Case Number: 2010-1024-F

FOIA MARKER

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Folder Title:				
[China]-Zhu Rongji Visit, 1998/1999: [9902043] [2]				
Staff Office-Individual:				
Asian Affairs-Smith, Holly				
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30	3	6	2	V

Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. report	U.S. Government Reports. (13 pages)	03/26/1999	P1/b(1)
002. Draft	Memorandum for Samuel Berger from James Keith. Subject: Breifing Material for the President. Record ID: 9902043. (1 page)	04/02/1999	P1/b(1)
003. paper	State Department Background Breifing Papers. (9 pages)	03/22/1999	P1/b(1)
004. paper	Meeting with Chinese Premier Zhu Rongji. (9 pages)	03/23/1999	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Security Council
Asian Affairs (Holly Smith)
OA/Box Number: 2970

FOLDER TITLE:

[China] Zhu Rongji Visit 1998/1999: [9902043] [2]

2010-1024-F
vz1879

RESTRICTION CODES

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

P1 National Security Classified Information [(a)(1) of the PRA]
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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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S/S 9904975

United States Department of State

Washington, D.C. 20520

March 22, 1999

2043

UNCLASSIFIED

MEMORANDUM FOR GLYN DAVIES
EXECUTIVE SECRETARY
NATIONAL SECURITY COUNCIL

Subject: Briefing Material for the President for the Visit of Chinese Premier Zhu Rongji, April 8, 1999

Attached is briefing material prepared for the President for the April 8th visit of Chinese Premier Zhu Rongji.

Rose M. Likins for

Kristie A. Kenney
Executive Secretary

Attachments:

1. Background Papers: Nonproliferation
   Taiwan
   Human Rights
   Cox Committee Report
   North Korea
   TMD
   Environmental Issues
2. Press/Public Events: Statement for Arrival
   Toast
   Joint Press Conference
   Questions and Answers
3. Diskettes

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Building Blocks
STATEMENT FOR ARRIVAL CEREMONY

- Pleased to welcome Premier Zhu and Madame Lao back to the United States, particularly as we mark the twentieth anniversary of our relationship.

- Third major visit in two years.

- While each visit is significant in development of our relations, important that high-level exchanges are becoming more routine as we seek to build stronger and more cooperative ties.

- Visit significant not merely as a sign of ever-expanding ties, but because Premier and Vice President will be rolling up their sleeves together to tackle critical issues of environment and development.

- In addition, hope to discuss key bilateral issues: trade relations, human rights, and nonproliferation.

- Will continue our strategic dialogue on proliferation concerns on Korean peninsula and South Asia and other areas of the world where we share key national interests or where we play a critical role as permanent members of the Security Council.

- Clear to all that the path in our relationship has not been smooth. But have committed ourselves to facing obstacles and overcoming them rather than avoiding or being deterred by them.

- Will continue to have sharp differences and come across areas where our interests diverge. But important to maintain perspective that these do not diminish the significant benefits accrued to us through engagement.

- Know we will speak frankly to one another during your stay here. But may our frankness not cloud our judgement as we address issues critical to the future of both our nations in the 21st century.

- By the process of discussing the most contentious issues along with those on which we share a common view, further increase our mutual understanding and dissipate any lingering mistrust of each others' motives.

- Both the positive trends of global integration and multinational cooperation which draw states together and the common economic, political and environmental threats which know no borders, show the futility of a state trying either to isolate itself or to contain another.

- Look forward to our discussions over the next few days and to achieving the ambitious agenda we have set for the relationship.

Building Blocks
DINNER TOAST

- Tonight, sit at the table as heirs to twenty years' of growth, opening and plain hard work to end mutual isolation and place ourselves on a path toward constructive strategic partnership.

- Mr. Premier, raise glass to you tonight in absolute confidence that history will judge this course the correct one.

- Should look to the past to grant context to the present.

- Chinese leadership twenty years ago wisely concluded that China could not remain isolated from the world and prosper.

- With equal wisdom, U.S. realized it could neither isolate nor leave isolated China and achieve a secure and prosperous future for Americans and for the world.

- Visit here is a continuation of that vital task and yet another opportunity for us to work toward our mutual goals through substantive dialogue in an air of mutual respect.

- Finished a solid day of businesslike meetings covering range of bilateral and multilateral issues in our relationship.

- On many, have further solidified and refined coordination aimed at enhancing regional security and economic stability. Have laid groundwork for a better future for our children and the children of the world.

- On others, have once again outlined differences. But have done so in a frank and direct manner.

- Goal remains not to develop new areas of confrontation but to exchange ideas with the mutual conviction that comprehending each other is the first, vital step toward bridging the differences between us.

- When differences seem most sharp, important to recall old Chinese saying that, "Only through confronting differences do we become friends."

- Have mastered confronting differences. But tonight's dinner shows we have learned how to do so even as we become good friends.

Building Blocks

STATEMENT AT JOINT PRESS AVAILABILITY

- Have held a small meeting with the Premier and a larger cabinet meeting already this morning, and just finished a lunch at the State Department.
- Discussions ranged over the main issues in our bilateral relationship, including trade, human rights, the environment, nonproliferation and recent developments of concern.
- (insert topical reference to progress on deliverables)
- Also went over the key areas of concern in our strategic dialogue: proliferation in South Asia and on the Korean peninsula, and areas of concern to the UNSC.
- (insert topical reference to progress on deliverables)
- Premier raised issues of key concern to the Chinese side.
- Would be incorrect to say we reached agreement on the more contentious issues. But would be equally incorrect to downplay the value of the exchange.
- U.S. will not shrink from raising issues of concern. Each side comes to the table with its own interests.
- Made clear to Premier our grave concern over recent sentencings of peaceful political activists and other moves to restrain the development of public debate in China.
- Also expressed hope that progress on President Jiang's proposal for dialogue with the Dalai Lama could occur.
- Share a large number of interests as well. Coordination between us has led to real progress in controlling crises in South Asia and Korea.
- Pleased in particular that China and India have resumed dialogue to forthrightly address their concerns and seek ways to reduce the level of tension in the region.

- On the Korean peninsula, share an interest in preventing development and deployment of weapons of mass destruction and furthering dialogue in both the Four Party process and between South and North Korea.

Hard Qs&As

Q: Why engage?

A: Our policy of engagement is built on recognition that the relationship between the U.S. and China and the policies China pursues will help determine whether the next century will be one of peace, stability and prosperity for America. Engagement is not a favor to China; we use it to advance our interests.

Our pragmatic and principled approach has produced tangible results in important areas, including nonproliferation and human rights.

Q: China has denied charges of nuclear espionage. Did you and the Premier discuss this matter?

A: I conveyed our deep concern about reports of China's attempts to illegally acquire sensitive U.S. technology. I urged China to take the matter seriously, respect U.S. laws, and to cooperate fully with the ongoing investigation.

Q: Shouldn't the Administration rethink its China policy in light of reports of nuclear espionage?

A: We have no illusions about China. Like many other countries, China seeks to acquire sensitive information and technology for military uses by many means. It is therefore incumbent on us to ensure that proper export controls are in place.

We have very strict export controls toward China to protect classified information and prevent acquisition of sensitive technologies. We do not authorize any arms sales to China or exports of dual-use technology for military uses, and we even limit the export of dual-use technology to China for civilian uses to minimize the risk of diversion to military activities.

The alleged nuclear espionage is a very serious matter. This does not, however, change the fact that how we treat China will influence the decisions China makes and the kind of power China becomes. It is in our interest to continue the policy of engagement and to continue discussions with China on important issues like human rights, trade, and nonproliferation. With China, as with other countries, we must cooperate on issues of our national interest while protecting ourselves against intelligence threats.

Q: In view of Beijing's crackdown on dissidents, can you still say that engagement has produced results on human rights?

A: I am deeply disappointed about recent developments, and urge China to reverse recent negative decisions and release all persons detained for the peaceful expression of political views or religious beliefs.

That said, we must remember that there has been progress. After twenty years of economic reform and opening to the outside world, more Chinese in the PRC are freer than they have ever been to live their own lives. Now people have much greater freedom to travel, express private opinions, read and write books and articles, change residence, marry, seek work, and engage in leisure activities. Hundreds of new laws have been created and lawyers and judges trained during the reform era. There also has been widespread progress in enlarging the oversight functions of legislative bodies at national and local levels and in popularizing local elections.

Our engagement with China has reinforced this longer-term positive trend. This is progress and we should not dismiss it.

Q: Will the U.S. support a UNHRC resolution on China this year?

A: [Needs updating] The United Nations Commission on Human Rights in Geneva is an important multilateral mechanism for exchanging views with China and encouraging positive change. The Administration supports the Geneva process, and is participating vigorously in this year's Commission activities.

Last year, our Government did not sponsor a resolution on China because of positive steps China had taken and in expectation of further positive steps. We made clear that we were keeping our options open for the future.

Q: Did Premier Zhu discuss China's concerns about TMD?

A: We discussed the issue and I believe have a better understanding of each other's position.

I suggested to the Premier that China should focus on what gives rise to interest in TMD instead of worrying about future decisions on technologies that do not exist yet.

With regard to the general proposition of U.S. arms sales to Taiwan, let me just say that the Administration remains firmly committed to fulfilling the provisions of the Taiwan Relations Act while observing the letter and spirit of the three U.S.-China joint communiques. We will continue to assist Taiwan in meeting its legitimate defense needs in accordance with this long-standing framework.

[If Pressed:]

High-altitude theater missile defense technologies are in the development stage. Decisions on whether Taiwan or others in the region need additional anti-missile capabilities will be made in the future, taking into account the development of such technologies and how best to promote peace and stability in the region.

Q: What are you doing to reduce the growing trade deficit with China?

A: We have stressed to the Chinese that the large trade deficits we are running with them reflect inequities in our economic relations. We believe that the best way to address the trade deficit is for China to open its markets further.

We continue to work vigorously to remove the barriers that American companies face in trying to do business in China. [Needs updating depending on status of WTO talks]

Q: Did the USG cave to Chinese pressure for a "political" deal on WTO?

A: [Needs updating] This is not [will not be] a "political deal." This is [will be] an agreement that grants U.S. companies significantly improved access to the Chinese market.

Q: Does the WTO deal mean permanent NTR?

A: Permanent NTR would require legislation. In the context of a commercially meaningful WTO package I intend to pursue vigorously an effort to persuade the Congress to grant Permanent NTR to China.

Q: Do you agree with the recommendations of the Cox Committee?

A: We agree with the Committee on the need to maintain effective measures to prevent the diversion of U.S. technology and prevent unauthorized disclosure of sensitive military information.

We also agree with the Committee that we should support U.S. competitiveness in high-tech consistent with national security.

Although the Committee's mandate was limited to China, the same need to maintain effective export controls applies to U.S. exports worldwide.

Q: Why doesn't the U.S. support the right of national self-determination for Tibet? Are you disappointed that President Jiang has failed to follow through on his overture to the Dalai Lama last June at the Beijing Summit?

A: The United States supports the preservation of Tibet's unique religious, linguistic, and cultural heritage, a position we have conveyed repeatedly and authoritatively to the Chinese government.

It has also been the position of the United States for over 50 years that Tibet is a part of China, and neither we nor any other government in the world recognizes Tibet as an independent country.

We are disappointed that China appears to have shut off once-promising avenues of dialogue with the Dalai Lama. Clearly, the best means of advancing the situation in Tibet is through direct dialogue between the Chinese government and the Dalai Lama. That is what we would like to see and that is what we have told the Chinese government.

Q: Does China's commitment to study the Missile Technology Control Regime (MTCR) mean anything? Isn't China continuing to proliferate weapons of mass destruction (WMD)? Why didn't China take a step on MTCR for Zhu's visit?

A: The U.S. has had concerns about China's policies on nonproliferation, and we and the Chinese have worked hard to address those concerns. Our efforts have produced significant results: no assistance to unsafeguarded nuclear facilities anywhere, phasing out of all nuclear cooperation with Iran; strengthening of nuclear and chemical export controls; cooperation in dealing with proliferation challenges in North Korea and South Asia; and commitment to study the MTCR.

We have had productive and detailed experts-level discussions with China on issues related to the MTCR. We welcome and encourage China's interest.

Although we have no timetable for this process, we hope China will meet the membership requirements and join MTCR expeditiously.

Q: Much has happened in U.S.-China relations since 1989. Does the Administration plan to ease Tiananmen sanctions?

A: There are specific provisions under which sanctions can be waived in the national interest. Any future decision regarding a waiver of these sanctions would be related to a number of considerations, including our concern to advance human rights in China.

Q: Doesn't the improvement in relations between the United States and China necessarily mean a reduction in ties between the United States and Taiwan?

A: For over 25 years and through six Administrations, it has been the policy of the United States government that there is one China, and that the dispute between Beijing and Taipei must be resolved peacefully.

Consistent with our "one China" policy, we maintain strong and robust unofficial relations with Taiwan. These relations have not, and will not, suffer as a result of improvements in U.S.-PRC relations.

Better U.S.-China relations strengthen peace and stability in East Asia, and in that sense benefit the region as a whole, including Taiwan.

We are encouraged by the revival of cross-Strait contacts and discussions over the past year and support further development of that dialogue.

Q: The U.S. Government recently decided to disapprove Hughes Electronics' requests to sell a commercial communications satellite system to the Asia-Pacific Mobile Telecommunications. Does this indicate a change in our policy on satellite exports to China?

A: The USG decided that the specific export license would be inconsistent with the foreign policy and national security interests of the United States.

We have not changed our overall policy regarding support for appropriate satellite exports to China or for satellites to be launched on Chinese launch vehicles. The U.S. intends to authorize launches of U.S. satellites from China in the future. We will continue to review such export requests on a case-by-case basis.

Allowing the launch of commercial satellites from China is in the interest of both our countries, provided the appropriate safeguards are in place.

9905003

United States Department of State

Washington, D.C. 20520

March 23, 1999

~~SECRET/NODIS~~
UNCLASSIFIED When Separated From Attachment

MEMORANDUM FOR GLYN T. DAVIES
EXECUTIVE SECRETARY
NATIONAL SECURITY COUNCIL

SUBJECT: Briefing Material for the President for the Visit of Chinese Premier Zhu Rongji, April 8, 1999

Attached is the briefing memorandum prepared for the President for the April 8 visit of Chinese Premier Zhu Rongji.

Gregory L. Berry for
Kristie A. Kenney
Executive Secretary

Attachments: 1. Briefing Memorandum
2. Diskette

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The State of China's Economy

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

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

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

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

China: Financial Sector Reform

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

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

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

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

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

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3-19 - please 5/28/98

to: Glyn Davies

room: date: 3/19/99

Department of the Treasury

Executive Secretary

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

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