

FROM: H G WALSH (IF1)  
 DATE: 23 June 1989  
 EXT: 4680

CHANCELLOR

cc: Economic Secretary  
 Mr Wicks  
 Mr Evans  
 Mr Mountfield  
 Mr Bottrill  
 Mr Tarkowski

*Ch/Content with FCO line  
 contained in draft telegram?*

*OK - 215*

**WORLD BANK: CHINA LOANS**

The World Bank, having delayed them for some time pending an assessment of the situation, has now scheduled three loans to China for discussion by the Executive Board next week. The assessment of the World Bank staff is that there are no technical obstacles to the loans and there is no doubt, in normal circumstances, that we would vote in favour of them. But clearly present circumstances are not normal. The Americans have sought our support for delaying the loans indefinitely, and have circulated the attached talking points.

2. Our objective is to stay in line with the rest of G7 and also not to compromise our line that loans at the World Bank are decided on technical and economic criteria and not on political ones. Certainly we have voted in favour of loans to Chile and Argentina on this basis in the past, despite being opposed to the policies of those countries affecting human rights. Moreover their own peculiar version of due process of law has apparently been observed in China, but the same cannot be said for Chile and Argentina. The best course on the China loans seems to be to support the US approach on purely technical grounds, although the latter are rather thin. Any possible Hong Kong implications are for the FCO to assess.

3. Mr Cassell's telegram 190 (attached) asks for advice on our likely voting intentions so he can put these to Conable on Monday in the hope that this will provide Conable with ammunition to go to the Chinese to get them to agree to a further delay in the loans coming to the Executive Board.

WALSH  
 TO  
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4. The line that the FCO propose to take (ODA have responsibility for the World Bank) is contained in the draft telegram attached to the draft Private Secretary letter from the FCO to No 10. It is that we are likely to oppose the loans until we are sure that the economic and technical conditions are right. We have been consulted about this and agree that it preserves to the extent possible our line that we vote in the World Bank Board on technical issues only. We therefore recommend that you agree to it. The Japanese, Germans, French and Italians will all likely be taking a similar line, according to the responses received from our Embassies. The ODA assure me that a similar line will be taken at the Asian Development Bank if it is approved.

5. Similar problems are going to arise on ECGD cover to China, (at the moment we are trying to avoid any public stance) and perhaps on Argentina if President Menem takes an aggressive approach in the Falklands.

6. If you agree with this approach for the China loans, perhaps Mr Allan could indicate by Monday morning that we agree with the line in the draft telegram to the Private Secretary at the FCO.

H. W.

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