

RESTRICTED
FM WASHINGTON
TO IMMEDIATE FCO
TELNO 1717
OF 212351Z JUNE 89
INFO IMMEDIATE PEKING, HONG KONG
INFO PRIORITY TOKYO, MOSCOW

OUR TELNO 1654 : US/CHINA
SUMMARY

1. PRESIDENT BUSH ANNOUNCES SUSPENSION OF ALL HIGH LEVEL OFFICIAL EXCHANGES, AND CALLS FOR POSTPONEMENT OF NEW WORLD BANK LOANS TO CHINA. BAKER DEPLORES CHINESE FAILURE TO HEED FORMAL US APPEAL FOR CLEMENCY OF THOSE SENTENCED TO DEATH, BUT INDICATES THAT ADMINISTRATION ARE NOT CONSIDERING ADDITIONAL ACTION AT THIS TIME.

DETAIL

2. THE WHITE HOUSE ANNOUNCED LATE ON 20 JUNE THAT THE PRESIDENT HAD DIRECTED THAT THE US GOVERNMENT QUOTE SUSPEND PARTICIPATION IN ALL HIGH LEVEL EXCHANGES OF GOVERNMENT OFFICIALS UNQUOTE WITH CHINA IN ADDITION TO THE SUSPENSION OF MILITARY EXCHANGES PREVIOUSLY ANNOUNCED. THE STATEMENT ADDED THAT IN ADDITION THE US WOULD QUOTE SEEK TO POSTPONE CONSIDERATION OF NEW INTERNATIONAL FINANCIAL INSTITUTION LOANS TO CHINA UNQUOTE AND MADE CLEAR THAT THESE STEPS WERE TAKEN IN RESPONSE QUOTE TO THE WAVE OF VIOLENCE AND REPRISALS BY THE CHINESE AUTHORITIES AGAINST THOSE WHO HAVE CALLED FOR DEMOCRACY UNQUOTE.

3. THIS WHITE HOUSE STATEMENT FOLLOWED A STATEMENT BY BAKER IN THE COURSE OF A HEARING IN FRONT OF THE SENATE FOREIGN RELATIONS COMMITTEE EARLIER IN THE DAY THAT HE HAD RECOMMENDED TO THE PRESIDENT THE SUSPENSION OF ALL CONTACTS AT ASSISTANT SECRETARY LEVEL OR ABOVE WITH THE CHINESE AND POSTPONEMENT OF CONSIDERATION OF LOAN APPLICATIONS QUOTE AT LEAST FOR THE TIME BEING WHILE WE CONTINUE TO REVIEW, AS THE PRESIDENT HAS SAID WE WOULD DO, THE FURTHER ASPECTS OF OUR POLICY IN THE LIGHT OF UNFOLDING EVENTS UNQUOTE. BAKER ADDED THAT A FIRST CONSEQUENCE OF SUSPENDING CONTACTS WOULD BE THE POSTPONEMENT OF COMMERCE SECRETARY MOSBACHER'S JULY VISIT TO PEKING.

4. BAKER'S UNUSUAL STEP OF DISCLOSING HIS RECOMMENDATION TO THE PRESIDENT AND THE WHITE HOUSE'S PROMPT ANNOUNCEMENT THAT HIS RECOMMENDATION HAD BEEN ACCEPTED OVERSHADOWED A STATEMENT BY PRESIDENT BUSH EARLIER IN THE DAY CALLING IN SOLEMN TERMS FOR CLEMENCY FOR THOSE SENTENCED TO DEATH IN SHANGHAI. THE WHITE

HOUSE MADE CLEAR THAT THE CHINESE AMBASSADOR HERE HAD BEEN SUMMONED ON 19 JUNE TO HEAR THE URGENT US APPEAL FOR CLEMENCY AND ADDED QUOTE THE UNITED STATES RAISED THIS SUBJECT IN THE SPIRIT OF A COUNTRY THAT HAS WORKED WITH CHINA OVER THE PAST TWO DECADES TO IMPROVE RELATIONS. BUT WE BELIEVE THAT HUMAN RIGHTS ARE UNIVERSAL AND OUR DUTY TO COMMENT ON THEM IS GREAT UNQUOTE.

5. IN A FIRST ADMINISTRATION COMMENT ON THE NEWS THAT THE EXECUTIONS HAD NEVERTHELESS TAKEN PLACE, BAKER SAID IN THE COURSE OF A JOINT PRESS CONFERENCE HERE WITH GENSCHER ON 21 JUNE THAT THE US DEEPLY REGRETTED THE FACT OF THE EXECUTIONS, NOTWITHSTANDING APPEALS FOR CLEMENCY FROM THE US, FRG AND OTHER COUNTRIES. HE ADDED QUOTE THE US ARE NOT CONTEMPLATING ANY ADDITIONAL ACTION AT THIS TIME THERE IS AN IMPORTANT RELATIONSHIP HERE, WHICH ONE SHOULD SEEK TO PRESERVE IF WE POSSIBLY CAN UNQUOTE.

COMMENT

6. CONTACTS IN THE CHINA TASK FORCE IN STATE DID NOT KNOW IN ADVANCE THAT BAKER WOULD REVEAL ON THE HILL THAT HE HAD RECOMMENDED FURTHER MEASURES TO THE PRESIDENT. THEY BELIEVE THAT HE TOOK A VERY LATE DECISION TO DO SO IN AN EFFORT TO PREEMPT FURTHER CONGRESSIONAL CRITICISM OF THE LIMITED NATURE OF THE ADMINISTRATION'S INITIAL RESPONSE. IN FACT THE ADDITIONAL MEASURES ANNOUNCED ON 20 JUNE ARE ALSO MODEST : THE SUSPENSION OF HIGH LEVEL EXCHANGES DOES NO MORE THAN BRING THE US INTO LINE WITH OUR POSITION ANNOUNCED ON 6 JUNE, AND IN PRACTICE THE US HAVE BEEN CALLING FOR SOME TIME FOR THE POSTPONEMENT OF WORLD BANK LOANS. THE EXECUTIONS IN SHANGHAI SEEM CERTAIN TO FUEL CONGRESSIONAL PRESSURE FOR THE ADMINISTRATION TO GO FURTHER. CHINESE ELIGIBILITY FOR MFN STATUS IS LIKELY TO BE ONE TARGET.

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R. Thirion (2)

PRESIDENTIAL DIRECTIVE TO POSTPONE
CONSIDERATION OF IFI LENDING TO CHINA

*Also we've
American proposals
announced
yesterday,*

TALKING POINTS:

-- THE WORLD BANK AND ASIAN DEVELOPMENT BANK (ADB) HAVE POSTPONED CONSIDERATION OF LOANS TO CHINA. WE ARE NOW SEEKING YOUR SUPPORT FOR AN INDEFINITE POSTPONEMENT OF WORLD BANK AND ADB LENDING TO THE PRC. USDOLS 885 MILLION IN LOANS FROM THESE TWO INSTITUTIONS WOULD IMMEDIATELY BE AFFECTED BY THIS DECISION.

CIA.

-- THE USG BELIEVES THAT IFI LENDING TO THE PRC SHOULD BE SUSPENDED UNTIL ITS ECONOMIC POLICIES AND PROSPECTS HAVE CLARIFIED, THE ASSUMPTIONS UNDERLYING IFI INVESTMENT DECISIONS ARE DETERMINED TO BE REASONABLE, AND ITS CREDITWORTHINESS FOR IFI LOANS IS ASSURED.

no

-- THE PRESENT LEVEL OF DOMESTIC TURMOIL THREATENS THE SUCCESSFUL IMPLEMENTATION OF IFI PROJECTS AND RAISES FUNDAMENTAL QUESTIONS ABOUT CHINA'S CREDITWORTHINESS. UNCERTAINTIES ARE GROWING REGARDING THE IMPACT OF RECENT EVENTS ON CHINESE INVESTMENT AND TRADE FLOWS, TOURISM RECEIPTS, AND ACCESS TO FOREIGN EXCHANGE. MOREOVER, IT IS UNCLEAR WHETHER CHINA REMAINS COMMITTED IN PRACTICE TO ITS ECONOMIC REFORM PROGRAM. THIS UNCERTAINTY ARGUES FOR FURTHER DELAY WHILE THE IFIS REASSESS THEIR INVESTMENT PROGRAMS. WE CANNOT SUPPORT IFI LENDING IN THE CURRENT CIRCUMSTANCES.

-- THIS UNCERTAIN ECONOMIC ENVIRONMENT FOR IFI LENDING IS EXACERBATED BY THE WAVE OF VIOLENCE DIRECTED BY THE CHINESE GOVERNMENT AGAINST THE CHINESE PEOPLE. AS DEMONSTRATED BY THE RECENT EXECUTIONS, THE VIOLENCE CONTINUES.

-- WE URGE YOUR GOVERNMENT TO JOIN US IN CALLING ON THE MANagements OF THE WORLD BANK AND THE ASIAN DEVELOPMENT BANK TO POSTPONE CONSIDERATION OF FURTHER LOANS TO THE PRC INDEFINITELY. TIMING IS CRITICAL AS THE WORLD BANK BOARD MAY CONSIDER THESE ISSUES AS EARLY AS FRIDAY, JUNE 23.

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STATEMENT BY WHITE HOUSE PRESS SECRETARY

THE PRESIDENT TODAY DIRECTED THAT THE UNITED STATES GOVERNMENT SUSPEND PARTICIPATION IN ALL HIGH-LEVEL EXCHANGES OF GOVERNMENT OFFICIALS WITH THE PEOPLE'S REPUBLIC OF CHINA, IN ADDITION TO THE SUSPENSION OF MILITARY EXCHANGES PREVIOUSLY ANNOUNCED. THIS ACTION IS BEING TAKEN IN RESPONSE TO THE WAVE OF VIOLENCE AND REPRISALS BY THE CHINESE AUTHORITIES AGAINST THOSE WHO HAVE CALLED FOR DEMOCRACY. THE U.S. HAS SUPPORTED THE LEGITIMATE DEMOCRATIC ASPIRATIONS FOR FREEDOM OF PEOPLES THROUGHOUT THE WORLD. THE U.S. WILL CONTINUE TO VOICE ITS CONCERN AND ITS SUPPORT FOR THESE ASPIRATIONS.

THE U.S. HOPES THAT THE CURRENT TRAGEDY IN CHINA WILL BE BROUGHT TO A PEACEFUL END AND THAT DIALOGUE WILL REPLACE THE ATMOSPHERE OF SUSPICION AND REPRISAL. CHINA IS AN IMPORTANT STATE WITH WHICH WE HOPE TO CONTINUE PRODUCTIVE RELATIONS.

IN ADDITION TO THE BAN ON EXCHANGES, THE U.S. WILL SEEK TO POSTPONE CONSIDERATION OF NEW INTERNATIONAL FINANCIAL INSTITUTIONS' LOANS TO CHINA. THE SITUATION IN CHINA IS OF INTERNATIONAL CONCERN AS WITNESSED BY THE VARIETY OF VOICES THAT HAVE SPOKEN UP ON THE ISSUE. WE URGE CONTINUED INTERNATIONAL EXPRESSIONS OF CONCERN.

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