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Withdrawal/Redaction Sheet
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Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01a. Memo	From J. Stapleton Roy to Brent Scowcroft & Emily Walker Re: [World Bank lending to China] (2 pp.)	04/05/90	~~(b)(1), P-5~~	~~C~~
01b. Talking Points	Suggested Talking Points - World Bank Lending to China [SENT FOR AGENCY REFERRAL] (2 pp.)	04/90	~~(b)(1)~~	~~C~~

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United States Department of State

Washington, D.C. 20520 #2651

S/S 9007524

April 5, 1990 /35107

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MEMORANDUM FOR: MR. BRENT SCOWCROFT
National Security Affairs Advisor
The White House

MS. EMILY WALKER
Executive Secretary
Department of Treasury

SUBJECT: Need to Reaffirm Consensus on World Bank Lending to China at G-7 Finance Ministers' Meeting on April 7

Recent developments point to increasing difficulty in maintaining the G-7 consensus on a gradual resumption of World Bank loans to China that address basic human needs (BHN). We believe that we should use the opportunity of the G-7 finance ministers' meeting on April 7 to seek a high-level reaffirmation of the consensus. Our suggested talking points for use with G-7 ministers are attached.

The US and other G-7 countries agreed at the Paris Summit last July to suspend examination of new World Bank loans to China. The G-7 modified its position in January to permit a gradual resumption of basic-human-needs (BHN) loans. Since January, the Bank's Executive Board, with G-7 approval, has approved three credits for China totalling $140 million.

Pressure is building, however, to resume normal lending to China.

- A US demarche in G-7 capitals was necessary to insure a G-7 consensus to oppose a non-BHN transport credit for Jiangsu Province that had been scheduled for Executive Board review on March 20. Only after it became clear that the G-7 would vote against the loan did World Bank management remove it from the agenda.

- 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 said Conable down-played the importance of BHN criteria for China during a recent meeting in Washington.

- The EC Ambassador to Beijing told us that EC attitudes on sanctions were softening. He expected Italy to push for economic normalization with China when it assumes the EC Presidency. UK Foreign Affairs Advisor Craddock told A/S Solomon that the UK was also interested in "getting back to business with China" because of Hong Kong concerns.

o The Chinese Government has invited World Bank Senior Vice President Qureshi to visit China March 30 - April 8. His program is expected to include meetings with China's top leadership, including Jiang Zemin and Li Peng. We believe the Chinese will attempt to woo Qureshi with glowing reports of Chinese economic achievements as well as rosy statements about China's commitment to policy reform.

Against this backdrop, we face a serious need to maintain the G-7 consensus on BHN-only lending to China.

o World Bank lending is now our most important leverage for prodding China towards political and economic reform. Should the PRC succeed in breaking the G-7 consensus, hardliners headed by Premier Li Peng would claim success in their strategy of "waiting us out." We have told the Chinese at high levels that we would support the full resumption of Bank lending only if they take steps to move in the right direction in economic reform and human rights.

o G-7 countries control only 51 percent of the Bank voting stock. The loss of even one G-7 country from the consensus would result in our inability to block non-BHN loans for China.

o House Foreign Operations Subcommittee Chairman David Obey recently warned that, if the Bank resumed normal lending to China, Congress would "find it impossible" to go forward with World Bank funding. The US share of World Bank stock is now 15.5 percent. Without this funding, that share could drop, in which case the US would lose its veto power over the Bank charter.

J. Stapleton Roy

J. Stapleton Roy
Executive Secretary

Attachment:

Suggested Talking Points for Secretary Brady

SUGGESTED TALKING POINTS

WORLD BANK LENDING TO CHINA

- o At the Paris Summit last July, we all agreed to suspend examination of new World Bank loans to China both to impress upon the Chinese leadership our outrage at the Tiananmen Square massacre and subsequent repression, and to underscore our concerns over the deterioration in market-oriented economic policies. We reaffirmed this consensus in January with the modification that we would permit a gradual resumption of basic-human-needs loans.

- o Our leaders will be meeting soon in Houston to discuss a wide range of important international issues. China will undoubtedly be on the agenda. Our governments will have an opportunity to reassess developments in China and the World Bank again at that time. Until then, we believe that the current consensus on World Bank lending to China should continue.

- o We hope, therefore, that you will provide clear instructions to your government's executive directors at the World Bank on the importance of a gradual resumption of lending and limiting loans to China to those that address basic human needs. We think a pace of one loan every four to six weeks is appropriate. You should also urge your executive directors to consult closely with those of other G-7 countries to determine which credits meet BHN criteria. The G-7 should inform Bank management jointly of which loans or credits are acceptable.

- o Western solidarity on China--and particularly on the question of multilateral development bank lending--has sent a powerful message. We believe that these joint efforts have forced China's leaders to consider carefully the implications of their internal policies for their external relations.

- o World Bank management is continuing to pressure the G-7 to abandon the current consensus on basic-human-needs loans and to resume normal, unrestricted lending to China. We think this is premature for both economic and political reasons.

- o Over the past several months, China's economic policies have become even more statist in character. Government administrative controls over imports and exports have expanded. Price reform remains on hold. Pressures on private enterprise are increasing. And China's leaders are stressing more than ever the socialist nature of China's economy and ignoring previous goals of market-oriented reform. An increase in World Bank lending at this point would reinforce the negative direction in economic policy and undercut those in China--and we believe there are many--who want to continue economic reform.

- We also need to consider the political impact of relaxing the consensus on World Bank lending. In December and January, China took several limited steps to address our concerns about human rights, including the lifting of martial law and the announcement of the release of 573 political prisoners, who were never precisely identified. Fundamentally, the human rights situation in China has not changed since the Paris Summit last year. The climate of repression is continuing. China's leaders show no signs of relenting and seeking a genuine reconciliation.

- The U.S. does not want to isolate China from the West. But we don't believe the time is right to resume business as usual--either in the multilateral development banks or our bilateral relations.

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RECEIVED: 05 APR 90 11

TO: SCOWCROFT
WALKER, E

FROM: ROY, J

DOC DATE: 05 APR 90
SOURCE REF: 9007524

KEYWORDS: IMF CHINA P R

PERSONS:

SUBJECT: NEED TO REAFFIRM CONCENSUS ON WORLD BANK LENDING TO CHINA AT G-7 FINANCE MINISTERS MTG / APR 7

ACTION: PREPARE MEMO FOR SCOWCROFT DUE DATE: 09 APR 90 STATUS: S

STAFF OFFICER: DEAL LOGREF: 9000736 9002611

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ACTION DATA SUMMARY REPORT

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001		X	90040610	OBE PER DEAL

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