

THE WHITE HOUSE
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MEMORANDUM OF CONVERSATION

SUBJECT: Nawaz Sharif, Prime Minister of Pakistan

PARTICIPANTS: U.S.
The President
Madeleine Albright
John Podesta
Samuel Berger
Strobe Talbott
James Steinberg
Leon Fuerth

Pakistan
Prime Minister Nawaz Sharif
Sartaj Aziz, Foreign Minister
Ishaq Dar, Finance Minister
Mushahid Hussain Syed, Minister of
Information and Media
Shamshad Ahmad, Foreign Secretary
Ambassador Riaz Khokhar
Tariq Fatemi, Foreign Secretary

Bruce Riedel, NSC Notetaker

DATE, TIME December 2, 1998, 1:30p.m. - 3:15p.m.
AND PLACE: Oval Office and Old Family Dining Room

[After Pool Sprays] (U)

Prime Minister Sharif: It's lovely weather here. Much nicer than I remember. (U)

The President: It's very unusual. It's a beautiful, clear, warm day. We survived press all right. You're the guest, you go first. I have 2 or 3 items to review here: nonproliferation, F-16s. We can discuss other issues elsewhere. We have a full agenda today. (S)

Prime Minister Sharif: Thank you for the invitation. You may be more popular in South Asia than at home. (Laughter) We value

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Reason: 1.5 (d)

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our ties with you tremendously. Congratulations on the congressional elections. I want to move forward from where we left off at UNGA. We are keen to work with you. We are ready to resolve CTBT issue and adhere to it before September 1999. We intend to do it. Strobe and Shamshad have worked this hard. He has my mandate to resolve this. On FMCT we have allowed talks to start. It is not possible to unilaterally or multilaterally accept a moratorium. As far as CTBT, there is a strong lobby opposing it including our press. We will move ahead. I announced as much in UNGA. On export controls we have never allowed any export. Pakistan has never done so. We will tighten legislation. The fourth issue is deployment restraints. I met with [Indian] Prime Minister Vajpayee. I want non-proliferation as you do. I told you last time that I am ready to drop my arsenal in the sea if India does so too. Kashmir is the root issue of the arms race in the subcontinent. If you can do something on this, it will be a tremendous service. UNGA passed a resolution 48 years ago on this. India refuses to implement this or change its position. You have shown leadership at Wye on Arab-Israeli issues. We support Wye. In the subcontinent, there are one billion people who need your personal role. If Kashmir is resolved all else will follow. We didn't want to test. India forced us. We spoke on the phone for 15 days. Now India may test again in the Pakharan range. Kindly take some interest in Kashmir. Support the June 6, 1998 UNSCR which mandated the world to address Kashmir and urged Kofi Annan to report on steps in Kashmir. The G-8 and P-5 also pressed for Kashmir. We suggest you press Kofi to provide specific reports on Kashmir and you should appoint a special envoy to travel to India and Pakistan to promote peace. The UNSCR gives you a legal instrument to deal with it. You asked me in NYC what you could do? This is it. (S)

The President: And India? (S)

Prime Minister Sharif: India wants no outside involvement in Kashmir but they also won't engage us meaningfully. They let the issue simmer. Something must be done. India should give us a serious answer to the UN's call for a plebiscite. Let us find a solution. This will solve all issues including the nuclear issue. India can't block peace for one billion people. (S)

The President: Let me respond. You know I would be eager to help but if I insert myself, India will have an excuse to not deal. We know their position on Kashmir -- they have it. If there is a credible alternative -- something creative and different -- we might engage. I will talk to my people about

this. On nonproliferation you said you will sign the CTBT. What about the multilateral moratorium on fissile material? (S)

Prime Minister Sharif: It is not possible. (S)

Mr. Talbott: We are asking for multilateral not unilateral. (S)

Mr. Ahmad: We will do so only when the treaty is signed. (S)

Mr. Talbott: That is years away. Our idea is to get all producers to agree to a moratorium -- China, India and you. (S)

The President: We also raised restraints on deployment if India agrees. (S)

Prime Minister Sharif: We are talking to India on this. We can reach agreement. (S)

The President: I will push India if I have your commitment. (S)

Prime Minister Sharif: We didn't start this. Sanctions should have been imposed on the one who started. (S)

The President: I knew the law would hurt you more and that is why I lifted some of the sanctions. We are very worried about exports of technology, especially to North Korea. I was just in the South. The North is a very dangerous, closed state. It is isolated and worrisome. India's rhetoric is dangerous but it is not isolated. North Korea is very unstable and wants a nuclear arsenal. Any transfers will be devastating to our relationship. Export controls is a huge issue for us. (S)

Prime Minister Sharif: Our record is impeccable. (S)

Mr. Talbott: We have conveyed very specific information on this. We can raise this again with your staff. (S)

Prime Minister Sharif: All right. (U)

The conventional imbalance creates incentive to go for nuclear for us. We want to purchase arms. We want F-16s. India is pressing Russia for a multibillion dollar arms deal. If you want us to reduce dependency on nuclear, we need help in conventional. (S)

The President: As you know, our laws preclude that. I have always wanted to help. We need movement on this. On the F-16s, I thought your lawsuit was good. It triggered a process at the Department of Justice. Justice can offer a settlement from a fund. They do so on the basis of a calculation of the odds of a settlement. The Department of Justice is ready to offer \$350 million in cash. That derives from an assessment of 70 percent risk of loss. We would still owe you \$151 million. We will explore other options to fill the gap. If you take \$350 million, I will do what I can to get the rest. The New Zealand offer is a chance. We hope you will consider it. This is the best I can do. I will do all I can to get the rest but I can't promise Congress will fund the rest. If you take this \$350 million offer, you have my word I'll do what I can. (S)

Prime Minister Sharif: This would be outside of court. If we win the case, we get all \$501 million. (S)

Mr. Berger: But the suit would take 2 or 3 years. Here you have \$350 million now. (S)

The President: The lawyers assess a 70 percent chance of Pakistan winning. You were right to sue. You may win but not now. You know I feel embarrassed by this. I have always said it was wrong. I told your predecessor that. A bird in hand is better than in a bush. You get \$350 million more. It's your decision entirely. I leave it in your hands. I want to be clear, I can't promise the difference but I will work on it. (S)

Mr. Aziz: The common man in Pakistan expects principal plus interest. (S)

The President: You can decide; you make a decision. (S)

Mr. Berger: Perhaps we can adjourn for lunch. (S)

The President: I believe you are right on this issue but this is all I can do now. As we make more progress, then the attitude on the Hill may change. I will try. (S)

Mrs. Albright: The President has made clear how warm we feel toward you, Mr. Prime Minister, and Pakistan. But only if we deal with the reality of non-proliferation can we move forward. (S)

The President: I worked the North Korea nuclear issue hard. We send them oil and food to stop nuclear development and missiles. Everything we have done will be destroyed if you cooperate on nuclear issues with North Korea. I know North Korea makes missiles. This can destroy our relationship. (S)

[The President and Prime Minister Sharif stay behind for a brief one-on-one discussion; others are escorted out. The one-on-one begins at 2:05 p.m. and ends at 2:25 p.m. The President provided the following readout.] (S)

ISRAEL:

-- The President raised Israel. Said we know Pakistan and Israel are communicating and urge a more public move on Pakistan's part. (S)

-- Prime Minister Sharif acknowledged there is a relationship. He showed the President a letter Sharif had received from Prime Minister Netanyahu which talked about areas of cooperation including vis-a-vis Iran. (S)

-- Sharif said to do more he needs help from Israel. Specifically Israel must visibly reduce its mil-mil ties with India before Pakistan can take action to have a public tie to Israel. (S)

UBL:

-- Taliban leader Mullah Omar recognizes that Usama bin Laden is a liability for the Taliban. Omar says he has never gotten money from bin Laden. But Omar says if he expels Usama bin Laden, he will have a popular uprising in the ranks of the Taliban who regard bin Laden as a hero. (S)

-- Omar would not stand in the way of a U.S./Saudi/Pakistan operation to get rid of bin Laden. (It was not clear what this means.) (S)

-- According to Pakistani information, Usama bin Laden is very sick and will live only a few more months. (S)

Proliferation:

-- Sharif admitted to having contacts with North Korea on nuclear issues. He said no decision had been made in Islamabad on this and no commitment was made to North Korea. (S)

-- The President reiterated this would have a devastating impact on U.S.-Pakistan ties. (S)

-- Sharif said he understood that but he is in a great financial bind. He told the President that Rafsanjani offered Pakistan billions in 1991 for a nuclear bomb but he refused. Now he needs help even more. Nuclear weapons are the only way Pakistan can balance India. In effect, Sharif said "I need to be bribed by someone." He pushed for help in the Paris Club. (S)

[Participants are escorted into the Old Family Dining Room where they are joined by the following additional participants: U.S. -- Secretary Rubin, Secretary Richardson, Gene Sperling, Ambassador Milam, Rick Inderfurth (Assistant Secretary of State for South Asia), and Jim Steinberg; Pakistan -- Anwar Zahid (Special Assistant to the Prime Minister, Shabaz Sharif (Prime Minister's brother) and Muhammad Saeed Mehdi (Principal Secretary to the Prime Minister). Lunch began at 2:25 p.m. and ended at 3:15 p.m.] (S)

The President: We're eating late again. (U)

Prime Minister Sharif: I was in Oslo yesterday. (U)

The President: It's a wonderful place. I visited there 29 years ago. I want to go to your part of the world. Hillary and Chelsea loved it. (U)

Prime Minister Sharif: We hope in March or April. (C)

The President: Is it good weather then? How long before the heat ends? (U)

Prime Minister Sharif: September. (U)

Mr. Shabaz Sharif: I hope you will visit Lahore to see my capital in Punjab. It is the heart of Pakistan. (U)

The President: What is the population? (U)

Mr. Shabaz Sharif: Five million in Lahore. Ten million in Karachi. (U)

The President: China has a dozen cities with over three million people plus over 1,000 villages. (U)

Mr. Aziz: We have a 70-30 ratio of rural to urban population.
(U)

The President: While we have lunch, would you brief us on your economy and how we can help. (U)

Prime Minister Sharif: I'll let my Commerce Minister discuss this. (U)

Mr. Dar: The economy was on a downward path when the Prime Minister came to power. The GNP was down. We started to turn things around when the Asian crisis and sanctions struck us. Multilateral loans were hurt. We had tough discussions with the IMF. We reached a tough agreement on 24 November. We faced an increase in petroleum prices. We were hoping for a quick response from the Paris Club. It is scheduled for 9 December which means no action until January. We have resolved the Independent Power Producers (IPP) problem entirely to all sides' satisfaction. What we need now is a Paris Club package. As I explained to Secretary Rubin, we need your help with the Paris Club. We need a reactivation of previous programs -- around \$600 million. We need a signal now. On the World Bank side, we also need some signals. We request you weigh in there as well. We are current with all other banks. The impact of sanctions has been a 3 percent fall in GDP with another 2 percent expected next year and 1% in 2000. That is a \$12 billion loss over 3 years. We want to focus on poverty too. We also qualify for the new emergency facility created after the South East Asia crisis. We are losing 1 percent from trade due to the crisis in South East Asia. We will see 3.1 percent drop in GDP. We need help. We also need a larger textile quota. In principle you have agreed to it but now we need to put it in practice. We would increase by \$750 million. We expected 5 percent growth, so a 3 percent decline is devastating. (C)

The President: And debt service? (U)

Mr. Dar: Almost 60 percent of budget. (C)

Mr. Rubin: After the Paris Club, what will be the debt service ratio? (C)

Mr. Dar: We want a moratorium for 3 years. We qualify. (C)

Mr. Rubin: We will be discussing this more. Mr. President.
(C)

The President: I'm very concerned about the Asian financial crisis. (U)

Mr. Rubin: How much has the Japan crisis hurt you? (U)

Mr. Dar: Very much. We got lots of aid from Japan which we lost due to sanctions. We lost much trade as well, but this was also due to the weakness of Japan's economy. (S)

The President: The condition of the Japanese economy is the single key to world economic health. We've tried to help. If you look at the size of their economy real economic health requires Japan to recover. It has been five years of no growth there. Now it is affecting us. The Boeing layoffs are a symbol of this. (S)

Prime Minister Sharif: We are looking to buy planes from Boeing. If we can't get F-16s we'll go for 747's. (laughter)
(S)

The President: Boeing will give you a good deal now. (S)

[There is more discussion on the need for global bank reforms.]
(U)

The President: I am concerned about investment flows. (U)

Prime Minister Sharif: Ambassador Richardson went to Afghanistan. I had hoped for some follow-up. I urge you to have some direct contact with Taliban. (S)

Mrs. Albright: We have very serious problems with them. Their treatment of women and others is very serious. Need follow-up on 6+2 to deal with the reality of a multi ethnic society. It is a great tragedy. (S)

Prime Minister Sharif: We suffer greatly from this tragedy. We have millions of refugees. There is drug trafficking. The presence of Taliban is a problem. They don't listen to logic. We and the Saudis have tried to get Usama bin Laden extradited. We tried very recently. The Saudis cut the ties first. We have to live next to them. We have conveyed our feelings clearly to Taliban. Iran also has a troubled tie to Taliban. Taliban, of course, claims Iran is working to help anti-Taliban. We face a serious threat here. You spent \$100 million on cruise missiles -- \$10 million in humanitarian aid would have done more. (S)

Mr. Berger: He spent less to blow-up our embassies. The single thing that could change our tie with Taliban and help U.S.-Pakistan ties would be for him to be turned over to justice either here or elsewhere. Cost is not the issue. This could do more than anything else. (S)

Prime Minister Sharif: My information, which I gave the President, is that the Taliban President sees Usama bin Laden as a liability. Taliban controls 90 percent of the country. Iran is desperately helping Masoud with arms, oil and wheat. It is a very ugly situation. We suffer. It blocks pipeline development from Central Asia. We are prepared to help you. (S)

Mr. Richardson: You helped to get my visit. You have enormous influence. They have not kept their word. Usama bin Laden is an enormous problem for them. They threatened me. (S)

Mrs. Albright: We may have to declare Taliban a terrorist organization for harboring him. Usama bin Laden has declared war on us. (S)

The President: Why does Taliban keep him? (S)

Prime Minister Sharif: Taliban fears a popular uprising against them. This is what the President of Afghanistan says. He told us and the Saudis. The Saudis asked them to expel him. They feel they will catch him anywhere else. (S)

Mr. Ahmad: If any evidence can be given to Taliban -- hard evidence -- they say they will deal with him. (S)

Prime Minister Sharif: I'm skeptical of this. They fear an uprising. Will making Taliban a terrorist organization help? We hear they are fed up with him. We don't see the point of this war in Afghanistan any more. I completely agree with you on this man. He killed many Muslims. What is his concept of a holy war? He brings a bad name to Islam. (S)

The President: It's very unfair. I'm glad I spoke on this at the UN -- on Islam. (U)

Prime Minister Sharif: We are totally with you on this. (U)

-- End of Conversation --