**Case Number: 2010-1024-F**

# FOIA MARKER

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|---|
| Folder Title:<br>China (April to August 1999, Post Zhu Visit) [8] |
| Staff Office-Individual:<br>National Economic Council-Lee, Malcolm |
| Original OA/ID Number:<br>CF 1176 |

| Row: | Section: | Shelf: | Position: | Stack: |
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# Withdrawal/Redaction Sheet
## Clinton Library

| DOCUMENT NO. AND TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|---|---|---|---|
| 001. email | White House Situation Room to Alexander Arvizu, Holly Hammonds, John Hill et al. Subject: Zhu (7 pages) | 07/13/1999 | P1/b(1) |
| 002. draft | Principals Committee Meeting. [partial] [CIA Act] (1 page) | c. 07/1999 | P3/b(3), P6/b(6) |
| 003. email | White House Situation Room to Alexander Arvizu, Holly Hammonds, John Hill et al. Subject: Japanese Comments (3 pages) | 07/14/1999 | P1/b(1) |
| 004. calendar | [Personally Identifiable Information] [partial] (1 page) | 07/14/1999 | b(6) |

**COLLECTION:**

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

**FOLDER TITLE:**

China (April to August 1999, Post Zhu Visit) [8]

2010-1024-F
vz1840

**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]**
**b(3) Release would violate a Federal statute [(b)(3) of the FOIA]**
**b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]**
**b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]**
**b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]**
**b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]**
**b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]**

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*** ACTIVITY REPORT ***
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RECEPTION OK

| | |
|---|---|
| TX/RX NO. | 7626 |
| CONNECTION TEL | 2026221302 |
| CONNECTION ID | IA SPECIAL EVENT |
| START TIME | 07/21 14:30 |
| USAGE TIME | 01'51 |
| PAGES | 2 |
| RESULT | OK |

Dear Member of Congress:

President Clinton decided on June 3 to extend Normal Trade Relations (NTR) to China for the coming year. As Congress debates this important issue, I urge you to consider the fundamental American interests at stake.

There is no greater opportunity - or challenge - for U.S. foreign policy than to encourage China's integration as a fully responsible member of the international system. Maintaining normal trade relations is a critical element in our multifaceted effort to move toward that goal, and it will extend our influence. Our engagement with China, however, does not mean endorsement. As the President made clear in remarks directly addressed to and received by the Chinese people, we continue to have sharp differences. To address these differences, the Administration believes we should engage directly and frankly with the Chinese, making clear our values and motives, pressing our views vigorously.

Revoking Normal Trade Relations would do nothing to encourage the forces of change in China. It would not free a single prisoner, open a single church, or expose a single Chinese citizen to a new idea. It would rupture the U.S. - China relationship and set back progress we have already made. It would place at risk our own prosperity and our stake in a stable Asia. That is why your vote on extending Normal Trade Relations to China is so important.

Enclosed is a resource book of information developed in response to questions and concerns that Members of Congress have raised about China. I hope you will find it useful as you consider your position on this vital issue.

Sincerely,

Madeleine K. Albright

Enclosure:
As stated.

# CHINA AND THE WORLD TRADE ORGANIZATION

**The United States has a strong interest ~~is~~ seeing China join the WTO.** We have been in negotiations with China on its accession to the WTO that could result in a historic opening of China's markets to U.S. agricultural, industrial and services exports. China, in acceding to the WTO, would have to accept and abide by international norms of trade. Opening China's markets will also increase competition within China, bolstering vital and far-reaching restructuring and economic reform. U.S. tariffs, export control policies, antidumping laws ~~will not be changed or compromised~~ if China enters the WTO.

It is important to note that this is a one-way deal; there will be no changes to

**China's commitments must be commercially meaningful.** All WTO members agree that China's accession to the WTO must provide commercially meaningful market access for goods and services. Lowered tariffs, the elimination of quotas and other market access barriers, the right to trade directly, and access to consumers in a full range of sectors must be part of any viable accession package for China. Currently, China has no bound tariff rates, meaning that they can raise their rates whenever and as high as they want. In the WTO talks, China has agreed to bind its entire tariff schedule. Overall, China has made substantial commitments towards completing a strong accession package.

can't we give some good facts from USTR press release as # of tariff lines lowered?

- It is comprehensive, covering a wide range of sectors and services; tariff and non-tariff measures; eliminating unfair trade practices, including forced technology transfers as a condition of investment, offsets, export performance, current-account balancing and local content requirements.

- It grants no special favors. China is required to reduce its trade barriers to levels comparable to those of major U.S. trading partners.

- It is fully enforceable. China's commitments are specific and will be enforceable through U.S. trade laws, WTO dispute settlement and other mechanisms.

- And its results will be rapid. On accession to the WTO, China will begin opening its markets immediately.

**Joining the WTO means that China will be part of the rules-based trading system.** ~~WTO accession represents an important opportunity for China to create and implement a rules-based trade regime.~~ China will be required to observe the main principles of the WTO, such as transparency, independent judicial review, uniform application of its rules, and submit to WTO dispute settlement to ensure compliance with WTO rules. All of these measures will enhance the rule of law and the application of international norms in China's trade regime, to the benefit of China and the U.S. Furthermore, the rule of law in the trade arena has spillover benefits, encouraging application of this principle in other areas.

In our agreement, we have insisted that

**U.S. trade laws will still be available to protect against unfair imports and surges of imports from China.** ~~The~~ U.S. will continue to use its non-market economy methodology in antidumping investigations of exports from China. In addition, when we apply our countervailing duty law to China, we will be able to more accurately determine the level of government support to its industries and take action.

this should be qualified since duration under discussion

**WTO accession will mean greater market access for a wide range of U.S. goods and services into one of the world's fastest growing economies.**

- The average tariff rate for agricultural products will decrease to 17 percent with even steeper tariff reductions on U.S. priority products to 14.5 percent. Sanitary and phytosanitary standards will be applied based on science and consistent with the WTO Agreement.

from?

## LABOR ASPECTS OF NORMAL TRADE RELATIONS (NTR) STATUS

has repeatedly made clear our

**Engagement made possible by NTR allows us to directly raise our concerns over core labor standards, and to work toward a WTO accession agreement that would protect vital interests of American workers.** The United States remains concerned about labor rights violations in China. China denies or curtails the basic freedom of its workers, including freedom of speech and association. The government maintains a ~~one-party state~~ that tolerates no independent labor unions.

Jiang claims 8

For the first time

**President Clinton and President Jiang announced a dialogue on labor issues in June 1998 that addresses core labor standards, labor law, and the development of a social safety net for workers.** The Chinese Minister of Labor and Social Security Jiang visited Washington in March and met with Secretary of Labor Herman. He also met with representatives of organized labor and U.S. employers. U.S. employers in the footwear, apparel, sporting goods, and toy industries expressed the importance of observance of core labor standards. In this dialogue, Secretary Herman made clear:

ILO

- The importance of respect for international standards. In June 1998, China joined the United States and other members of the International Labor Organization in adopting a new Declaration of Fundamental Rights and Principles at Work. This Declaration included a follow-up compliance mechanism and covered rights such as freedom of association, right of collective bargaining, non-discrimination, and the abolition of forced labor.
- The priority we place on implementation of core labor standards. Our commitment to proper protections, opportunities, and basic rights is well-understood in China as a result of Secretary Herman's dialogue with her counterpart.
- Our firm opposition to and deep concern about detention, arrest, and imprisonment of persons for labor-related activities that are protected by ILO standards. Herman encouraged China to give all consideration to recent ILO findings urging modifications to Chinese labor laws and urging release of Chinese detainees for labor related activities. Add • USG has supported strongly ILO condemnations of China labor stds violations

Minister Jiang invited Secretary Herman to continue this dialogue in China this fall. We will continue to engage China on the importance of complying responsibly with international labor standards. including (list of resolutions)

link labor concerns directly — and good jobs

**A sound WTO accession agreement will significantly open China's markets to U.S.-made exports and give American workers and domestic industries stronger protection against unfair trade practices.**

this needs to be from labor's perspective

- (4) A sound WTO deal will mean more U.S. exports. China's accession to the WTO must provide commercially meaningful market access for U.S.-made goods and services. That means lower tariffs, elimination of quotas and other market access barriers, and access to consumers across a full range of sectors. Currently, China can raise its tariff rates as high as it wants, whenever it wants. Under a sound WTO deal, China would reduce its tariffs rates significantly and commit not to raise them. That means more exports, and more American workers making these exports.
- (1) A sound WTO deal will eliminate ~~unfair trade practices that harm U.S. workers~~ Chinese requirements that transfer prod. + technology, endangering US jobs and industries, including forced technology transfers as a condition of investment, offsets, and export performance, foreign exchange balancing and local content requirements.
- (2) A sound WTO deal will ensure that American firms and workers have strong protection against dumping and subsidies. The U.S. and China have agreed the U.S. will be able to maintain our current antidumping methodology (treating China as a non-market economy) in future antidumping cases. When we apply ~~we apply~~ our countervailing duty law to China we will be able to take the special characteristics of China's economy into account ~~when we identify and measure any subsidy benefit that may exist.~~ The duration of these provisions remains under discussion.
- (3) A sound WTO deal will mean American firms have strong protection against import surges of Chinese products. A product specific safeguard provision would establish a special mechanism to address increased imports from China that cause or threaten to cause disruption to U.S. industry. It would permit the U.S. to apply restraints unilaterally to Chinese exports based on standards that are lower than those in the WTO Safeguards Agreement. Talks continue on the duration of this provision.
- (5) A sound WTO deal will include China's commitment that it will ensure state-owned and state-invested enterprises make purchases and sales based solely on commercial considerations and provide U.S. firms the opportunity to compete on non-discriminatory terms. We have clarified that state-owned and state-invested enterprises will be subject to WTO disciplines in several respects.

July 9, 1999

## Lee, Malcolm R.

**From:** Lieberthal, Kenneth G. (ASIA)
**Sent:** Tuesday, July 20, 1999 10:29 AM
**To:** Lee, Malcolm R.; @PRESS - Public Affairs
**Cc:** @ASIA - Asian Affairs
**Subject:** RE: China WTO Guidance: Revised [UNCLASSIFIED]

Please note my change in the second bullet (dropped some text). Thanks.

Ken

-----Original Message-----
**From:** Lee, Malcolm R.
**Sent:** Tuesday, July 20, 1999 10:26 AM
**To:** @PRESS - Public Affairs
**Cc:** @ASIA - Asian Affairs
**Subject:** China WTO Guidance: Revised [UNCLASSIFIED]

**Responding to NYT (p.A6) article "U.S. to Resume Trade Talks with Beijing. Jim K: do you concur?**

**Is China ready to re-engage in negotiations on its WTO accession?**

- There is no change in China's position. We remain prepared to resume our talks with the Chinese when they are prepared to do so. We believe China's entry into the WTO on strong commercial terms is in both countries' interest.

**Is Commerce Under Secretary Aaron going to Beijing this week to resume WTO talks?**

- No. The purpose of this visit is to prepare for an annual meeting between our Secretary of Commerce and China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) that focuses on our commercial relationship. This meeting usually occurs in the fall. (There is no date set yet).

**Do you take this as a good sign?**

- We support resumption of normal contacts between our officials.

**Lee, Malcolm R.**

**From:** WHSR
**Sent:** Monday, July 19, 1999 9:55 AM
**To:** Arvizu, Alexander A. (ASIA); Hammonds, D. Holly (INTECON); Hill, John J. (ASIA/INTERN); Holtzapple, Richard A.; Keith, James R. (ASIA); Lee, Malcolm R.; Lieberthal, Kenneth G. (ASIA); Osius, Theodore G. (VP); Pritchard, Charles (Jack) L. (ASIA); Schaefer, Matthew P. (INTECON); Shah, Sonal R.
**Subject:** China-US

**CLASS:** INTERNATIONAL
**ORIG:** AP/East
**PREC:** RUSH
**TOR:** 990719094942 A0287300

a0522
^BC-China-US,0385<
^U.S. trade official to encourage China to resume WTO talks<
^By JOHN LEICESTER=
^Associated Press Writer=

BEIJING (AP) A senior American trade official will try to persuade the Chinese government next week to resume trade negotiations it suspended in anger over NATO's bombing of its embassy in Yugoslavia, a U.S. official said Monday.

David Aaron, an undersecretary of commerce, will be the first U.S. official since the May 7 bombing to make a trip to Beijing that is not directly related to the attack.

Other U.S. officials have visited to explain to China how NATO targeters mistook the Chinese Embassy in Belgrade for a Yugoslav military procurement center and to discuss compensation for three Chinese journalists killed and 20 other people injured in the attack.

Aaron, who arrives July 26 for a 20-hour visit, will discuss a range of commercial issues, including hoped-for sales of U.S. nuclear power plant technology, said the U.S. Embassy official, who spoke on condition of anonymity.

Aaron is expected to appeal for a resumption of talks on China's 13-year quest to join the World Trade Organization, which makes the rules for world trade, the official said.

China suspended the negotiations after the embassy bombing and has said that Washington must provide a fuller explanation for the attack before WTO talks can resume.

China has moved ahead in WTO negotiations with other countries despite the suspension of talks with Washington, reaching agreements this month with Japan and Australia.

On Monday, China's chief trade negotiator, Long Yongtu, sought to reassure nervous Chinese that entry into the WTO would not force China to open its markets in a single stroke, a move many fear would swamp domestic markets with foreign competition.

``As with other countries, the opening of China's market, including absorbing foreign capital and imports, is a step-by-step process with conditions," Long said at the beginning of a week-long training seminar on the WTO for Chinese business leaders and foreign trade officials.

``Many people don't understand what's happening with the negotiations. They haven't solidly researched the basics of the WTO. This has led to some misgivings," Long said, quoted by the official Xinhua news agency.

APE- 07/19/99 09:28:00

**Lee, Malcolm R.**

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**From:** WHSR
**Sent:** Friday, July 16, 1999 6:50 AM
**To:** Allen, Charles A. (LEGAL); Arvizu, Alexander A. (ASIA); Bell, Robert G. (DEFENSE); Benjamin, Daniel (TNT); Busby, Scott W. (MULTI); Davidson, Leslie K. (VP); Flanagan, Stephen J. (CEE); Guarnieri, Valerie N. (MULTILAT); Hammer, Michael A. (PRESS); Hammonds, D. Holly (INTECON); Hill, John J. (ASIA/INTERN); Holtzapple, Richard A.; Hurley, C. Michael (EUR); Kaufman, Stuart J. (RUE); Keith, James R. (ASIA); Lee, Malcolm R.; Lieberthal, Kenneth G. (ASIA); Osius, Theodore G. (VP); Pritchard, Charles (Jack) L. (ASIA); Sapiro, Miriam E. (EUR); Schaefer, Matthew P. (INTECON); Schulte, Gregory L. (EUR); Segal, Jack D. (RUE); Shah, Sonal R.; Stromseth, Jane E. (MULTI); Vaccaro, Jonathan M. (Matt) (MULTI); vonLipsey, Roderick K. (DEFENSE)
**Subject:** CHINA MEDIA REACTION -- JULY 15, 1999

**CLASS:** UNCLASSIFIED
**DTG:** 160951Z JUL 99
**MSGTO:** RUEHIA/USIA WASHDC IMMEDIATE 1290
RUEHC/SECSTATE WASHDC IMMEDIATE 4974
RUESLE/AMCONSUL SHANGHAI 9481
RUEHHK/AMCONSUL HONG KONG 5692
RUEHSH/AMCONSUL SHENYANG 0621
RUEHGZ/AMCONSUL GUANGZHOU 7762
RUEHCN/AMCONSUL CHENGDU 0878
RUEHIN/AIT TAIPEI 1416
RHHMUNA/USCINCPAC HONOLULU HI//USIA//
**ORIG:** AMEMBASSY BEIJING
**PREC:** IMMEDIATE
**SSN:** 6788
**TOR:** 990716062934 M3962732

UNCLAS BEIJING 006788

USIA

USIA FOR D, EA, B/VOA/F, R/MR, R/EA, I/GEA, I/FW,
B/TVW, B/TVP; STATE FOR EAP/CM

E.O. 12958: N/A
SUBJECT: CHINA MEDIA REACTION -- JULY 15, 1999

TOPICS: -- CRISIS IN KOSOVO: PEACE PROCESS
SOUTH ASIA: INDO-PAK TENSIONS OVER KASHMIR
U.S.-CHINA RELATIONS
INTERNATIONAL TRADE: LAMB IMPORT ISSUE

1. CRISIS IN KOSOVO: PEACE PROCESS

"GUARD AGAINST INTERNATIONALIZATION OF THE 'THIRD ROAD' STRATEGY"

WANG DONG SAID IN INTELLECTUALLY ORIENTED GUANGMING DAILY (GUANGMING RIBAO), (7/15): "THE KOSOVO WAR INDICATES THAT, BY TRUMPETING A 'THIRD ROAD' POLICY, WESTERN COUNTRIES CAN EASE THE CONTRADICTIONS IN AN ATTEMPT TO ESTABLISH A NEW INTERNATIONAL INTERVENTION FRAMEWORK... BILL CLINTON AND TONY BLAIR, ENCOURAGED BY THEIR PERFORMANCE IN KOSOVO, ARE TRYING TO GUIDE AND ENCOURAGE OTHER WESTERN COUNTRIES TO TAKE THE 'THIRD ROAD.' THEREFORE, PEOPLE SHOULD BE VIGILANT AGAINST THESE WESTERN COUNTRIES WHO MAY USE THE 'THIRD ROAD' TACTIC AS A BASIS FOR THEIR HUMAN-RIGHTS DIPLOMACY AND NEW INTERVENTIONISM."

2. SOUTH ASIA: INDO-PAK TENSIONS OVER KASHMIR

"WHY DOES PAKISTAN DEMAND GUERRILLAS WITHDRAW?"

GUO JI SAID IN OFFICIAL BEIJING MUNICIPAL BEIJING DAILY (BEIJING RIBAO), (7/15): "THE MEDIA SAYS THAT PAKISTAN DEMANDED THE GUERRILLAS WITHDRAW FROM NORTHERN KASHMIR BECAUSE IT BELIEVED THE GUERRILLAS HAD REACHED THEIR GOAL... MOREOVER, THE PAKISTANI GOVERNMENT HAS REALIZED THAT AN ESCALATION OF THE KASHMIR DISPUTE GOES AGAINST ITS OWN INTERESTS AND A WITHDRAWAL ON ITS OWN INITIATIVE CAN SHOW ITS SINCERITY FOR PEACE.

"ADDITIONALLY, DOMESTIC POLITICAL AND ECONOMIC TROUBLES ARE ALSO FACTORS PROMPTING PAKISTAN TO DIVERT ITS ENERGY FROM THE KASHMIR ISSUE."

3. U.S.-CHINA RELATIONS

"HELMS' LOGIC AN ILLUSION"

ZHANG XIA SAID IN OFFICIAL ENGLISH-LANGUAGE CHINA DAILY, (7/15): "THOUGH THE NOTORIOUS COX REPORT HAS NOT BEEN FACTUALLY PROVEN, SOME IN THE U.S. (WITH MALICIOUS INTENT) STILL USE IT AS AN EXCUSE TO ATTACK CHINA.

"IN A WALL STREET JOURNAL ARTICLE, U.S. SENATOR JESSE HELMS CRIES THAT CHINA WILL SOON TERRORIZE THE U.S. WITH NUCLEAR WEAPONS. HE APPEALS THAT THE DEFENSE SYSTEM BE STRENGTHENED FOR THE U.S. AND ITS ASIAN-PACIFIC ALLIES.

"THIS IS A TYPICAL COLD WAR CONCEPT AND THE STUBBORNNESS OF SOME AMERICAN POLITICIANS IS ASTONISHING... BY HELMS' LOGIC, CHINA SHOULD TOTALLY ABANDON ITS DEFENSE, OR PERHAPS ENTRUST ITS DEFENSE TO THE U.S., TO REMOVE SUSPICIONS OF BEING A THREAT TO THE U.S.

"TAIWAN IS AN INALIENABLE PART OF CHINA. HOW DOES HELMS JUSTIFY ACTION TO PREVENT CHINA'S REUNIFICATION?"

"JAPAN, U.S.: 'STICKING TO ONE-CHINA POLICY'"

XINHUA SAID IN OFFICIAL ENGLISH-LANGUAGE CHINA DAILY, (7/15): "IN WASHINGTON, THE U.S. STATE DEPARTMENT REITERATED WASHINGTON'S POSITION OF FOLLOWING A ONE-CHINA POLICY, AND VOICED CONCERN ABOUT THE SITUATION ARISING FROM LEE'S LATEST SEPARATIST REMARKS REGARDING THE TAIWAN ISSUE."

4. INTERNATIONAL TRADE: LAMB IMPORT ISSUE

"U.S. TRADE HEGEMONY AROUSES DISPUTES"

CHI WENJIE SAID IN BEIJING MORNING POST (BEIJING CHENBAO), (7/15): "AS ECONOMIC INTEGRATION AND TRADE LIBERALIZATION GROW, THE TRADE DISPUTES BETWEEN THE U.S. AND ITS WESTERN ALLIES ARE GETTING FIERCER AND FIERCER. IN ORDER TO GRAB MARKETS, THE TWO SIDES ARE TRYING TO CREATE TARIFF OR NON-TARIFF BARRIERS AND BEGIN A DUMPING VERSUS ANTI-DUMPING AND RESTRICTIONS VERSUS ANTI-RESTRICTIONS CAMPAIGN.

"ANALYSTS SAY TRADE WARS WILL SERIOUSLY AFFECT THE RELATIONSHIP BETWEEN THE U.S. AND OTHER WESTERN NATIONS. THE U.S. IS MAKING EN
EMIES EVERYWHERE. THE
HEGEMONIC POLICY THE U.S. PURSUES IN INTERNATIONAL TRADE IS THE PRIMARY REASON FOR ITS DISPUTES WITH OTHER WESTERN COUNTRIES." BLACKBURN

Press Guidance
China WTO

**Is China ready to re-engage in negotiations on its WTO accession**?

There is no change in China's position. We remain prepared to resume our talks with the Chinese when they are prepared to do so. We believe China's entry into the WTO on strong commercial terms is in both countries' interest.

**Is Commerce Under Secretary Aaron going to Beijing this week to resume WTO talks?**

No, but we stand prepared to resume WTO talks. The purpose of Under Secretary Aaron's visit is to prepare for an annual meeting between our Secretary of Commerce and China's Ministry of of Foreign Trade and Economic Cooperation (MOFTEC) that focuses on our commercial relationship. This meeting usually occurs in the fall.

**Do you take this as a good sign?**

We support resumption of normal contacts between our officials.

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**Sent:** Tuesday, July 20, 1999 10:26 AM
**To:** @PRESS - Public Affairs
**Cc:** @ASIA - Asian Affairs
**Subject:** China WTO Guidance: Revised [UNCLASSIFIED]

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**Do you take this as a good sign?**

- We support resumption of normal contacts between our officials.

**TAIWAN**
**July 14, 1999**

**Has Taiwan abandoned the "one China" policy?**

- President Lee Teng-hui has issued a statement indicating that Taiwan's cross-Strait policy is unchanged. The Taiwan Mainland Affairs Council has also reaffirmed Taiwan's goal of eventual reunification.

- Refer you to Taiwan authorities for elaboration.

**What is U.S. policy?**

- We remain committed to "one China" policy and promote cross-trait dialogue and face-to-face meetings as best way to clarify misperceptions between Taipei and Beijing.

- "One China" policy is a reflection of our adherence to the Taiwan Relations Act and the three communiques governing U.S.-China relations, including Shanghai Communique of 1972, Joint Communique on Establishment of Diplomatic Relations in 1979, and the August 1982 Communique on U.S. Arms Sales to Taiwan.
  --Essence of our "one China" policy is that the USG "acknowledges the Chinese position that there is but one China and Taiwan is part of China." With respect to Taiwan, our position is that "the Taiwan question is a matter for the Chinese people, on both sides of the Taiwan Strait, to resolve . . . we have an abiding interest and concern that any resolution be peaceful."

**Has the USG communicated with the Taiwan and PRC authorities?**

- Outgoing Director of American Institute in Taiwan Darryl Johnson had farewell call yesterday with President Lee. Stressed continuing U.S. commitment to "one China" policy and strong support for productive cross-Strait dialogue.

- Frequent communication with both sides. Have urged PRC to advance cross-Strait dialogue as the best means to resolve differences with Taipei.

## POINTS FOR NTR BRIEFING

**Overall Posture**

- There is no higher Administration priority on our international economic agenda than concluding strong WTO accession agreement with China.

- As you know, we made significant progress in the run up to Premier Zhu Rongji's visit to Washington. While we came close during the Zhu visit, we were unable to resolve a few important issues.

- Our negotiating team traveled to Beijing in late April. We were unable to conclude negotiations, but the meetings were useful in clarifying positions.

**Bombing**

- Events thereafter could not have been imagined. Truly a tragic accident. No doubt serious mistakes were made. It will take time to rebuild the relationship, but it is clearly in both countries' interest to do so. Will not be easy, but the process is underway.

- We have expressed our deep regret and sympathy. President Clinton and other senior U.S. officials have apologized publicly and sincerely. Ambassador Pickering traveled to Beijing representing the President to present results of our investigation. The Chinese are not yet satisfied with our response.

- Legal Advisor Andrews of State is now in Beijing in follow-up discussions. She is addressing issues including humanitarian payments to those injured and the families of those who died in the bombings, and will discuss property issues with the Chinese. [CANNOT GIVE MORE DETAILS]

- Our intelligence community is conducting an accountability review. When this review is complete it will determine whether any disciplinary action is called for.

- *Meanwhile, in an encouraging sign, the leaders did exchange congratulations on the Womens World Cup soccer game this week.*

**We Are Eager to Move Forward on WTO**

- It is our hope that this process will allow us to begin to move past terrible incident and back to more normal relations, including the WTO talks and other important matters in our relationship. *We have made clear we are eager to move forward...*

    - *Fisher met with Long in New Zealand at APEC Ministers meeting , POTUS indications to Obuchi, Howard, others.*

- There are some encouraging signs. Contacts at the subcabinet level are increasing on economic and other issues, although there remains no movement on WTO talks.

  - *Examples, eg continuation of IPR experts talks, contacts on preparation for APEC meeting, invitation to Aaron to prepare for JCCT*

  - Japan concluded its bilateral accession agreement on services with China. As you know they had concluded their goods agreement earlier. Jiang/Obuchi comments.

  - *Moreover, there is every indication that Jiang is determined to move ahead with market reform, although the potentially destabilizing impact of rising unemployment has kept SOE reform on a cautious path.*

    - *Financial sector reform is a priority for China's leadeship.* Banks have been instructed to begin lending only on commercial grounds and to adopt western-style accounting and classification systems. A pilot Resolution Trust Corporation-type institution has been established at one bank to take bad debt off the books, and a partial recapitalization of the state banks was undertaken in 1998. The GOC has announced the partial decontrol of interest rates to allow banks to charge risk-adjusted rates to the non-state small enterprise sector. In addition, the People's Bank of China (the supervisory authority) has been reorganized into nine multi-province districts to insulate it better from local political pressures. The pace of progress has been uneven, however, with banks facing political pressure to increase lending, particularly for infrastructure projects, to help bolster growth.

    - Trade liberalization, particularly if implemented through the discipline of WTO accession, has been identified by China's key financial policy makers as an important tool in securing reform of the financial sector. Commitments to open the financial sector to foreign participation would force domestic financial service providers to speed up internal restructuring and reform.

  - *And clear China needs injection of capital & stimulus from abroad (in first quarter, FDI declined 9.5% year on year, in first quarter, Chinese exports declined 7.9% year on year in first quarter). Important the business community make clear to Chinese that investment environment will improve with strong WTO deal, and worsen without it.*

**Timing**

- *The senior Chinese leadership will be meeting later this summer in Beidaihe (noone quite sure of dates, between late July and late August) It is our hope that China will be prepared to reengage across all fronts following these meetings.*

- We look forward to the meeting of President Clinton and President Jiang in New Zealand in September on the margins of the APEC meeting

- We stand prepared to reengage on the WTO. Important that U.S. business leaders communicate to Chinese that 1) time is of the essence -- securing NTR will become much more difficult as time passes; 2) final package needs to include consensus reached on April 8, as well as address remaining issues.

<u>NTR</u>

- *We are actively engaged on the Hill on both NTR and WTO.*

- NTR Vote expected in the House the week of July 26. We want strong vote. [Chuck Brain will have just come from Matsui whip meeting and can give readout] Important that situation between Taiwan and China stabilize. We are working on that.

- In making our case for annual renewal, we are making strong case for why bringing China into WTO on strong commercial terms is in our interest. President remains committed to securing permanent NTR on the basis of a good agreement.

- Important all members of Congress understand benefits of strong WTO accession agreement, and also that U.S. companies will not be able to harvest those benefits unless Congress grants permanent NTR.

- We can and will address host of China related concerns (espionage, etc.), but our broad national interest in getting China to live by international trade rules should not be held hostage to other concerns.

- Interested in your views on Normal Trade Relations renewal process.

- We want to consult closely with business community as we move forward.

## Lee, Malcolm R.

**From:** WHSR
**Sent:** Tuesday, July 13, 1999 8:23 AM
**To:** Arvizu, Alexander A. (ASIA); Blinken, Antony J. (EUR); Bremner, Sue L. (EUR); Davidson, Leslie K. (VP); Gordon, Philip H. (EUR); Hammonds, D. Holly (INTECON); Hill, John J. (ASIA/INTERN); Holtzapple, Richard A.; Keith, James R. (ASIA); Lee, Malcolm R.; Lieberthal, Kenneth G. (ASIA); Moyn, Samuel A. (EUR/INTERN); Norland, Richard B. (EUR); Osius, Theodore G. (VP); Pritchard, Charles (Jack) L. (ASIA); Sapiro, Miriam E. (EUR); Schaefer, Matthew P. (INTECON); Shah, Sonal R.
**Subject:** ECONOMY-CHINA-PATTEN

**CLASS:** INTERNATIONAL
**ORIG:** Reuters
**PREC:** RUSH
**TOR:** 990713081944 R0237174

a1000
^BC-ECONOMY-CHINA-PATTEN
^EU's Patten wants China in WTO on ``sensible terms"

LONDON, July 13 (Reuters) - Newly appointed European Union Commissioner Chris Patten said on Tuesday he was in favour of China joining the World Trade Organisation on ``sensible terms."

The last colonial governor of Hong Kong -- who often clashed with Beijing before the 1997 handover of power -- said trade and politics were different matters and that China knew his opinions on human rights would not stand in the way of its export drive.

``I am in favour of China being a member of the World Trade Organisation on sensible terms," Patten told BBC radio. ``The Chinese know my views -- I separate trade from politics."

China is ranked 10th in the world as a trading nation and has sought admission to the WTO or its predecessor for 13 years.

Patten said he had often argued China's case for most favoured nation trading status in the United States.

``At the same time, my views on human rights abuses in China and elsewhere are equally clear and equally explicit," he said.

Patten, 55, a former chairman of Britain's opposition Conservative party, was named EU commissioner for external affairs last Friday, one of two British commissioners.

He will coordinate the foreign policy work of three other commissioners dealing with trade, development and EU enlargement.

^REUTERS

RB-- 07/13/99 07:58:00

# Withdrawal/Redaction Marker
## Clinton Library

| DOCUMENT NO. AND TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|---|---|---|---|
| 001. email | White House Situation Room to Alexander Arvizu, Holly Hammonds, John Hill et al. Subject: Zhu (7 pages) | 07/13/1999 | P1/b(1) |

**COLLECTION:**

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

**FOLDER TITLE:**

China (April to August 1999, Post Zhu Visit) [8]

2010-1024-F
vz1840

**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]
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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)]**

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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]

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**From:** WHSR
**Sent:** Tuesday, July 13, 1999 4:23 AM
**To:** Arvizu, Alexander A. (ASIA); Hammonds, D. Holly (INTECON); Hill, John J. (ASIA/INTERN); Holtzapple, Richard A.; Keith, James R. (ASIA); Lee, Malcolm R.; Lieberthal, Kenneth G. (ASIA); Osius, Theodore G. (VP); Pritchard, Charles (Jack) L. (ASIA); Schaefer, Matthew P. (INTECON); Shah, Sonal R.
**Subject:** CHINA:FurtheronPRC,Aus

**CLASS:** INTERNATIONAL
**ORIG:** FBIS
**PREC:** RUSH
**TOR:** 990713041807 F0236014

F3042
FBIS

042JUL13
UNCLAS 1N

CHINA: Further on PRC, Australia Conclude WTO Talks OW1307081699 Beijing Xinhua in English 0806 GMT 13 Jul 99

[FBIS Transcribed Text] Beijing, July 13 (XINHUA) -- China and Australia announced here today that they have concluded bilateral negotiations on all issues concerning China's admission into the World Trade Organization (WTO).

The two sides said in a joint press communique issued here that they have "decided to conclude their overall bilateral negotiations on China's accession to the WTO."

The joint press communique said that China and Australia confirmed the outcome of bilateral WTO negotiations during Australian Deputy Prime Minister and Minister for Trade Tim Fischer's visit to China last May.

By announcing the conclusion of bilateral talks on China's WTO accession, Australia has become the second major country, after Japan, to complete bilateral WTO negotiations with China. Japan and China announced the conclusion of their talks last Friday.

China's bid to enter the multi-lateral trade organization has lasted for 13 years, and thus far China has completed bilateral negotiations on WTO membership with a dozen member states.

China's bid made significant progress during Premier Zhu Rongji

s visit to the United States last spring when the US administration voiced firm support for China's entry into the WTO in 1999.

However, the US-led NATO's attack on the Chinese embassy in Belgrade on May 8 resulted in a standstill of the talks between China and the United States.

"The US-led missile attack against the Chinese embassy in Belgrade has damaged the good atmosphere of negotiations. Only after US-led NATO has made a response satisfactory to China and a good atmosphere is reinstated can talks be resumed," Trade Minister Shi Guangsheng said.

Bilateral negotiations between China and some other Western countries, however, are underway. China has said that its stance, viewpoint and attitude toward WTO entry has never changed.

Australia's Foreign Minister Alexander Downer, who began his five-day China visit since Sunday, said in a press conference earlier today that the Australian side is "satisfied now with the terms of Sino-Australian bilateral negotiations on China's accession to the WTO."

"This deal we have done with China will give Australia substantial access to the Chinese market, and we believe that China, as a member of the WTO, will substantially strengthen the operation of the global trading system," he said.

China and Australia agree that the two negotiating teams shall continue their work on technical verification in order to expeditiously notify the WTO Secretariat of the results of their bilateral negotiations, according to the joint press communique.

In addition, the two sides said they have agreed to work together in Geneva to reach conclusions on issues now being discussed and to facilitate China's early entry into the WTO.

They also said the "successful conclusion" of Sino-Australian

bilateral negotiations will promote the further development of economic and trade relations between the two nations.

[Description of source: Beijing Xinhua in English -- China's official news service for English-language audiences (New China News Agency)]

 13 JUL 0815z FBIS NNNN
FBIS 07/13/99 03:57:00

## Lee, Malcolm R.

**From:** Lackey, Miles M. (LEGIS)
**Sent:** Tuesday, July 20, 1999 4:38 PM
**To:** @ASIA - Asian Affairs; @INTECON - Economic Affairs; @PRESS - Public Affairs
**Cc:** @LEGISLAT - Legislative Affairs
**Subject:** FW: China NTR Vote in the Senate [UNCLASSIFIED]

**Importance:** High

**Follow Up Flag:** Follow up
**Flag Status:** Flagged

Alex,
The Smith motion on vietnam was just defeated by a vote of 5-94.
Miles

-----Original Message-----
**From:** Lackey, Miles M. (LEGIS)
**Sent:** Tuesday, July 20, 1999 3:57 PM
**To:** @NSA - Natl Security Advisor; @ASIA - Asian Affairs; @INTECON - Economic Affairs; @PRESS - Public Affairs; @LEGAL - Legal Advisor
**Cc:** @LEGISLAT - Legislative Affairs
**Subject:** China NTR Vote in the Senate [UNCLASSIFIED]
**Importance:** High

**PLEASE PASS TO SANDY**

The Senate just **DEFEATED** the motion by **Sen. Bob Smith** to force a vote on **China NTR**. -- i.e., the Administration's position prevailed.

The vote was a 12-87.

Lott voted against Smith.

## Lee, Malcolm R.

**From:** Shapiro, Daniel B. (LEGIS)
**Sent:** Tuesday, July 20, 1999 3:59 PM
**To:** Arvizu, Alexander A. (ASIA); Lackey, Miles M. (LEGIS); @NSA - Natl Security Advisor; @ASIA - Asian Affairs; @INTECON - Economic Affairs; @PRESS - Public Affairs; @LEGAL - Legal Advisor
**Cc:** @LEGISLAT - Legislative Affairs
**Subject:** RE: China NTR Vote in the Senate [UNCLASSIFIED]

They are voting now.

-----Original Message-----
**From:** Arvizu, Alexander A. (ASIA)
**Sent:** Tuesday, July 20, 1999 3:58 PM
**To:** Lackey, Miles M. (LEGIS); @NSA - Natl Security Advisor; @ASIA - Asian Affairs; @INTECON - Economic Affairs; @PRESS - Public Affairs; @LEGAL - Legal Advisor
**Cc:** @LEGISLAT - Legislative Affairs
**Subject:** RE: China NTR Vote in the Senate [UNCLASSIFIED]

Miles, thanks. Do you know how the Vietnam vote went?

Thanks,
Alex

-----Original Message-----
**From:** Lackey, Miles M. (LEGIS)
**Sent:** Tuesday, July 20, 1999 3:57 PM
**To:** @NSA - Natl Security Advisor; @ASIA - Asian Affairs; @INTECON - Economic Affairs; @PRESS - Public Affairs; @LEGAL - Legal Advisor
**Cc:** @LEGISLAT - Legislative Affairs
**Subject:** China NTR Vote in the Senate [UNCLASSIFIED]
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The vote was a 12-87.

Lott voted against Smith.

# Withdrawal/Redaction Marker
## Clinton Library

| DOCUMENT NO. AND TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|---|---|---|---|
| 002. draft | Principals Committee Meeting. [partial] [CIA Act] (1 page) | c. 07/1999 | P3/b(3), P6/b(6) |

**COLLECTION:**

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

**FOLDER TITLE:**

China (April to August 1999, Post Zhu Visit) [8]

2010-1024-F
vz1840

### RESTRICTION CODES

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P3 Release would violate a Federal statute [(a)(3) 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)]**

b(1) National security classified information [(b)(1) 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]

PRINCIPALS COMMITTEE MEETING
July 21, 1999
7:00 - 8:30 a.m.
Situation Room

Chair
Samuel Berger

OVP
Leon Fuerth
Leslie Davidson

State
Secretary Albright
James Dobbins
Tony Wayne

Treasury
Lawrence Summers

DOD
Secretary Cohen
Walter Slocombe

OMB
Jack Lew

USUN
Peter Burleigh (via SVTS/NY)

Chief of Staff
John Podesta

NEC
Gene Sperling
Lael Brainard

CIA
George Tenet
P3/(b)(3), P6/(b)(6)

AID
Harriet Babbitt

JCS
General Shelton
Edward Anderson

White House
Donald Kerrick

NSC
Greg Schulte
Eric Schwartz
Steve Flanagan

[002]

SENSITIVE BUT UNCLASSIFIED

TO: LAEL BRAINARD CC: GENE

FROM: M. LEE 6 PAGES

RE: CHINA WTO/NTR POINTS FOR BREIFING OF BUSINESS REPS

- HAVE BACKUP MATERIAL WILL PROVIDE 1st THING ON TRIP TO BEIJING BY SHIRICON BOMBING. ALSO ATTACHED (UNCLASSIFIED BUT NOT RELEASED) ARE EXCHANGE OF LETTERS BETWEEN ~~PR~~ CLINTON + JIANG.
- WILL ALSO GET LATEST POINTS ON TAIWAN-CHINA (SHARON, CAN YOU GET THIS FROM NSC PRESS)
- ON WTO Details, NTR ARGUMENTS, SEE FACT SHEETS I E-MAILED.

## Keith, James R. (ASIA)

| | |
|---|---|
| **From:** | WHSR |
| **Sent:** | Saturday, July 10, 1999 7:59 PM |
| **To:** | Ficklin, John W. (RECORDS); Keith, James R. (ASIA); Lieberthal, Kenneth G. (ASIA); Millison, Cathy L. (EXSEC); Osius, Theodore G. (VP); Rudman, Mara E. (CNSLR); Sigler, Ralph H. (WHSR) |
| **Subject:** | MESSAGE FROM PRESIDENT CLINTON TO PRESIDENT JIANG BEGIN TEXT |

| | |
|---|---|
| **CLASS:** | UNCLASSIFIED |
| **DTG:** | 102247Z JUL 99 |
| **MSGTO:** | RUEHBJ/AMEMBASSY BEIJING NIACT |
| **ORIG:** | THE WHITE HOUSE WASHINGTON DC |
| **PREC:** | IMMEDIATE |
| **SSN:** | 3747 |
| **TOR:** | 990710191552 M3953770 |

UNCLAS NIACT
QQQQ
SUNDAY DELIVERY, BEIJING TIME REQUIRED. FOLLOWING IS THE TEXT OF A MESSAGE FROM PRESIDENT CLINTON TO PRESIDENT JIANG. EMBASSY SHOULD DELIVER THE MESSAGE AS SOON AS POSSIBLE. THE UNITED STATES DOES NOT INTEND TO RELEASE THE TEXT TO THE PRESS, BUT HAS NO OBJECTION IF THE CHINESE GOVERNMENT WISHES TO DO SO. NO SIGNED ORIGINAL WILL FOLLOW.
SUBJ: MESSAGE FROM PRESIDENT CLINTON TO PRESIDENT JIANG
BEGIN TEXT

DEAR MR. PRESIDENT:

PAGE 2 RHEHAAA3747 UNCLAS

ON BEHALF OF THE AMERICAN PEOPLE I WOULD LIKE TO CONGRATULATE YOU, THE CHINESE WORLD CUP FINALS TEAM, AND THE CHINESE PEOPLE ON THE TREMENDOUS PERFORMANCE THE CHINESE TEAM DELIVERED IN TODAY'S TITLE MATCH. I WAS DELIGHTED TO HAVE HAD THE OPPORTUNITY TO SEE OUR TWO TEAMS COMPETE IN THE FINEST TRADITION OF SPORTSMANSHIP AND FRIENDSHIP. YOU AND THE CHINESE PEOPLE HAVE REASON TO BE PROUD OF YOUR TEAM. IT WAS THE CLOSEST OF WORLD CUP FINALS, AND IT BROUGHT ENJOYMENT TO MILLIONS OF PEOPLE THROUGHOUT THE WORLD. I JOIN THE MANY THOUSANDS OF AMERICANS WHO WERE AT THE ROSE BOWL STADIUM TODAY AS WELL AS MILLIONS MORE WHO WATCHED THE GAME IN SALUTING CHINA'S TEAM FOR A TERRIFIC SHOWING IN THE 1999 WORLD CUP FINALS.

SINCERELY,
WILLIAM JEFFERSON CLINTON

END TEXT

PAGE 3 RHEHAAA3747 UNCLAS

## Keith, James R. (ASIA)

| | |
|---|---|
| **From:** | WHSR |
| **Sent:** | Monday, July 12, 1999 6:47 PM |
| **To:** | Keith, James R. (ASIA); Lieberthal, Kenneth G. (ASIA) |
| **Subject:** | RESPONSE FROM PRESIDENT JIANG ZEMIN TO PRESIDENT CLINTON'S LETTER ON SOCCER WORLD CUP FINALS |

| | |
|---|---|
| **CLASS:** | UNCLASSIFIED |
| **DTG:** | 122236Z JUL 99 |
| **MSGTO:** | //// |
| **ORIG:** | SECSTATE WASHDC |
| **PREC:** | IMMEDIATE |
| **SSN:** | 0159 |
| **TOR:** | 990712184126 M3955817 |

UNCLAS STATE 130159

PLEASE PASS TO A/S ROTH

FOLLOWING BEIJING 06558 DATED 7/12/99 SENT ACTION SECSTATE WHITE HOUSE INFO SHANGHAI SHENYANG GUANGZHOU HONG KONG CHENGDU BEING REPEATED FOR YOUR INFO:

QUOTE UNCLAS BEIJING 006558

E.O. 12958: N/A
TAGS: OPDC, PREL, US, CH
SUBJECT: RESPONSE FROM PRESIDENT JIANG ZEMIN TO PRESIDENT CLINTON'S LETTER ON SOCCER WORLD CUP FINALS

REF: 102247Z JUL 99 WHITE HOUSE

1. THE MFA CALLED IN A/POLMINCOUNS JULY 12 TO PRESENT THE TEXT OF PRESIDENT JIANG ZEMIN'S RESPONSE TO PRESIDENT CLINTON'S JULY 10 LETTER (REFTEL CONGRATULATING CHINA ON THE PERFORMANCE OF CHINA'S WORLD CUP FINALS WOMEN'S TEAM. THE FULL TEXT OF PRESIDENT JIANG'S LETTER, AS TRANSLATED BY THE MFA, FOLLOWS BELOW. THERE WILL BE NO SIGNED ORIGINAL.

2. BEGIN TEXT:

BEIJING, 11 JULY 1999

DEAR MR. PRESIDENT,

THANK YOU FOR YOUR LETTER OF 10 JULY IN WHICH YOU CONGRATULATED THE CHINESE WOMEN'S TEAM ON ITS TREMENDOUS PERFORMANCE IN THE 3RD WOMEN'S WORLD CUP. WE, IN CHINA, ARE INDEED PROUD OF THE TENACIOUS CHINESE WOMEN'S TEAM.

ON BEHALF OF THE CHINESE PEOPLE, I WOULD ALSO LIKE TO TAKE THIS OPPORTUNITY TO CONGRATULATE YOU AND, THROUGH YOU, THE AMERICAN PEOPLE AND THE AMERICAN WOMEN'S TEAM ON WINNING THE CHAMPIONSHIP OF THE CURRENT WORLD CUP. THE CHINESE AND AMERICAN WOMEN'S TEAMS DEMONSTRATED IN FULL WONDERFUL SKILLS, SPORTSMANSHIP AND FRIENDSHIP. THEY HAVE WON HIGH APPRECIATION OF THE PEOPLE OF OUR TWO COUNTRIES.

I HOPE AND BELIEVE THAT THE FRIENDLY EXCHANGES BETWEEN THE CHINESE AND AMERICAN PEOPLES WILL CONTINUE TO EXPAND AND DEVELOP IN VARIOUS FIELDS IN THE YEARS TO COME.

WITH BEST REGARDS,

(SIGNED) JIANG ZEMIN
PRESIDENT OF THE PEOPLE'S REPUBLIC OF CHINA

THE HONORABLE WILLIAM JEFFERSON CLINTON
PRESIDENT OF THE UNITED STATES OF AMERICA
THE WHITE HOUSE
WASHINGTON, D.C.
THE UNITED STATES OF AMERICA

END TEXT.

3. A FRONT-PAGE STORY ON THE WORLD CUP FINALS IN THE JULY 11 BEIJING EVENING NEWS INCLUDED A PHOTOGRAPH OF PRESIDENT CLINTON MEETING WITH THE CHINESE WOMEN'S TEAM. THE CHARGE PLANS TO GREET THE CHINESE TEAM WHEN THEY ARRIVE AT THE BEIJING AIRPORT THE EVENING OF JULY 12.
MCCAHILL UNQUOTE ALBRIGHT

LAEL

# POINTS FOR NTR BRIEFING

Kieth's edits. + Taiwan guidance.

## China WTO/NTR

- There is no higher Administration priority on our international economic agenda than concluding strong WTO accession agreement with China.

- As you know, we made significant progress in the run up to Premier Zhu Rongji's visit to Washington. While we came close during the Zhu visit, we were unable to resolve a few important issues.

- Our negotiating team traveled to Beijing in late April. We were unable to conclude negotiations, but the meetings were useful in clarifying positions.

- Events thereafter could not have been imagined. Truly a tragic accident. No doubt serious mistakes were made. It will take time to rebuild the relationship, but it is clearly in both countries' interest to do so. Will not be easy, but the process is underway.

- We have expressed our deep regret and sympathy. President Clinton and other senior U.S. officials have apologized publicly and sincerely. Ambassador Pickering traveled to Beijing representing the President to present results of our investigation.

- Legal Adviser Andrews of ~~Deputy Assistant Secretary of~~ State ~~Shirk~~ is now in Beijing in follow-up discussions. He ~~She~~ is addressing issues including humanitarian payments to those injured and the families of those who died in the bombings. and will discuss property issues with the Chinese.

- Our intelligence community is conducting an accountability review. When this review is complete it ~~we~~ will, as it determines, whether any disciplinary action is called for.

- It is our hope that this process will allow us to begin to move past terrible incident and back to more normal relations, including the WTO talks and other important matters in our relationship. When that happens, however, is up to China. we've been talking.

- There are some encouraging signs. Contacts at the subcabinet level are increasing on economic and other issues, although there remains no movement on WTO talks.

- Japan concluded its bilateral accession agreement on services with China. As you know they had concluded their goods agreement earlier. Jiang/Obuchi comments.

- We look forward to the meeting of President Clinton and President Jiang in New Zealand in September ~~on the margins of~~ at the APEC Leaders meeting, [and the leaders did exchange congratulations on the Womens World Cup soccer game this week.]

- We stand prepared to reengage on the WTO. Important that U.S. business leaders communicate to Chinese that 1) time is of the essence -- securing NTR will become much more difficult as time passes; 2) final package needs to include consensus reached on April 8, as well as address remaining issues.

NTR

- Vote expected in the House the week of July 26. We want strong vote. [Chuck Brain will have just come from Matsui whip meeting and can give readout] Important that situation between Taiwan and China stabilize. We are working on that. but business needs to emphasize to both sides importance of stable environment.

- In making our case for annual renewal, we are making strong case for why bringing China into WTO on strong commercial terms is in our interest. President remains committed to securing permanent NTR on the basis of a good agreement.

- Important all members of Congress understand benefits of strong WTO accession agreement, and also that U.S. companies will not be able to harvest those benefits unless Congress grants permanent NTR.

- We can and will address host of China related concerns (espionage, etc.), but our broad national interest in getting China to live by international trade rules should not be held hostage to other concerns.

- Interested in your views on Normal Trade Relations renewal process.

- We want to consult closely with business community as we move forward.

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## Clinton Library

| DOCUMENT NO. AND TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|---|---|---|---|
| 003. email | White House Situation Room to Alexander Arvizu, Holly Hammonds, John Hill et al. Subject: Japanese Comments (3 pages) | 07/14/1999 | P1/b(1) |

**COLLECTION:**

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

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China (April to August 1999, Post Zhu Visit) [8]

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**Subject:** CHINA:LongYongtuonMean

**CLASS:** INTERNATIONAL
**ORIG:** FBIS
**PREC:** RUSH
**TOR:** 990712055518 F0227044

F2054
FBIS S 054JUL12
UNCLAS 1A

CHINA: Long Yongtu on Meaning of PRC's WTO Entry OW1207095299 Hong Kong Wen Wei Po in Chinese 12 Jul 99 p A2

"Special dispatch" by staff reporter Yao Hsin-pao (1202 2946

0202): "China's WTO Entry Does Not Mean Fully Opening Market"]

[PTS Translated Text for FBIS] Shanghai, 10 Jul -- Long Yongtu, Chinese deputy minister of foreign trade and economic cooperation and chief negotiator for talks on China's entry into the World Trade Organization [WTO], stressed here yesterday that China has been enthusiastic about "joining the WTO."

When commenting on the resumption of talks with the United States, Long said US-led NATO's bombing of the Chinese embassy in the Yugoslav Federation has polluted the atmosphere for Sino-US talks. It is up to the United States to decide when to reopen talks; the ball is on the US side.

Long made the above statement at the "Seminar on 'China's WTO Entry' and Enterprise Development" hosted by the WTO Shanghai Research Center and assisted by the Guoji Shangbao [International Commerce Daily].

Long said the economic globalization is moving ahead at a greater speed. China's "WTO admission" is an important part of its further opening up. China has made two commitments in the talks: One, abiding by international rules; two, opening its market step by step. Long stressed that China's WTO accession does not mean China will open its market across-the-board or China will fully practice the free market economy. We should not overestimate the role of the international body. International economic and trade ties still center on state-to-state relations.

Long made an analysis of the view held by many people that joining the WTO means switching to the free market economy without reservation, and offered clarification. He pointed out that no country in the world has practiced a market economy in an all-round manner. The petrochemical industry fears that after joining the WTO, the price of domestic crude oil will be fixed in light of that in the international market, thus creating an impact on the domestic oil and oil refining industries. But in fact the WTO talks do not cover oil price, so there is no impact to speak about. That is also the case with the auto industry. Some people believe that after joining the WTO, there would be no protection whatsoever, and our auto industry would collapse. In reality, we have only promised to lower the tariff on cars from the existing 80 to 100 percent to 25 percent in 2008, so there is still protection.

Long said: Various departments concerned must reach a consensus on China's WTO entry. We must not make an abstract analysis of the advantages and disadvantages involved. We must make careful judgment taking into account the specific characteristics of particular industries. All relevant sectors must enthusiastically make preparations and vigorously train various kinds of all-round, sophisticated qualified personnel, and work hard to develop high and new technologies and high-value-added products, to meet the new challenge and enter into international competition, expand our

economic strength, and safeguard economic security.

Wang Daohan, chairman of the Association for Relations Across the Taiwan Strait, also attended the seminar and made a speech.

[Description of Source: Hong Kong Wen Wei Po in Chinese -- PRC-owned daily newspaper]

 12 JUL
0953z FBIS NNNN
FBIS 07/12/99 05:34:00

**From:** WHSR
**Sent:** Monday, July 12, 1999 8:47 AM
**To:** Arvizu, Alexander A. (ASIA); Hammonds, D. Holly (INTECON); Hill, John J. (ASIA/INTERN); Holtzapple, Richard A.; Keith, James R. (ASIA); Lee, Malcolm R.; Lieberthal, Kenneth G. (ASIA); Osius, Theodore G. (VP); Pritchard, Charles (Jack) L. (ASIA); Schaefer, Matthew P. (INTECON); Shah, Sonal R.
**Subject:** CHINA:ArticleUrgesUSAc

**CLASS:** INTERNATIONAL
**ORIG:** FBIS
**PREC:** RUSH
**TOR:** 990712041822 F0226727

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UNCLAS 1B

CHINA: Article Urges US Action To Support PRC's WTO Bid OW1207080599
Beijing China Daily (Internet Version) in English 12 Jul 99

[From the "To The Point" column; by Qi Wen: "US Promises Not Enough"]

[FBIS Transcribed Text] It is time for the United States, which made ceaseless artful talks on supporting China's bid to enter the World Trade Organization (WTO), to catch up with those co-operative WTO members with concrete acts. Mere words are no longer sufficient.

China and Japan substantially concluded all bilateral negotiations on China's accession to WTO last Friday, following some detailed negotiations over the past several months.

The conclusion of Sino-Japanese bilateral negotiations fully proved China's devotion to free trade.

However, China's bid to enter the trade organization and its predecessor has dragged on for 13 years. That's mainly because the US-led developed WTO members have asked for too much.

Moreover, US-China talks on China's entry into the WTO were abruptly thrown into a standstill following the US-led NATO's bombing on the Chinese Embassy in Belgrade on May 8.

Even until now, US-led NATO has failed to give a convincing explanation for the bombing to the Chinese people.

China can never resume WTO talks with either the United States or the European Union under such a damaged atmosphere.

Just as the joint communique after the conclusion of Sino-Japanese bilateral negotiations said, China's accession is in the common interest of China and Japan and also in the interest of all WTO members.

Without China's participation, it will be impossible for the new round of WTO negotiations, scheduled for September, to achieve complete success.

It is hoped that the United States will immediately stop hedging from its responsibilities and square its words with sincere deeds.

[Description of source: Beijing China Daily in English -- China's official English-language newspaper]

ENDALL) 12 JUL 0816z FBIS NNNN
FBIS 07/12/99 03:57:00

July 14, 1999

**BRIEFING**
**MEMORANDUM FOR MARY BETH CAHILL**

| | | |
|---|---|---|
| **FROM:** | Jay Dunn | Ext. 6-7702 |
| | Barbara Woolley | Ext. 6-2155 |
| **RE:** | WTO-China Briefing with Business Community | |

---

**DATE\TIME:** Thursday, July 15, 1999
11:00 AM

**LOCATION:** The Roosevelt Room
The White House

**ATTENDEES:** Mary Beth Cahill, Assistant to the President & Director of Public Liaison
Chuck Brain, Deputy Assistant to the President & Deputy Director of Legislative Affairs
Lael Brainard, Deputy Assistant to the President for International Economic Policy
Steve Ricchetti, Deputy White House Chief of Staff
Twenty members of the Business Community

**PURPOSE:** To continue the dialogue between the business community and the White House on the status of China's accession to the WTO.

**BACKGROUND:** This is one in a series of meetings between the Administration and the business community to compare notes and share information concerning the corporate community's support for China's accession to the WTO. Interested parties are now focused on the annual NTR vote, which is scheduled to take place sometime the week of July 26th. On Wednesday, Representative Bob Matsui (D-CA) hosted a meeting of Administration, Congressional and corporate representatives to brief on the status of the NTR bill.

Supporters of the NTR vote are cautiously optimistic that annual NTR status will pass by a comfortable margin (260 – 270), but nothing is being taken for granted. Given the difficult relationship between China and the United States in recent months, supporters of NTR are paying careful attention to mood of the swing votes in Congress.

The vote is seen by interested parties as an indicator of Congressional support for China's accession to the WTO.

**FORMAT:** **The format is roundtable discussion.** Mary Beth will open the meeting and facilitate by asking for input from the members of the business community. Conversation will ensue between Administration officials and corporate representatives. Mary Beth will conclude the meeting at the appropriate time (approximately 12 noon).

**ATTACHMENTS:** List of representatives from the Business Community

**Confirmed Attendance for WTO-China Briefing on July 15**

Michael Andrews, Citigroup
Lisa Barry, Boeing
Richard Brecher, Motorola
Myron Brilliant, US Chamber of Commerce
Tom Buis, National Farmers' Union
Nick Calio, O'Brien & Calio
Jaime Castaneda, National Milk Producers
Steve Champlin, Duberstein Group
Cal Cohen, ECAT
Ken Cole, Allied Signal
Audrae Erikson, American Farm Bureau Association
Orit Frenkel, General Electric
Claude Fontheim, Fontheim & Associates
Nick Giordano, National Pork Producers
John Gordley, American Soybean Association
National Association of Wheat Growers
Randy Jones, National Council of Farmer Cooperatives
Bob Kapp, US China Business Council
Susan Keith, National Corn Growers Association
Chuck Lambert, National Cattleman's Beef Association
Ken Leventhal, Fontheim & Associates
Kevin Mulvey, AIG
William Quarles, Sunkist
Scott Parven, Aetna
Jackie Pettus, National Barley Growers
Scott Shearer, Farmland, Inc.
Read Vaderwater, BRT
Michael Wootton, Sunkist
Everett Zillinger, Fertilizer Institute

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maria.haley@exim.gov
hatamiya@fas.usda.gov
sharon.singh@fas.usda.gov
lkanemoto@fdic.gov
delw@fmc.gov
rayt@fmc.gov
dchang@hcfa.gov
acharyan@hotmail.com
cdtoy@hotmail.com
courtni_p@hotmail.com
florence_pan@hotmail.com
lrjin@hotmail.com
rekha_chalasani@hotmail.com
ryuppuluri@hotmail.com
tongs_chung@hotmail.com
david.jhirad@hq.doe.gov
leeann.inadomi@hq.doe.gov
ram.uppuluri@hq.doe.gov
robert.gee@hq.doe.gov
stanley.suyat@hq.doe.gov
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Leanne A. Shimabukuro/OPD/EOP
Nanda Chitre/WHO/EOP
Neera Tanden/WHO/EOP
Phu D. Huynh/WHO/EOP
Shirley S. Sagawa/WHO/EOP
Simeona F. Pasquil/WHO/EOP
Virginia N. Rustique/WHO/EOP
dkim63@worldnet.att.net
hhzia@worldnet.att.net

# Withdrawal/Redaction Marker
## Clinton Library

| DOCUMENT NO. AND TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|---|---|---|---|
| 004. calendar | [Personally Identifiable Information] [partial] (1 page) | 07/14/1999 | b(6) |

**COLLECTION:**

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

**FOLDER TITLE:**

China (April to August 1999, Post Zhu Visit) [8]

2010-1024-F
vz1840

### 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]**
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**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]**

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**b(1) National security classified information [(b)(1) of the FOIA]**
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**b(3) Release would violate a Federal statute [(b)(3) of the FOIA]**
**b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]**
**b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]**
**b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]**
**b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]**
**b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]**

| June 1999 | | | | | | |
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| July 1999 | | | | | | |
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| August 1999 | | | | | | |
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## Calendar

| | Start | End | Category | Description |
|---|---|---|---|---|
| 12 Jul 1999 | | | | |
| 13 Jul 1999 | 12:00 PM | 1:00 PM | | Korea Trade Consultations |
| | 12:30 PM | 1:30 PM | | Max's wit Korea Steel Delegation |
| | 2:00 PM | 3:00 PM | | Adam Apatoff - muldova steel |
| 14 Jul 1999 | 10:15 AM | 11:15 AM | | Lauren Moriarty (b)(6) Economic Minister/Counselor in Beijing - (poc Candace 647-8997) - room 231 |
| | 11:00 AM | 12:00 PM | | Berger APEC Trip Meeting |
| | 2:00 PM | 3:00 PM | | Leon Fuerth - Oil & Gas industry forum including Russia & china energy - room 276 (poc: Ann 6-9501) |
| | 3:00 PM | 4:05 PM | | HAMMONDS/CHINESE COUNSELLOR |
| | 4:00 PM | 5:00 PM | | Lael |
| 15 Jul 1999 | 8:00 AM | 11:00 AM | | OUT THURSDAY MORNING |
| | 11:00 AM | 12:00 PM | | China Briefing |
| | 3:05 PM | 4:05 PM | | APEC Meeting |
| 16 Jul 1999 | 10:00 AM | 11:00 AM | | ITC Briefing on Steel Wire Rod Room 1 |
| | 1:00 PM | 2:00 PM | | Rockefeller |
| 17 Jul 1999 | | | | |
| 18 Jul 1999 | | | | |

## POINTS FOR BRT MEETING

China WTO/NTR

- There is no higher Administration priority than concluding strong WTO accession agreement with China.

- As you are probably aware, we made significant progress in the run up to Premier Zhu Rongji's visit to the Washington last month. While we came close during the Zhu visit, we were unable to resolve a few important issues.

- Have made clear to Chinese we are prepared to reengage. We are working hard to lay groundwork to do so. In both countries interest. China has made clear they need to see the results of our investigation into the tragedy in Belgrade.

- We plan to send a senior emissary to China to brief them on the results of our investigation.

- It is our hope that this will allow us to put the tragic accident in Belgrade behind us and move on to the WTO talks and other important matters in our relationship. Ultimately, we believe the Chinese will want to reengage. But we do not know when they will be prepared to do so.

- Important that U.S. business leaders communicate to Chinese that 1) time is of the essence -- securing NTR will become much more difficult as time passes; 2) final package must include consensus reached on April 8, as well as address remaining issues.

NTR

- President will send to Congress on June 3 his recommendation to renew NTR. In doing so, President will make strong case for why bringing China into WTO on strong commercial terms is in our interest. We will also make clear our desire to work with Congress to secure permanent NTR.

- Important all members of Congress understand benefits of strong WTO accession agreement, and also that U.S. companies will not be able to harvest those benefits unless Congress grants permanent NTR.

- We can and will address host of China related concerns (espionage, etc.), but our broad national interest in getting China to live by international trade rules should not be held hostage to other concerns.

- Interested in your views on Normal Trade Relations renewal process.

- (One vote or two) Our focus is on concluding an agreement with China. Single vote on permanent would be easier for us, but we can manage either way. We do not know whether agreement in July is doable.

- We want to consult closely with business community as we move forward.

Steel

- Not at all clear Senate will not pass quota legislation with veto proof majority. Lott is moving this like an express train. The vote will be on June 22. **Where are you guys??** Our trading partners will retaliate **against your companies and your exports** if this WTO inconsistent legislation passes. We have turned back the surge, import levels are back to pre-crisis levels. The Administration is getting no credit, and quite frankly, members see this as a free vote.

- You cannot assume the President will be able to sustain a veto. If the BRT speak as an organization, individual companies need to make their views known. You will be the losers in this as well.

## Keith, James R. (ASIA)

**From:** Leavy, David C. (PRESS)
**Sent:** Thursday, June 24, 1999 9:19 AM
**To:** @PRESS - Public Affairs; @KOSOVO; @ASIA - Asian Affairs; @INTEL - Intelligence Programs; @RUDMAN
**Subject:** FW: Press Guidance request for June 24 due by 10:00 a.m. [UNCLASSIFIED]

**Will the Administration release a report on the accidental bombing to the public?**

- The Administration has released the results of our investigation.

**Did a CIA Analyst almost stop the accidental bombing? Why wasn't he successful?**

- Clearly tragic and unfortunate accident.
- No doubt serious mistakes were made.
- President has been fully briefed.
- CIA doing a further review of accountability.
- Don't want to comment on specific elements of the report.

**Is there a process underway that will result in punishment of any officials for this mistaken bombing?**

- CIA continues an internal accountability review of the causes of the accident. When this review is complete we will determine whether any disciplinary action is called for.

**Will the U.S. make payments to the Chinese for the individuals injured or killed and for the property destroyed? What about U.S. property in China damaged by riots?**

- As a humanitarian gesture we have offered to make payments for the individuals killed or injured. Other issues related to payments either to the U.S. or to the Chinese are still under discussion.

**Why haven't the Chinese accepted Under Secretary Pickering's report? Is this a sign that the relationship is headed into a downward spiral?**

- We provided an explanation of the accidental bombing to the Chinese. It is up to them to comment on their evaluation of the explanation. We believe it is important for the United States and China to develop constructive relations that meet the vital interests of both countries, and we are working with the Chinese to achieve this.

# TESTIMONY ON NORMAL TRADE RELATIONS WITH CHINA

**Ambassador Richard Fisher**
**Deputy U.S. Trade Representative**

**Trade Subcommittee of House Committee on Ways and Means**
**Washington, DC**

**June 8, 1999**

Mr. Chairman, Congressman Levin, Congressman Rangel, Members of the Subcommittee, thank you for inviting me to testify on the President's recommendation to renew Normal Trade Relations with China.

The past weeks have been eventful ones for our trade relationship. Since the beginning of this year, in the context of China's accession to the World Trade Organization, we have carried on highly productive negotiations in all major areas of American trade concern: agriculture, industrial goods, services and rules. China has made significant commitments across the range of sectors and issues of concern to us, but a number of issues remain to be resolved. At the same time, of course, recent events outside the trade relationship – notably the accidental bombing of the Chinese Embassy in Belgrade, the resulting demonstrations in China and damage to U.S. diplomatic facilities, and the release of the Cox Committee report on allegations of espionage in nuclear and other technological areas – have created new tensions in the broader relationship.

Our colleagues in other agencies are addressing the broader US-China relationship. With respect to trade policy in general, and to the renewal of Normal Trade Relations and the WTO negotiations in particular, the Administration intends to remain focused on the long-term commercial and strategic interest of the United States: a more open, transparent and rules-based Chinese market; support for economic reform within China; and the accession, on commercially meaningful terms, of China to the WTO.

This afternoon I will review with the Committee the role of trade in our broader China strategy, the basis on which the President has decided again to renew Normal Trade Relations, and the progress we have made towards China's accession to the WTO.

## TRADE IN U.S. CHINA POLICY

Fundamentally, American trade policy in China rests on the vital interest our country has in a peaceful, stable and prosperous Asia-Pacific region. Essential to realizing this interest, as a commercial goal and a complement to our strategic and security policies, is support for China's economic integration into the Asia-Pacific region and the world economy.

China's economic isolation during the Cold War was vastly damaging to both China and to the Pacific region. For nearly forty years, China's economy was almost entirely divorced from the outside world. The consequent loss of foreign markets and investment impoverished China at home, and meant that Asia's largest nation had little stake in prosperity and stability beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

Our effort to undo this isolation is a bipartisan, patient policy continuing over the nearly thirty years since President Nixon's visit to China in 1972. It has included the lifting of the U.S. economic embargo in the mid-1970s; our initial Commercial Agreement and mutual grant of Normal Trade Relations (NTR; then Most Favored Nation or "MFN" status) in 1979 and 1980 -- a decision in which I participated as a member of the Carter Administration; the consistent renewal of NTR for the past 20 years; and the market access, textile and intellectual property agreements we have negotiated in the 1990s. The effort has had multiple goals: creation of opportunity for American businesses, working people and agricultural producers; guarantees of fair trade principles; support for economic reform and the rule of law within China; and strengthening China's own stake in the stability and prosperity of its neighbors.

This effort has succeeded over the years. It has increased China's contacts with the outside world, bringing new ideas and opportunities to its people and giving China greater common interests with its Asian neighbors and with us. China's constructive approach to the Asian financial crisis may well be at least a partial consequence. And despite numerous trade barriers, it has created a market for over $14 billion in American goods exports, and $3.5 billion in services.

In summary, the goals of our trade policy in China are concrete American interests; and the results our policy has achieved over the years have helped realize those interests. Thus, our trade engagement with China has won bipartisan support for nearly twenty-five years, and has remained stable throughout periods of warmer bilateral relations and periods of tension.

## THE ROLE OF NORMAL TRADE RELATIONS

Renewal of Normal Trade Relations is fundamental to any continuation of this policy.

Normal Trade Relations tariffs are the standard tariff rates, now averaging less than 4%, which we accord virtually all our trade partners. It is a non-discriminatory, non-preferential treatment which allows trade to proceed on an equal basis with virtually all our partners. Under the so-called Jackson-Vanik provisions of our trade law, however, certain economies, including China, are ineligible for these rates unless the President grants an annual waiver.

In accord with the law, on June 3rd, 1999, President Clinton sent to Congress this waiver, extending normal trade relations to China for another year. Congressional support for this decision will benefit American consumers and also allow American farmers, manufacturing workers and entrepreneurs to continue to benefit from our existing access to the China market. At the same time, it will allow us to continue our pursuit of a more open and fair Chinese market.

By contrast, failing to renew NTR would severely damage American interests in a number of fundamentally important areas.

First, ending normal trade relations would amount to the severing of our trade relationship. It would raise tariffs on Chinese products to a trade-weighted average of 44%. This would make American consumers pay significantly more for goods such as shoes, toys, clothing and small appliances. Manufacturers would see the cost of goods made with Chinese components rise sharply, reducing the competitiveness of our goods in domestic and international markets.

Second, China would likely retaliate against U.S. exports by increasing tariffs and other measures, endangering direct U.S. goods exports valued at $14.3 billion last year, and services exports valued at $3.7 billion in 1997 (the last year for which we have figures). This would threaten the jobs of manufacturing workers, the income of farmers, the employment of young workers in retailing, software engineers and workers in every other walk of life.

Third, ending normal trade relations would also derail our bilateral and multilateral negotiations. As I noted earlier, and as I will explain in greater detail in a moment, we have come very close to completion of a WTO accession agreement with China that would dramatically open Chinese markets to American goods, services and agricultural products. Revoking NTR would be certain to end these talks. It could also lead China to reduce or end enforcement of our intellectual property agreements; refuse to implement our bilateral Agricultural Cooperation Agreement of last April, which lifts long-standing bans on American meats, citrus and grains; and halt much of the human contact between Americans and Chinese, limiting the exchange of ideas and values across the Pacific.

Fourth, these effects in trade would likely be matched by severe damage to relations, in areas from cooperation on drugs and international crime to human rights. And it could threaten cooperation in national security questions such as the four-party talks on Korea and missile sales in the Middle East.

And fifth, ending normal trade relations would badly damage many of our other Asian allies, friends and trading partners. Most deeply affected would be Hong Kong, whose experts have estimated in the past that ending NTR would slash the territory's trade volume by up to $34 billion, and income by some $4.5 billion. This would dramatically worsen the economic pain caused by Hong Kong's current recession. At the same time, the economic upheaval created by revocation of NTR would gravely complicate our efforts to end the Asian financial crisis, at the very moment when Thailand and South Korea are beginning to show signs of recovery, and a newly elected Indonesian government will begin its effort to recover from an extraordinarily difficult economic crisis.

Altogether, then, the vote on whether to disapprove Normal Trade Relations is a vote on whether to protect fundamental U.S. interests from jobs and growth at home to stability and return to economic health in Asia. The Administration thus strongly supports renewal of Normal

Trade Relations.

## US TRADE AGENDA IN CHINA

As we look to the future, with NTR renewed, we have significant opportunities to improve our trade relationship.

Today, China retains high trade barriers and numerous unfair trade practices. China's formal and informal trade barriers remain high. Its agricultural standards are based on bureaucratic fiat rather than science. Key service sectors like distribution, finance and telecommunications remain closed. These create inefficiencies within the Chinese economy; slow the process of integration with the regional and world economies; and cause frustration and sometimes injury to American farmers, workers, and businesses.

China remains insecurely integrated, and only opportunistically so, with the world outside; and its economy faces severe challenges which, over time, more open trade could help to solve. Likewise, China's neighbors remain blocked from an economy which could be an engine of growth in the present financial crisis and in the future.

Our principal arena for addressing these issues is China's pending accession to the World Trade Organization. To enter the WTO, China must agree on a set of market access commitments, and negotiate a Protocol dealing with fair trade rules. Thus, China's WTO accession allows us to address the issues at the root of our trade problems in a comprehensive way. And it is an opportunity to advance broader interests beyond trade:

- As a matter of trade policy, a sound agreement will open Chinese markets to our exports, and give American domestic industries stronger protection against unfair trade practices.

- As a matter of strategy, WTO membership will complement our efforts to maintain peace and stability in the Pacific by helping to advance economic reform within China, linking China's economy more closely with the world's, and strengthening constituencies within China for stability beyond its borders.

- And as a matter of values, WTO principles – transparency, fair and independent judicial practices, peaceful settlement of disputes, the rule of law – are those we hope to advance in China and worldwide.

China, of course, is pursuing WTO membership as a matter of its own national interest. The reforms entailed in a strong, commercially meaningful agreement will help create jobs in labor-intensive fields such as distribution services, make rural and urban economies more productive, and create the competition necessary for innovation and sustainable growth. Thus, as WTO membership offers a short-term source of confidence, it will advance China's long-term goals of domestic economic reform and guarantees of access to world markets.

We believe that to win the full range of benefits, for both the U.S. and China, an agreement on WTO accession must be commercially meaningful, addressing our concerns in a detailed, enforceable and rapid way. This is the principle we have followed in all recent WTO accessions -- the most recent successful accessions were those of Latvia, Kyrgyzstan and Estonia, all of which made commercially meaningful commitments in the range of issues of concern to the United States. A weak agreement also would not yield the full potential for economic efficiency and growth in China. Thus, we are committed to a commercially meaningful accession. In the context of such an accession, the Administration is prepared to work closely with Congress to secure permanent NTR status for China.

## PROGRESS THUS FAR

While we have not yet reached agreement on such a package, in the past months we have made significant progress toward the goal. In April we substantially completed a market access package on agriculture, industrial goods, and services as well as fair trade rules. This includes a commitment by China to participate in the most recent WTO agreements on Information Technology, Basic Telecommunications and Financial Services. Talks will continue on several unresolved market access and Protocol issues, however, including many that must be addressed multilaterally.

### 1. Major Features

With respect to our progress thus far, the set of commitments China has made includes four major features:

- It is comprehensive, covering agriculture, industrial goods and services; trade barriers including tariffs, non-tariff measures, transparency and others; unfair practices including export subsidies, forced technology transfer, offsets and local content requirements; and protection against import surges.

- It grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners.

- It is fully enforceable. China's commitments are specific and will be enforceable through our trade laws, WTO dispute settlement and other mechanisms.

- And its results will be rapid. On accession to the WTO, China will begin opening its market from day one.

One other essential point is that all of these are basically one-way commitments by China. China's WTO entry will open export opportunities and strengthen our guarantees of fair trade, without requiring special concessions in return. American tariffs, together with our dumping and countervailing duty laws, will remain unchanged after China enters the WTO. Likewise, our export control policies will remain unchanged, and decisions on such policies will not be affected by WTO entry.

## 2. Specific Commitments

Let me also make a few comments on the specific commitments made before and during Premier Zhu's visit to the United States this April.

The Protocol, which establishes broad rules and frameworks for trade, creates a product-specific safeguard to address import surges. It also bans forced technology transfer policies for investors, including a commitment to refuse to enforce these provisions in existing contracts. It will ensure that we continue to use "non-market economy" methodology in anti-dumping cases, and take account of China's unique characteristics in subsidies. It will eliminate abusive investment requirements designed to take jobs to China: offsets, export performance, current-account balancing and local content. And it will guarantee China's state trading companies and state-invested enterprises operate on commercial terms, and that their purchases are not subject to any different rules. Again, we continue to discuss several issues, notably the duration of special provisions. While they will not continue in perpetuity, very rapid phaseouts are not acceptable.

With respect to market access, some highlights are as follows:

Agriculture: China will apply sanitary and phytosanitary standards based on science. It will cut tariffs to an average of 14.5% for our priority items, and bind them at the applied levels. Thus, unlike many countries, China will not have a right to raise tariffs again after it enters the WTO. It will adopt a new and more liberal system of tariff-rate quotas in bulk commodities. And it will agree not to provide agricultural export subsidies – a major achievement in its own right, and a step toward our goal of totally eliminating export subsidies in the next WTO Round.

Industrial goods: China will grant rights to import and export products without Chinese middlemen, and to distribute products within China. It will cut its tariffs on average for U.S. priority items to 7.1% -- a figure comparable to most major U.S. trading partners. This includes participating in the Information Technology Agreement, and deep cuts in everything from autos to wood products, chemicals and construction equipment. And it will eliminate all quotas.

Services: China has made a comprehensive set of commitments extending from distribution to insurance, telecommunications, architecture, engineering, legal, travel and tourism, computer and business services, environmental services, franchising and direct sales, and more. Talks continue in several areas – banking, audiovisual, securities – but in several of these as well, China has made a set of commitments that already open significant opportunities.

These are a very broad set of commitments. They may well bring opposition from vested interests at home in China. But other countries have made comparable commitments, and China is entirely capable of making them as well. More important, WTO accession on commercially meaningful terms is good for China: it will mean increased employment, economic growth and social stability in the long run.

### 3. Work Remaining

Finally on the WTO accession, the work is not yet done. Some important issues remain unresolved in the services field, and in the Protocol as well. As in all accessions, conclusion depends on the acceding government, and China of course must meet the concerns of other WTO members apart from ourselves. But the issues which remain are limited, and I am confident that the trade policy challenges they raise can be resolved.

## NEXT STEPS

At the same time, however, the political environment surrounding the WTO talks, of course, is clearly complicated by events outside trade policy.

Most notably, we have held no formal negotiations with the Chinese since the accidental bombing of the Chinese Embassy in Belgrade a month ago. Our colleagues in other agencies are preparing a report on the event, which they will review with the Chinese on completion. Our hope is that negotiations on WTO accession will resume shortly afterwards. We remain, of course, committed to a commercially meaningful accession, based upon the commitments China has made and mutually satisfactory resolution of the remaining issues.

## CONCLUSION

This period is a test for the broader US-China relationship, and the ability of leadership in both capitals to focus on longer-term interests. The WTO accession is a key component of a longer-term strategy to achieve these interests. Completing it, on commercially meaningful grounds, will benefit both countries. This remains a shared view, as we continue the talks with a goal of entry this year.

Thank you, Mr. Chairman, and I will now take your questions.

## WHY CONTINUATION OF NORMAL TRADE RELATIONS WITH CHINA IS THE RIGHT CHOICE FOR AMERICA

ADVANCING AMERICA'S ECONOMIC INTERESTS: Maintaining Normal Trading Relations (NTR) with China, as every U.S. President has done since 1980, is good for American farmers, workers, businesses and the U.S. economy as a whole.

- **Opening China's Market:** We are in negotiations with China on its accession to the World Trade Organization that could result in a historic opening of China's markets to U.S. agricultural, industrial and services exports. Revocation of NTR would derail this effort to boost U.S. exports and to make China subject to global trade rules.
- **Strengthening Our Economy:** An estimated 400,000 jobs depend on U.S. exports to China and Hong Kong. U.S. exports to China have quadrupled over the past decade to $14.3 billion. Revocation of NTR would invite retaliation against U.S. exporters and investors, as China would purchase instead from our economic competitors. It would also hurt U.S. consumers and manufacturers, who would pay upwards of half a billion dollars more per year on products such as shoes, clothing and industrial inputs. Revocation of NTR would increase tariffs on imports from China from a trade-weighted average of about 6% to approximately 44%.
- **Addressing the Asian Financial Crisis and Promoting Economic Reform:** China has played a constructive role in responding to the Asian financial crisis. Important elements of China's leadership also see China's future prosperity tied to fundamental market-based economic reforms. NTR helps advance these reforms.
- **Bolstering Hong Kong and Taiwan:** Hong Kong handles more than 40% of U.S.-China trade. Revocation of Normal Trade Relations would weaken Hong Kong, already hurt by the Asia financial crisis, by slashing its trade, eliminating tens of thousands of jobs, cutting economic growth and income. Hong Kong leaders across the political spectrum favor renewal of NTR. Revocation would also damage Taiwan's economy, with $20-30 billion invested in the mainland.

ENGAGEMENT WITH OUR EYES OPEN: A policy of principled, purposeful engagement with China remains the best way to advance U.S. interests. Extending to China the same normal trade relations (NTR) we have with virtually every country in the world will promote American prosperity and security, and foster greater openness in China. We have serious differences with China – on human rights, their efforts to acquire sensitive information, and other areas – and will continue to deal forthrightly with these differences. But revoking normal trade relations would rupture our relationship with a fifth of the world's people and jeopardize our political and economic security. It would make China more defensive, isolated and unpredictable, weakening the forces of change. And it would undermine our efforts to engender constructive Chinese participation in international organizations that will promote China's adherence to global norms on human rights, weapons of mass destruction, crime and drugs immigration, the environment, economic reform and trade. **Engagement is advancing U.S. interests in tangible ways.**

- **Stability in Asia:** China continues to play a constructive role in peace talks and easing tensions on the Korean Peninsula. China condemned both India and Pakistan's nuclear testing and urged restraint. Working closely with the U.S. and other permanent members of the UN Security Council it is helping to coordinate our approaches toward South Asian security concerns.
- **Nonproliferation:** As a result of our engagement policy, China joined of the Nuclear Nonproliferation treaty and Zangger Committee, Chemical Weapons Convention, and Biological Weapons Convention; signed the Comprehensive Test Ban Treaty and committed to ratify it soon; enacted comprehensive nuclear export controls, and improved controls on precursors for chemical weapons. China has ceased all new nuclear cooperation with Iran. China also ceased exports of 801/802 anti-ship missiles to Iran and is actively studying membership in Missile Technology Control Regime.
- **Transnational Threats:** China is cooperating with the US on efforts to combat terrorism, drug trafficking, and smuggling of people across borders. China is eliminating leaded gasoline, doubling the percentage of its GDP devoted to environmental protection.
- **Human Rights:** Engagement does not mean endorsement. President Clinton has pressed human rights directly with China's leaders and the United States sponsored a resolution expressing our concern at the United Nations Human Rights Commission in Geneva. China has far to go, and progress is not without setbacks, but China has released prominent dissidents and signed the International Covenant on Civil and Political Rights. Normal trade and continued economic engagement advance the process of opening China, exposing Chinese people to American ideals, values, and personal freedoms. Revoking NTR would diminish access and suit those in China who would block openness.
- **Protecting National Security Information:** As we engage China, we will act firmly to protect our interests. We believe that, over the last twenty years, China did obtain some basic U.S. nuclear weapons information that probably accelerated its modernization research. This is a very serious issue, and the Clinton Administration has taken aggressive steps to address it.

# TRADE ASPECTS OF NORMAL TRADE RELATIONS (NTR) STATUS

**Normal Trade Relations Status** (formerly known as MFN status) grants the ordinary tariff treatment that we extend to virtually all nations. It does not provide special treatment. Fewer than a dozen countries do not have NTR status, including North Korea, Cuba, Afghanistan, Iran , Iraq and Libya. NTR status for China has been supported by every president (both Republican and Democrat) who has confronted the issue.

**Revoking NTR status would derail multilateral and bilateral trade negotiations to increase our access to China's market and China's observance of international trade rules. Revocation is too blunt a tool and would likely prevent us from reaping the benefits of our negotiations.**

- China's accession to the WTO must be based on a commercially meaningful agreement that will significantly expand market access for exports of U.S. good and services to China. This could result in unprecedented opening of China's market to U.S. companies, workers and agriculture. In April, we made significant progress towards achieving agreement on market access and other key commitments on China's accession to the WTO. President Clinton supports China's accession to the WTO this year on strong commercial terms and our trade negotiators are working to achieve final agreement on an acceptable accession package. Revoking NTR status would derail this important effort.

- Revoking NTR status would also jeopardize significant gains achieved in bilateral negotiations on agriculture (wheat, citrus and meat), intellectual property rights (IPR) enforcement and market access for textiles and apparel.

**Revoking NTR status would increase the price U.S. consumers pay for basic goods and cost U.S. jobs.** Revoking NTR status would increase tariffs on imports from China from a trade-weighted average of about 6 percent to an estimated 44 percent. This would likely provoke retaliation against U.S. exports and U.S. investors in China, giving our foreign competitors a strong edge in the Chinese market.

- NTR revocation, even accounting for changes in trade flows, would force U.S. consumers to pay upwards of half a billion dollars more each year for goods such as shoes, clothing and small appliances subject to increased tariffs. In addition, the cost of goods manufactured in the United States with components from China could increase, reducing the competitiveness of goods finished in the United States.

- U.S. exports to China have quadrupled over the past decade. Including Hong Kong, those exports support an estimated 400,000 jobs in the United States that, on average, pay 13 to 16 percent more than non-export related jobs. We need to increase market access and ensure a level playing field for U.S. good and services, not provoke retaliation.

**The best way to address our trade problems with China is to continue to use our trade laws and negotiations to open China's market - not to revoke NTR.** The Administration secured strong actions from China protecting American intellectual property after threatening sanctions on $2 billion of Chinese imports and has imposed sanctions to enforce our bilateral textiles agreement. These actions produced improvements–revoking NTR status would likely provoke counter-retaliation. The Administration will continue to use targeted trade law provisions to protect U.S. trade interests.

**Revoking NTR would create risks for financial stability in the Asia region.** By undercutting reform elements within China, revocation of NTR would deal a blow to China's financial sector reform efforts and increase the likelihood of a crisis erupting in China's already-fragile financial sector. A financial crisis in China would be enormously destabilizing to the global economy and stability in the region.

**Revoking NTR status would harm Hong Kong.** Hong Kong's economic strength is one of its chief assets in ensuring its autonomy and viability. Hong Kong handles over 40 percent of U.S.-China trade, making it highly dependent on continued normal trade relations between the United States and China. Hong Kong authorities estimate that revoking China's NTR status would slash Hong Kong's trade by $20 to $30 billion with a resulting loss of 60,000-85,000 jobs. This would add to the current financial difficulties in Hong Kong. Hong Kong leaders across the political spectrum have spoken out strongly in favor of renewal of NTR status.

June 25, 1999

# CHINA AND THE WORLD TRADE ORGANIZATION

**The United States has a strong interest is seeing China join the WTO.** China's emergence as a trade power is of major significance to the U.S. and to the world. The manner in which we engage China will help determine whether it becomes integrated into international institutions like the WTO and accepts international norms, or becomes more isolated and unpredictable. More open trade with China could also provide China's neighbors with an engine of growth in the present financial crisis and in the future. China's commitments do not require the U.S. to make special concessions in return. As a result, U.S. tariffs and export control policies, as well as our antidumping laws will remain unchanged.

**China's commitments must be commercially meaningful.** All WTO members agree that China's accession to the WTO must provide commercially meaningful market access for goods and services. Lowered tariffs, the elimination of quotas and other market access barriers, the right to export directly, and access to consumers in a full range of sectors must be part of any viable accession package for China. Currently, China has no bound tariff rates, meaning that they can raise their rates whenever and as high as they want. In the WTO talks, China has agreed to bind its entire tariff schedule. Overall, China has made substantial commitments towards completing a strong accession package.

- It is comprehensive, covering a wide range of sectors and services; tariff and non-tariff measures; eliminating unfair trade practices, including forced technology transfers as a condition of investment, offsets, export performance, current-account balancing and local content requirements.

- It grants no special favors. China is required to reduce its trade barriers to levels comparable to those of major U.S. trading partners.

- It is fully enforceable. China's commitments are specific and will be enforceable through U.S. trade laws, WTO dispute settlement and other mechanisms.

- And its results will be rapid. On accession to the WTO, China will begin opening its markets immediately.

**Joining the WTO means that China will be part of the rules-based trading system.** WTO accession represents an important opportunity for China to create and implement a rules-based trade regime. China will be required to observe the main principles of the WTO, such as transparency, independent judicial review, uniform application of its rules, and submit to WTO dispute settlement to ensure compliance with WTO rules. All of these measures will enhance the rule of law and the application of international norms in China's trade regime, to the benefit of China and the U.S. Furthermore, the rule of law in the trade arena has spillover benefits, encouraging application of this principle in other areas.

**U.S. trade laws will still be available to protect against unfair imports and surges of**

**imports from China.** The U.S. will continue to use its non-market economy methodology in antidumping investigations of exports from China. In addition, when we apply our countervailing duty law to China, we will be able to more accurately determine the level of government support to its industries and take action.

**WTO accession will mean greater market access for a wide range of U.S. goods and services into one of the world's fastest growing economies.**

- The average tariff rate for agricultural products will decrease to 17 percent with even steeper tariff reductions on U.S. priority products to 14.5 percent. Sanitary and phytosanitary standards will be applied based on science and consistent with the WTO Agreement.

- Companies will have the freedom to import and export industrial goods directly and distribute products within China. The average tariff on industrial products will be reduced to 7.1 percent on U.S. priority items and all quotas are to be phased-out and eliminated. China will reduce its tariffs in U.S. priority areas such as autos, wood, paper, chemicals, fish, and distilled spirits. The semiconductor industry estimates that once market access barriers are eliminated, exports of U.S. semiconductor products will increase well in excess of $500 million per year.

- China has taken significant steps in liberalizing services, particularly telecommunications, insurance, architecture, engineering, legal, travel and tourism, computer and business services, environmental services, franchising and direct sales. Trade opportunities are also opening up in banking, audiovisual and securities. Eliminating licensing and other barriers to China's insurance sector would open a market estimated by industry to top $24 billion in premium income by the year 2000.

**China's WTO accession will advance broader interests beyond trade.** As a matter of strategy, WTO membership will contribute to peace and stability in the Pacific by linking China's economy more closely with the world's while advancing economic reform within China. These actions will lead to the strengthening of constituencies within China for stability beyond its borders.

**Revoking normal trade relations status would derail WTO negotiations to open China's market.** Negotiations are moving forward on a positive trajectory on fundamental WTO principles, such a the right of entities to engage directly in trade and appeal the decisions of government agencies to independent tribunals, and the right to fair and nondiscriminatory treatment of foreign businesses. Revoking normal trade relations status would likely stop any progress in WTO negotiations.

**Revoking normal trade relations status would jeopardize gains achieved in bilateral negotiations.** Bilateral negotiations have produced important advances in intellectual property rights enforcement and market access for textiles and apparel, as well as the elimination of market access barriers in other sectors, such as agriculture. Revoking normal trade relations status would remove an incentive for continuing implementation of current agreements and is too blunt a tool to induce China to enter into additional agreements.

Background

Last February, the Commerce Department initialed two tentative agreements limiting imports of steel mill products from the Russian Federation. One was an agreement suspending the ongoing antidumping investigation of Russian hot-rolled steel products, limiting these imports to pre-crisis levels. Another was a comprehensive agreement covering 16 other Russian steel products, limiting those imports to levels that avoid the type of surge that we saw last year. Under existing law, the Secretary of Commerce has discretion to suspend an antidumping investigation and conclude a suspension agreement in its place. However, authority to conclude a comprehensive agreement must be delegated by the President to the Secretary of Commerce. Final negotiations of these agreements are currently being held in Paris. The agreements must be signed no later than Monday, July 12. Secretary Daley must be granted a delegation of authority to conclude these negotiations by that deadline.

The agreements will eliminate unfair trade practices and avoid disruptive import surges, while providing Russian exporters the means to earn hard currency. Throughout the negotiation of these agreements, Commerce has worked closely with U.S. steel companies and the steelworkers union in an effort to obtain their input and keep them involved in the process. In fact, steel industry representatives have traveled to the site of the negotiations, where they have been consistently consulted. Both industry and union representatives are currently in Paris with Commerce negotiators.

We believe the U.S. steel industry and steelworkers' union will generally support the comprehensive agreement. We expect to receive letters indicating such support from representatives of the wire, bar and pipe industries at the time the final agreements are announced. However, we do expect opposition to the hot-rolled suspension agreement from certain segments of the steel industry, such as some of the integrated steel mills that produce hot-rolled steel. In their view, collecting dumping duties instead of signing a suspension agreement would have led to the total exclusion of Russian hot-rolled steel.

Although hot-rolled producers may voice concerns about the suspension agreement, the comprehensive agreement will enjoy widespread support and will cover a wider range of products. The 16 product types covered by the comprehensive agreement include many of the smaller product categories that would be most vulnerable to import surges absent the agreement. Some Members of Congress, particularly those who supported the quota bill, have said that there needs to be a global solution to restrict imports. Nonetheless, we anticipate that the comprehensive agreement in particular will be generally supported by the industry and by the United Steelworkers Union.

## CHINA – ECONOMIC REFORM

**China has made significant progress on market-oriented economic reforms, but still faces a large unfinished agenda, including state-owned enterprise and financial sector reform. Continuing normal trade relations advances these reforms.** Since economic reform efforts began in 1978, China has pursued a pragmatic, gradualist reform path -- freeing up prices, permitting farms and factories to make their own production decisions, starting to open up foreign trade -- harnessing the efficiency of markets to achieve high levels of economic growth. Much more needs to be done, including opening China's markets to foreign goods and services, but continued economic engagement with China advances economic reforms, and our strategy of engagement is built upon NTR.

**Progressive opening to foreign trade and investment has been an important outcome of the reform process, and also a catalyst spurring other aspects of reform.** In 1996 and 1997, China cut many (though not all) tariffs sharply, reducing its simple average tariff from 42% to 17%. Opening to foreign trade, particularly to imports, has reinforced other reforms as it increases competition, efficiency and the spread of world-class business practices.

**China is taking steps to increase the role of market forces in its agricultural economy.** The Government of the Peoples Republic of China is rationalizing procurement policies for bulk commodities by cutting procurement prices for cotton and corn, where high procurement prices have spurred excess production and incurred high government cost. Recent announcements indicate that support programs for other grains, especially early rice and spring wheat, will also be rationalized.

**Taking lessons from the Asian financial crisis, China has made financial sector reform a priority, but the complex reform process has just begun.**

- Banks have been instructed to begin lending only on commercial grounds and to adopt western-style accounting and classification systems. A pilot Resolution Trust Corporation-type institution has been established at one bank to take bad debt off the books, and a partial recapitalization of the state banks was undertaken in 1998. The GOC has announced the partial decontrol of interest rates to allow banks to charge risk-adjusted rates to the non-state small enterprise sector. In addition, the People's Bank of China (the supervisory authority) has been reorganized into nine multi-province districts to insulate it better from local political pressures. The pace of progress has been uneven, however, with banks facing political pressure to increase lending, particularly for infrastructure projects, to help bolster growth.

- Trade liberalization, particularly if implemented through the discipline of WTO accession, has been identified by China's key financial policy makers as an important tool in securing reform of the financial sector. Commitments to open the financial sector to foreign participation would force domestic financial service providers to speed up internal restructuring and reform.

**The Chinese leadership has re-affirmed a commitment to resolve the problem of loss-making State Owned Enerprises (SOEs) by the end of 2000, but the potentially destabilizing impact of rising unemployment has kept SOE reform on a cautious path.** China's SOEs constitute a large financial burden: they absorb 86% of bank loans (while contributing less than 30% of industrial output); 40% of them are estimated to operate at a loss; their reported profits fell by 20% in 1998; and 1/3 of their output merely contributes to inventory accumulation. Progress toward China's goal of restructuring larger, more profitable SOEs while "letting go" of smaller, less profitable ones (tightening credit, leaving them to merge, otherwise restructure or liquidate) has stalled over Beijing's concerns about possible implications for unemployment. The employment outlet provided by a vibrant international trade sector creates political space for SOE reform to continue.

**Strong trade relations and further progress on market-oriented reforms are mutually reinforcing.** China's integration into the global economy strengthens reform elements within China's leadership and society. Similarly, progress on economic reform provides stable medium-term growth prospects and rising Chinese demand for imports. Strong growth of China's private sector, in particular, will increase demand for capital investment goods, which the United States exports.

June 25, 1999

## CHINA'S ROLE IN ASIA'S ECONOMIC RECOVERY

**At the height of the Asian financial crisis, China played a constructive role in preventing the situation from deteriorating further:**

*By playing an active role in the multilateral response to the crisis...*

- China has willingly and actively participated in key international fora (e.g. the Manila Framework, the G-22, and the spring 1999 seminars on international financial architecture) which are working to address problems identified in the crisis.

*By contributing to the affected countries...*

- China contributed directly to the international support package for Thailand. Thus far, it has disbursed $800 million of its $1 billion pledge.

- China also offered $300 million in "second line" assistance to Indonesia in July 1998, though this assistance has not been accessed.

- China contributed to the stability of the Hong Kong dollar by pledging its own reserves to the defense of Hong Kong's currency, if requested by Hong Kong authorities.

*By managing its own economic policies responsibly...*

- China pledged to maintain the value of its currency at a time when other currencies in the region were extremely vulnerable to any negative pressure. While the Chinese exchange rate policy is driven primarily by its own domestic interests, this pledge did help dissipate downward currency pressures in the region at a critical time.

- China has taken steps to bolster domestic demand (recognizing that it can't export its way to economic growth at this time), with positive consequences for the region.

**China is accelerating reform of its own financial sector to prevent a financial crisis of its own:**

- A financial crisis in China would be enormously destabilizing to the global economy and stability in the region.

**Engagement has been crucial:**

- U.S. engagement with China has facilitated these contributions. Revocation of normal trade status would endanger China's cooperation on international economic matters and China's participation in international economic fora.

- Revocation of NTR would also deal a blow to China's financial sector reform efforts by undercutting reform elements within China's leadership. This would increase the likelihood of a financial crisis erupting in China, which could reignite financial turmoil throughout the region.

June 24, 1999

# THE TRADE DEFICIT WITH CHINA

**Revoking China's normal trading status will hurt U.S. exporters - not close the trade deficit.**

- Building a wall of protection around the United States by revoking NTR could provoke Chinese retaliation that would put at risk the 400,000 high-paying American jobs supported by exports to China.
- China has been one of the fastest growing markets for U.S. exports. China is currently our fourth largest goods trading partner with more than $85 billion in total goods trade during 1998.
- China is a major customer for key U.S. products. In 1998, China purchased 32 percent of all U.S. fertilizer exports and 21 percent of U.S. steam boiler exports. China also purchased $3.6 billion of civilian aircraft.
- Since every other major trading partner extends normal trade status to China, revoking normal trade relations would give Japanese and European competitors a competitive edge in developing Chinese markets, jeopardizing billions of dollars in future U.S. exports.
- Even if China did not retaliate, revoking NTR would put at risk the huge volume of U.S. exports that are purchased by Chinese exporters as inputs - such as cotton and plastics – that are reexported to the U.S. as finished goods, and the many U.S. exports that depend on inexpensive parts imported from China - such as pumps and electric circuits.

**The rapid growth in imports from China has displaced imports from other developing countries - not U.S. domestic production. Some of the increase in the deficit with China represents the shifting sourcing to China of low-skilled labor-intensive consumer imports (e.g. toys, clothing, some consumer electronics) from other countries in Asia where wages have risen relative to China.**

- The U.S. goods deficit with China was $56.9 billion in 1998. It has increased from 19 percent of the overall U.S. goods trade deficit in 1991 to 24 percent in 1998. The deficit reflects China's specialization in inexpensive, mass market consumer goods. Low value-added goods such as toys, sporting goods, plastic tableware, apparel, footwear and low-end consumer electronics account for nearly 70 percent of U.S. imports from China. China runs bilateral surpluses with Japan and Europe for the same reason.

- As China's share of such U.S. imports has risen, that of other Asian countries has fallen. For example, between 1989 and 1998, the share of U.S. imports from China rose significantly and the share from other Asian countries (Hong Kong, Taiwan, Korea, and Japan in this example) fell sharply:
  - -- **Footwear** - China from 9% to 58% of U.S. imports; other Asia from 51% to 3%;
  - -- **Toys and Sporting Goods** - China from 22% to 59%; other Asia from 58% to 22%;
  - -- **Plastic Tableware** - China from 11% to 52%; other Asia from 61% to 21%.
- In 1999, because of the economic difficulties in Asia outside of China, the U.S. goods trade deficit will sharply increase with the rest of Asia, much more than with China itself.

**China has accounted for a roughly constant share of the United States' overall trade deficit since 1991.**

- As China grows, the deficit should narrow. As their incomes have risen, importers in other Asian markets have increasingly demanded high-quality U.S. products. As production has become more capital intensive, investors have imported more high quality U.S. capital equipment.
- Raising tariffs on Chinese imports is like squeezing a balloon: it would cause a surge in similar imports from other developing countries and a corresponding deterioration in our trade balances with them.

June 24, 1999