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WHORM Category Code:	**CO034-02**
WHORM Category Name:	**China, People's Republic of (Red China)**

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

April 5, 1990

Not necessary
Done verbally
BS

Natl Sec Advisor has seen

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: TIMOTHY E. DEAL

FROM: MEG LUNDSAGER ML

SUBJECT: Letter to Secretary Brady on G-7 Consensus on World Bank Lending to China

Attached at Tab A is a letter for your signature to Secretary Brady, asking him to raise World Bank lending to China at his G-7 Ministerial meeting this Saturday. Indications are that several G-7 countries are wavering in their commitment to limit World Bank lending solely to basic human needs (BHN). Secretary Brady's meeting presents an excellent opportunity to renew that G-7 consensus.

We should send this letter to Secretary Brady by noon Thursday. He is leaving later that afternoon for Paris.

Concurrence by: Doug Paal

RECOMMENDATION

That you sign the letter to Secretary Brady at Tab A.

Attachment
Tab A Letter to Secretary Brady

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DECLASSIFIED
PER E.O. 12958,
AS AMENDED
2000-1204-F
03/22/2010 MM

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THE WHITE HOUSE

WASHINGTON

Dear Nick:

As you know, the G-7 countries have been successful to date in limiting World Bank lending to China to loans which address basic human needs (BHN). That consensus may now be wavering, and I would like to ask that you raise this issue at your Ministerial meeting on Saturday, in order to reaffirm G-7 unity on this important issue. (~~C~~)

My fear that we may be losing that consensus stems from several recent developments. World Bank President Conable has told the press and Hill staffers that the Bank will soon resume normal lending to China. A senior Chinese finance official told State Department officials that Conable down-played the importance of BHN criteria for China during a recent meeting in Washington. Also, the EC Ambassador to Beijing told U.S. officials that EC attitudes on Chinese sanctions are softening. He expected Italy to push for economic normalization with China when it assumes the EC Presidency in July. (~~C~~)

In addition, a UK foreign affairs official told the State Department that the UK was also interested in "getting back to business with China" because of Hong Kong concerns. Finally, World Bank Senior Vice President Qureshi is now in China and meeting with the top Chinese leadership. The Chinese can be expected to try to impress Qureshi with glowing reports of their economic achievements and strong statements about China's commitment to policy reform, despite recent indications that the Chinese are exercising even more control over economic activity. (~~C~~)

For reasons with which you are very familiar, I believe we should maintain our G-7 consensus on limiting Bank lending strictly to BHN loans. World Bank lending is presently our most important leverage for prodding China towards political and economic reforms. As you know, if we lose just one G-7 member, we lose our 51% vote needed to block non-BHN loans at the Bank. And as House Foreign Operations Subcommittee Chairman David Obey said to you, Congress would find it impossible to go forward with International Development Association (IDA) funding if the World Bank group resumes normal lending to China. (~~C~~)

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2009-1152-MR
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Nick, I know you share all these concerns. I hope that this weekend you will be able to reaffirm the G-7 commitment to our strategy for pursuing political and economic reform in China. (~~C~~)

Sincerely,

Brent Scowcroft

The Honorable Nicholas F. Brady
Secretary of the Treasury
Washington, D.C. 20220

National Security Council
The White House

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Bob Gates	2	8	
Brent Scowcroft	3		
Bill Sittmann		APNSA Has Seen	
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COMMENTS BS Ltr to Sec Brady — G-7 - China

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FROM: LUNDSAGER
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DOC DATE: 05 APR 90
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KEYWORDS: ECONOMICS CHINA P R

PERSONS: BRADY, N

SUBJECT: LTR TO SEC BRADY ON G-7 CONCENSUS ON WORLD BANK LENDING TO CHINA

ACTION: SCOWCROFT DISAPPROVED RECOM DUE DATE: 07 APR 90 STATUS: C

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