participation in the telecom sector. Daley also said he received assurances from Zhu that China would use a mobile telephone technology—code division multiple access (CDMA)—that is widely used in the United States.

The move would benefit U.S. telecom equipment giants **Motorola** Inc. and **Lucent Technologies** Inc., who are poised to sell $500 million of technology to the country's sole CDMA operator, **Great Wall**.

But Daley won't be presiding over the contract signing scheduled for Thursday. It seems Great Wall is half-owned by China's military.

Though he says plans for him to preside "were never firmed up," political tensions over leaks of sensitive technology to China's armed forces made it prudent for Daley to find other things to do on his last day in China than pose with a member of the People's Liberation Army.

Even so, Daley warned business leaders not to let current tensions interfere with business relations.

"Now is not the time for American businesses to give in to those who would turn China into our enemy of the next century," Daley told a group of U.S. business leaders here Wednesday.

Jack Valenti, head of the Motion Picture Assn. of America and a member of Daley's delegation, is not one to give up. He has pounded on Beijing's door for years, asking it to open up to Hollywood.

Concerned about "spiritual pollution" and the potential that its own film industry would be swamped by American blockbusters, China allows only 10 U.S. films to be released in the country each year.

But Valenti said he came away from Beijing with new hopes that the quota will be expanded to 17 next year and 24 in 2001.

"I have a glimmer of hope," Valenti said Wednesday of his meeting with Ding Guangen, China's propaganda chief. "No pledges were made. But he said, 'We'd like to introduce more films.'"

After years of rejection from the ministry, Valenti met Ding for the first time and said he was "to my amazement, quite likable. He's the kind of guy I'd like to have dinner with and talk movies."

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Policy

President Clinton "never sat down one-on-one with Milosevic" to take the measure of the man, says Mr. Panetta. "Clinton's great strength is understanding and communicating with others; when he's cut off from that, it becomes a weakness."

Many in the White House had hoped that Mr. Milosevic would crack under the initial NATO bombing, or at least use the attacks as a reason to accept a peace deal. But as that calculation has turned out to be incorrect, Mr. Clinton's strategy is a Vietnam-style phased escalation. "For a sustained period, he [Mr. Milosevic] will see that his military will be seriously diminished, key military infrastructure destroyed, the prospect of international support for Serbia's claim to Kosovo increasingly jeopardized," Mr. Clinton said Tuesday at the State Department.

But the effectiveness of air power may turn out to be as much an illusion for Mr. Clinton as it was for his Vietnam-war era predecessor. The choice then would be similar to one that faced Mr. Johnson: a humiliating loss or further escalation with ground forces. Publicly, White House officials say that Mr. Clinton ruled out ground forces months ago when he was putting together a war plan that could gain support on Capitol Hill and at NATO headquarters. But his recent statements have been silent on the issue, at least leaving open the chance for a change of policy.

Taking the plunge with ground troops would complete the eerie morphing of Clinton into Johnson. "Johnson had his Great Society and Clinton has his domestic focus," says Richard Haass, director of foreign studies at the Brookings Institution in Washington, D.C. "Johnson's undoing was Vietnam. Bill Clinton has labored for six years to avoid having foreign policy at center stage; now it threatens to do just that."

The Washington Times THURSDAY, APRIL 1, 1999

A15

Cabinet secretary defends engagement with China

By H. Asher Bolande
AGENCE FRANCE-PRESSE

SHANGHAI — Commerce Secretary William M. Daley yesterday blasted critics of Washington's policy of engagement with Beijing as moving "backward" on two decades of progress in economic and political relations.

"Too many positive things have happened in the past 20 years to get us to the point where some may not want us to move forward [and] will try to force us backward," he told a gathering of U.S. businessmen in Shanghai.

Allegations that China stole U.S. nuclear missile technology "are most troubling," Mr. Daley said. "But I believe the American people do not want us to go back, they want us to stay engaged," he said.

"Now is not the time to give in to those who would turn China into our enemy in the next century. Now is not the time, obviously, to give up on this difficult market," he added.

Mr. Daley, who is heading a large business delegation on a four-day infrastructure trade mission, met Prime Minister Zhu Rongji in Beijing on Monday.

He left Shanghai yesterday afternoon for southern Guangzhou where he will meet with U.S. business people and Chinese officials.

Referring to his talk with Mr. Zhu, he said he thought there may be an "underestimation" in Beijing of the challenges and political costs faced by President Clinton in sticking to the engagement policy.

Mr. Daley hailed the administration as "extremely courageous" for not wavering from its commitment to dialogue with Beijing amid fierce opposition from the Republican-dominated Congress.

But the official China Daily warned yesterday that the wave of anti-China feeling in the United States was threatening Sino-U.S. ties.

"The Republicans have put at risk all that has been achieved by the Clinton administration's engagement policy toward China," the English-language daily said.

"In the latest fit of hysteria against China, anti-China forces in the United States are making a greater effort to whip up Sinophobia in the United States using the so-called nuclear theft scandal," said an editorial.

Mr. Daley's visit coincides with an upsurge in bilateral efforts on China's bid to enter the World Trade Organization ahead of Mr. Zhu's April 6-13 visit to the United States.

But the commerce secretary was reserved, saying only he was "cautiously optimistic" a deal would be reached.

"Substantial gaps" remain despite important progress, Mr. Daley said, noting Trade Representative Charlene Barshefsky left behind a senior team of negotiators when she departed late Tuesday.

"It is up to the Chinese to come up with a commercially attractive offer," he said, referring to WTO requirements that members open up their markets to foreign goods and services.

Mr. Daley meanwhile presided over the signing of a framework agreement between the Shanghai authorities and a joint venture including the U.S. giant AT&T Corp. to provide telecoms services in Pudong.

Mr. Daley also presided over a signing ceremony between joint venture Shanghai GM and General Motors, cementing a $400 million deal to purchase 52,000 vehicle component sets.

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The Washington Times THURSDAY, APRIL 1, 1999

A15

WTO again is unable to pick new chairman

GENEVA (AP) — The World Trade Organization missed its latest deadline yesterday in the search for a new chief.

In a meeting that lasted less than half an hour, the chairman of the general council of the world free-trade body told the members there was no chance of reaching a consensus about either of the two candidates.

Ali Mchumo, the Tanzanian trade ambassador, advised the countries to carry out some "soul-searching" over the Easter break and said they would meet again next week.

Thai Deputy Prime Minister Supachai Panitchpakdi and former New Zealand Prime Minister Mike Moore are "very, very close," said WTO spokesman Keith Rockwell.

Mr. Mchumo told the delegates certain countries have said they will not throw their support behind one candidate or the other, making it impossible to build a consensus. The WTO always works by consensus and has never held a vote in its four-year history.

The organization has been deadlocked on a replacement for Renato Ruggiero since December.

The position is seen as a key one as the WTO faces the challenges of global economic turmoil and also tries to mediate in the damaging banana trade war between the United States and the European Union.

Even though one candidate, Moroccan Trade Ambassador Hassan Abouyoub, has dropped out of the race, the organization has been unable to decide on a single choice. A third candidate, former Canadian Trade Minister Roy Maclaren, has insisted he will not drop out even though he enjoys little support.

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The Washington Times FRIDAY, APRIL 2, 1999

B8

China slips on opening markets

BLOOMBERG NEWS

China may be backsliding on moves to eliminate import barriers even as it negotiates to enter the World Trade Organization, the U.S. Trade Representative's Office said yesterday.

While China has eliminated more than 1,000 quotas and licenses on key U.S. exports like computers and telecommunications digital switching equipment, the government has set up new obstacles, the trade office said in its annual report on foreign trade barriers. These affect everything from pharmaceutical prices to gasoline imports and are contributing to a record U.S. trade deficit with the country, the report said.

"China's interlocking and pernicious market access barriers with respect to goods, services and agriculture are a serious concern," U.S. Trade Representative Charlene Barshefsky's office said in a statement.

The report, which also criticizes Japan, the European Union and other U.S. trading partners, comes less than a week before Chinese Premier Zhu Rongji is scheduled to visit the United States. Mr. Zhu's trip is partly designed to smooth over conflicts stemming from the trade imbalance and allegations that Chinese spies stole U.S. nuclear secrets.

The report was released as China is negotiating to enter the WTO — the Geneva-based group that sets the guidelines for world trade — a move that some in the Clinton administration say would promote market-opening measures.

U.S. Commerce Secretary William M. Daley yesterday wrapped up a four-day visit that failed to yield progress on China's quest to join the WTO, and he said it's "pretty unlikely" an accord will be signed before Mr. Zhu's planned visit. Still, during Mr. Daley's trip, U.S. companies signed agreements to sell almost $600 million of goods and services to China.

In fact, four U.S. companies landed a telecommunications deal yesterday worth a total of $141 million.

China has been trying to get into the WTO for 13 years, and while the government has lowered tariffs on imports of many products, its duties on chemicals, motor vehicles and other imports in which the country wants to build competitiveness remain "extremely high," the report said.

The report cited newly drafted regulations on pharmaceutical prices that will restrict profit margins, a directive that new power plants of less than 600 megawatts must use no foreign equipment and a ban on the import of diesel and gasoline.

The U.S. trade deficit last year widened to a record $169.3 billion, reflecting the first decline in exports in 13 years and strong domestic U.S. demand. The deficit with China, a major source of clothing and household products, widened to a record $56.9 billion from 1997's $49.7 billion.

That placed China's surplus second to only Japan's among U.S. trading partners. The U.S.-Japan trade gap totaled $64.1 billion in 1998, up from 1997's $56.1 billion and the second highest on record.

The report said the United States' "top priority" was opening Japan's markets to U.S. goods and services.

"While Japan has reduced its formal tariff rates on imports to very low levels, it maintains a wide range of other market-access barriers," including "exclusionary business practices, and a business environment that protects domestic companies," it said.

Yet it said the United States was still pressing Japan to fulfill agreements on automobiles and auto parts, insurance, flat glass construction and semiconductors, among other areas of conflict.

45

The Washington Times FRIDAY, APRIL 2, 1999

A12

U.S., Russia clash on diplomacy

Yeltsin's call for Group of Eight Balkans session rejected

By Tom Carter
THE WASHINGTON TIMES

The United States rejected a Russian proposal yesterday to convene an emergency session of foreign ministers from the Group of Eight industrial nations to discuss ways of ending the crisis in Yugoslavia.

"We are not sure that an emergency meeting of this kind is an appropriate venue for discussion of Kosovo," State Department spokesman James P. Rubin told reporters. "What we need to see is a reversal of course by [Yugoslav President Slobodan] Milosevic. That's what will enable diplomacy to be pursued."

Mr. Rubin said for the NATO bombing to stop, Mr. Milosevic had to end Serbian aggression against the ethnic Albanians and embrace the peace plan that restores autonomy to the Serbian province of Kosovo that would be secured by international peacekeeping forces.

Great Britain appeared to be less dismissive of the idea.

"We have yet to be contacted by Russia, but we will listen seriously when we are. There may come a time when such a meeting would be useful," said Peter Reid, spokesman for the British Embassy in Washington. "But, at the moment the priority is to get Mr. Milosevic to stop the repression of the Kosovar Albanians."

Russian President Boris Yeltsin, who defines the NATO attacks on Serbia as naked aggression, made the appeal yesterday.

"I have authorized Russia's foreign minister [Igor Ivanov] to urgently contact the foreign ministers of the Group of Eight to press for a special meeting of the foreign ministers to work out ways to swiftly end the crisis," he said.

"Every lost day brings new casualties and tragedies. We must act immediately," he said in a taped television address.

Mr. Rubin said that Secretary of State Madeleine K. Albright had been in contact with Mr. Ivanov twice in the last two days. But he would not characterize their conversations.

The Group of Eight consists of Russia, the United States, Italy, France, Germany, Britain, Japan and Canada.

The Russian initiative came a week after Russian Prime Minister Yevgeny Primakov failed to persuade Mr. Milosevic to meet NATO's conditions.

But foreign ministers of the Organization of the Islamic Conference are examining ways of convening an urgent meeting on Kosovo, Egyptian Foreign Minister Amr Mussa said in Cairo.

The group comprises Egypt, Iran, Turkey, Pakistan, Malaysia and Indonesia. It was not clear what the meeting might accomplish since only Turkey is a NATO member.

Russia announced Wednesday that it is sending a reconnaissance ship through the Bosporus Straits, followed by several more ships from the Black Sea Fleet. The first ship is scheduled to depart today.

Four ships are scheduled to move through the straits this weekend, three more next Tuesday and one Thursday.

Russia said it is sending the ships because NATO's bombardment of Yugoslavia was encroaching on Russia's national interests. But Russia has pledged it would not pass military intelligence to the Serbs. Mr. Yeltsin has said that Russia would not be "sucked into a military conflict."

Turkey, a member of NATO, expressed concern yesterday about the Russian ship movements through its waters. But it gave permission for the ships to sail through the strait.

Belarus decided yesterday to halt all cooperation with NATO in the wake of the alliance's attacks on Yugoslavia, foreign ministry spokesman Nikolai Borissevich said.

Last year, Belarus was involved in 55 separate activities under NATO's Partnership for Peace program, and a project for cooperation in the 1999-2000 period has also been drawn up.

Pope John Paul II continued his pursuit of an Easter cease-fire. The pope made his appeal in letters to Mr. Milosevic, President Clinton and NATO Secretary-General Javier Solana.

The Vatican's chief foreign affairs official, Jean-Louis Tauran, met yesterday for an hour with Mr. Milosevic to deliver a personal message from the pope, the Vatican said. The contents of the message were not disclosed.

Mr. Clinton has rejected the pope's request.

"We can't observe Easter and honor the resurrection of Christ by allowing [Mr. Milosevic] another free day to kill more innocent civilians," he said in a CBS television interview Wednesday.

• *This story is based in part on wire service reports.*

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Charlene Barshefsky laid out a four-part package when she met with Premier Zhu and with Wu Yi last week: market access (goods, services, agriculture); SPS; a range of protocol issues; and textiles. The President wants to go flat out to resolve all of these issues, including all protocol issues raised at the negotiating level, in time for the Premier's visit. If all are satisfactorily resolved, we will conclude the agreement while the Premier is in Washington, with all appropriate ceremony.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. draft	China CivAir Issues Paper (3 pages)	04/01/1999	P1/b(1)

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

FOLDER TITLE:
China (April 1999, Zhu Bilateral) [4]

2010-1024-F
vz1824

United States Department of State

Washington, D.C. 20520

FROM: **Hank Levine**
Deputy Director for Economic Affairs
Office of Chinese and Mongolian Affairs

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

URGENT

TO: Lael Brainard

☐ PER DISCUSSION ☐ FOR CLEARANCE ☐ FYI

Malcolm asked that I send this to you. It's Dave Marchick's proposed message on Civair ~~that~~ he wants us to send tonight. Does this look ok to you? Pls. let us know if ok to send.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001b. draft	Elements of an Agreement (1 page)	04/01/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (April 1999, Zhu Bilateral) [4]

2010-1024-F
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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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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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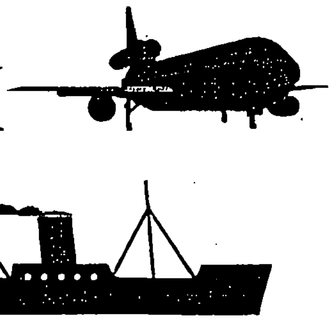
U.S. DEPARTMENT OF STATE
OFFICE OF TRANSPORTATION AFFAIRS
Room 5830, 2201 C Street, NW,
Washington, DC 20520-5820

FAX



Date: 4/1/99
Number of pages including cover sheet: 4

To:
NEC: LAEL BRAINARD
456 2223

MALCOLM LEE
456-9290

Phone:
Fax phone:
CC:

From:
TOM WHITE
(for DAVE MARCHICK)

Phone: (202)647-4045
Fax phone: (202)647-4324

REMARKS: ☒ Urgent ☐ For your review ☐ Reply ASAP ☐ Please comment

CHINA CIVAIR PAPER
(CLEARED by DOT + EAP)

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002. draft	China CivAir Issues Paper (3 pages)	04/01/1999	P1/b(1)

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FACSIMILE TRANSMITTAL COVER SHEET

NATIONAL ECONOMIC COUNCIL
THE WHITE HOUSE

Telephone No: (202) 456-5355
Facsimile No: (202) 456-2878

TO:	Rob, Malcolm, Sonal	**FAX:**	
FROM:	**Sharon Yuan**	**PHONE:**	
DATE:	March 31, 1999		

Number Of Pages (including Coversheet): 5

Comments:

Attached is Larry's trip readout. -SY

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. memo	For the President from Lawrence Summers. Subject: Report on my Trip to Asia (4 pages)	03/02/1999	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
004. email	White House Situation Room to Alexander Arvizu, Holly Hammonds, Richard Holtzapple et al. Subject: Premier Zhu. (8 pages)	04/01/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (April 1999, Zhu Bilateral) [4]

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NSC/RMO PROFILE

RECORD ID: 9902043
RECEIVED: 22 MAR 99 18

TO: DAVIES

FROM: COMSTOCK, N

DOC DATE: 19 MAR 99
SOURCE REF:

KEYWORDS: CHINA P R VISIT

PERSONS: ZHU, RONGJI

SUBJECT: TREASURY BRIEFING MATERIALS FOR CHINESE PREMIER ZHU VISIT

ACTION: ADD-ON / APPROPRIATE ACTION DUE DATE: 29 MAR 99 STATUS: S

STAFF OFFICER: KEITH LOGREF:

FILES: WH NSCP: CODES:

D O C U M E N T   D I S T R I B U T I O N

FOR ACTION	FOR CONCURRENCE	FOR INFO
KEITH	DUNCAN	HOLTZAPPLE
	HAMMONDS	LIEBERTHAL
	LEE	

COMMENTS:

DISPATCHED BY ______ DATE ______ BY HAND W/ATTCH

OPENED BY: NSGP CLOSED BY: DOC 2 OF 2

UNCLASSIFIED

The State of China's Economy

China's relatively high rate of economic growth and sizable foreign exchange reserves give a misleading impression of the state of China's economic health and the degree to which the economy has avoided the effects of global financial turmoil. This year will be a very difficult one for China's economy. Chinese policy makers are grappling with the interlocking problems of state-owned enterprise restructuring, financial sector reform and development of an adequate tax base. Reforms must be carried out against a backdrop of slowing economic growth, rising unemployment, and an unfavorable external economic environment.

GDP growth of 7.8% in 1998 (though statistically suspect) appears high relative to crisis-hit economies in the region, but was China's slowest rate since 1990. The government believes that GDP growth on the order of 8% is needed to create jobs at a sufficient rate to soak up new labor entrants and those being shed by restructuring state-owned enterprises to prevent rising unemployment. Prospects of meeting the GOC's 7% GDP growth target for 1999 are clouded by domestic and external factors. Due mainly to weak regional demand, exports stagnated in 1998 (after doubling between 1993 and 1997) and are likely to decline modestly in 1999. In the first two months of 1999, exports fell 10% from the same period a year earlier (though exports to the U.S. rose 4% in January). Foreign investment, which remained steady in 1998, is expected to decline this year, as investors react to growing economic uncertainty, difficult administrative environment and news of high-profile bankruptcies and debt servicing problems in foreign-invested firms. On the domestic side, while state-led infrastructure investment continues to be strong, investment in the dynamic non-state sector is constrained by lack of access to financing and weak investor sentiment. Consumer confidence has been undermined by job insecurity and reduced subsidies for social services, spurring households to save rather than spend. Falling prices have been an added incentive to defer consumption (the consumer price index fell 0.8% in 1998).

In response to the economic slowdown, the Chinese government reduced nominal interest rates by 3 percentage points in 1998 and initiated a major infrastructure investment program (equal to 2.5% of GDP). In March 1999, the GOC presented an economic program consisting of: a pro-active fiscal policy to stimulate growth (the central government budget deficit will increase modestly to 2.3% of GDP); support for exporters (through an increased tax rebate); reaffirmation of banking sector and state-owned enterprise reform goals (though details on the latter are scarce); and a pledge to maintain the current exchange rate policy. While the GOC has indicated that further interest rate cuts are possible if growth stalls, the government's ability to loosen monetary policy is constrained by balance of payments concerns. Capital outflows increased substantially in 1998 (prompting the GOC to tighten currency controls last September) and the GOC is nervous about reducing the incentive to hold local currency assets.

While China's balance of payments position has been strong and foreign exchange reserves substantial ($145 billion, 10 months import cover), the prospect of falling exports and declining foreign investment in 1999 has led to renewed speculation about China's exchange rate policy. The USG has welcomed China's stable yuan policy, noting that it helps facilitate Asia's recovery and that competitive gains would be better made through structural reforms rather than devaluation. Chinese authorities have reiterated in recent weeks their commitment to maintain the current level of the yuan.

Drafted:

OASIA/INA Dcrane, tel 622-0748

Cleared:

OASIA/INA CmcCoy and LQuinn
OASIA/DZelikow
A/S TTruman
Commerce/ITA KStrecker
State/EAP Jfritz/HLevine (have not responded yet)

China: Financial Sector Reform

China's financial sector is dominated by the banking system (which accounts for about 80% of financial transactions), but also includes non-bank financial institutions (credit cooperatives, investment companies), a bond market (mainly government debt issues) and a small, illiquid equities market. China's total financial sector assets are equal to 108% of GDP. Banks in China are burdened by high levels of non-performing loans to state-owned enterprises, inadequate capitalization, and weak regulatory oversight. China's weak banking system poses serious potential risks to the economy (particularly if domestic confidence in the banking system declines) and has therefore become a focus of reform efforts.

The nation's four state-owned commercial banks, which control 70% of banking sector assets, have non-performing loans estimated conservatively at over 30% of total assets. The banks maintain inadequate capital and reserves to cushion against potential loan losses. Paid-in capital was 2.2% in 1997, relative to a minimum international standard of 8%. Provisions for loan losses are miniscule, under 1% of outstanding loans for two of the large state banks. The plight of the state banks is closely related to the declining financial performance of the state-owned enterprises, which absorb over three-quarters of bank lending. The non-bank financial sector is small (15% of financial sector assets) but is in perhaps worse shape than the banks, with non-performing assets of at least 50%. The high-profile October 1998 closure of GITIC -- a large non-bank financial entity controlled by the province of Guangdong -- highlighted the vulnerability of the non-bank sector.

Chastened by the rapid onset of the Asian financial crisis, the GOC has embarked on an ambitious financial sector reform agenda designed to recapitalize its banks, improve prudential regulation and supervision, allow banks to operate on commercial principles, and rehabilitate its SOEs. Major aspects of the reform announced so far include: partial recapitalization of the four major banks through a $32.5 billion injection in 1998; instructions to banks to begin lending only on commercial grounds; orders to adopt western-style accounting and classification systems; the establishment of RTC-type institutions to take bad debt off the books; and the partial decontrol of interest rates to allow banks to charge risk-adjusted rates to the non-state small enterprise sector. In addition, the bank supervisory authority, the People's Bank of China, has been reorganized into nine multi-province districts to insulate it better from local political pressures.

The pace of progress is difficult to judge, however. The initial bank recapitalization fell short by an order of magnitude (the cost of full recapitalization is estimated at as much as $300 billion). True commercialization is also a daunting task, given the shortage of banking expertise and the mixed signals coming from the GOC as it seeks to balance the inherently contradictory objectives of reforming the banking sector while stimulating the economy. In the face of slowing growth last year, banks were instructed to increase lending, much of which is believed to have gone to the SOEs.

As financial sector reform moves forward, it will be critical for the GOC to stop using the banking system for quasi-budget functions (i.e. remove enterprise subsidies financed through the banks and put social functions traditionally undertaken by the SOEs on budget). The longer enterprise restructuring is delayed, the greater the risk of financial crisis. In addition, bank bailouts should be accompanied by strong rules that sanction the practices (like relationship lending) which created the insolvency. Foreign bank entry is a good way to bring in capital, technology and good practices in the interim.

Drafted:
OASIA/INA DCrane, tel 622-0748

Cleared:
OASIA/INA CMcCoy and LQuinn
OASIA/DZelikow
A/S TTruman
Commerce/ITA KStrecker
State/EAP JFritz/HLevine (have not responded yet)

9C 79

to: Glyn Davies

room: date: 3/19/99

Department of the Treasury

Executive Secretary

Attached are Treasury briefing materials for visit of Chinese Premier Zhu Rongji

9461

Neal C. Comstock

room 3408
phone 622-0064

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005. draft	Memorandum to the President from Gene Sperling and Samuel Berger. Subject: Possible Civil Aviation Agreement. (2 pages)	04/1999	P1/b(1)

COLLECTION:

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

FOLDER TITLE:

China (April 1999, Zhu Bilateral) [4]

2010-1024-F
vz1824

RESTRICTION CODES

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006. note	Handwritten Notes re: Chinese Accession Protocol (6 pages)	04/1999	P1/b(1)

COLLECTION:

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

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