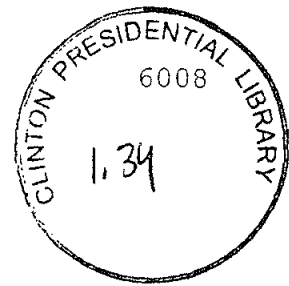


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THE WHITE HOUSE
WASHINGTON



MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telcon with British Prime Minister Tony Blair (U)

PARTICIPANTS: The President
Prime Minister Blair

Notetakers: Bonnie Glick, Joel Schrader,
Liz Rogers, Jenny McGee, Jim Smith and
Lawrence Butler

DATE, TIME August 27, 1998, 4:32 - 4:54 p.m. EDT
AND PLACE: Martha's Vineyard, Massachusetts

The President: Tony? (U)

Prime Minister Blair: Hi, Bill. (U)

The President: Hi. (U)

Prime Minister Blair: How are things? (U)

The President: Oh, fine. I just interrupted my vacation a little bit today. I went into Massachusetts and did an event. It was great. I got to work a line and speak to a cheering crowd. It wasn't something organized. It was just put together in two days. There were thousands. It was amazing. (U)

Prime Minister Blair: Good, I'm pleased. (U)

The President: This is my best state. You know, if I'd been in Wyoming, they probably would have been shooting at me. You never can tell. (U)

Prime Minister Blair: Good, I'm pleased about that. I'm sorry you had all this stuff with the hurricane, too. (U)

The President: That's all right. It could have been a hell of a lot worse. (U)

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Reason: 1.5(b,d)

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E.O. 13526, SECTION 5.3(b)(3)
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Prime Minister Blair: I'm really sorry to interrupt your holiday. (U)

The President: Go ahead. (U)

Prime Minister Blair: I just wanted to raise a couple of things. The first is Ireland. I know that my people have talked to your people today.

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The President:

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Prime Minister Blair:

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The President: I'll do it. When do you want me to call him?
Today, tomorrow, as quickly as I can? (C)

Prime Minister Blair: I think so, Bill. (C)

The President: What's your view of the timetable? What's your
preferred timetable where all the leaders meet face-to-face?
(C)

Prime Minister Blair:

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The President: That would be great. (C)

Prime Minister Blair:

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The President: Let me ask you this. What's the date that Gerry
does the actual decommissioning? When does the IRA actually
have to turn some guns over? A week after that? (C)

Prime Minister Blair:

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The President: Let me ask, what kind of understanding are you trying to reach on the volume of weapons and type of ammunition?

(C)

Prime Minister Blair:

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The President: So it's something de Chastelain can say is substantial and must be significant. I got it. I'll call him.

(C)

Prime Minister Blair: Okay, Bill, that would be fantastic. (C)

The President: Now, what the hell do you think is going on over in Russia? I've got Strobe Talbott, my Deputy Secretary of State, over there in Russia. We're watching it closely. Our stock market took a big hit with this rumor that he would resign. Yeltsin's in the dacha, Chernomyrdin's working on confirmation. There are rumors that Yeltsin would resign once Chernomyrdin is confirmed. I don't know, but I know this: They are absolutely insistent that I come. I can't initiate my not going. It's kind of a mess. That could sink their economy or politics sure enough. (C)

Their economy is still rapidly deteriorating. The Central Bank is still under pressure to inject liquidity into the banking sector. The problem is when they do, the banks turn around and take the money out of the country, and so there's no control over that money. There's no clear economic policy, and I think they've got this new Trilateral Duma Commission, talking about renationalizing industries and price controls. (C)

What I think they have to do is bite the bullet and pass a decent regulatory system and tax system and a decent bank and a decent social welfare system. I think there's alienation among the people because social welfare has always been a fraud in

Russia. *The Economist* a couple of weeks ago had a great little piece on the missing social agenda. The charities are taking over a lot of it, but the reason ordinary people felt so totally insecure was they really don't think there's any social safety net. (C)

I think it's worth going over to try to work through this. We've got to reassert our commitment and reassert the importance of the weapons agreements we can still make, but tell them they've still got to embrace democracy and free markets and have tough Russian solutions to tough Russian problems.

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You can make money out of that under any circumstances, even when it's screwed up, and God knows, it was screwed up. It's a cash cow. (C)

Prime Minister Blair:

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The President: These social pressures, nationalism, retrograde socialism, were present in Poland, Hungary, and to a lesser extent, the Czech Republic. For all kinds of reasons, they were able to make the transition with a lot less fallout. Russia is a big country that could basically suck in a lot of stuff from Warsaw Pact nations. I am appalled to the extent there are not the functioning intermediary institutions without which neither a democracy nor market economy can succeed. I'm quite concerned now that a working majority of the populace is for the suspension of some democratic freedom just to have a strong leader who'll get the damn show on the road again and make the trains run on time. They're disappointed in the executive but also disappointed in the Duma going too much the other way. (C)

Prime Minister Blair:

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The President: If you think about it, it's quite interesting how many places in the world there are -- including in your discussion with me -- where, at least to outsiders, the economic answer or the political answer seems clear. And if you could

just get over the hard knock of doing it, it'll be better on the other side, but the political system is unable to cross the hurdle. Both of us have been rather fortunate that our political systems are still functioning well enough to do what has to be done. ~~(C)~~

The biggest economic tragedy is not Russia, but Japan. Even with their massive infrastructure and understanding of the modern economy, they still can't put together the political decisions that are manifestly in their interest. I don't know if Europe is on the upsurge of growth. There's still some internal growth that could be generated by France and Germany by internal changes. ~~(C)~~

I don't know how much longer we can sustain our growth without some more growth in Japan. We're absorbing 30 percent of Chinese exports now, 50 percent more than our world GDP share, and there's a huge increase in Japanese exports. They can't buy our imports, and the Chinese can take a lot more but they have certain controls. I'm worried that if we have three quarters rather than one quarter of economic slowdown, there'll be an increase in the trade deficit. We'll see a whole round of protectionist pressure build up again, which will affect Europe, if only indirectly. ~~(C)~~

I think the Japanese issue is still the biggest economic issue. The Russia issue is a political issue. If they get a dictatorial leader, they'll be much harder to deal with on Kosovo and other things, I'm afraid. I think it's worth my going over there. I'll meet with the Duma leaders from other parties and have a little no-BS conversation about what's going on here and hopefully reduce a little of their paranoia about America and the West. It may not be a conventional success, but I'll go as long as they want me to come -- unless Yeltsin resigns in the next two days -- if nothing else but to talk to Chernomyrdin, who is physically and mentally quite alert and strong, personally. ~~(C)~~

Prime Minister Blair:

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The President: What I'm worried about with Yeltsin is -- in my last conversation I had with him, he said all the right things, even on the things we disagree on, he said all the right things, at least from his point of view, but he really seemed profoundly tired in a way I had never heard him before. I am afraid his energy, his will to go on may be sapped. ~~(C)~~

Prime Minister Blair: Yeah, I'm afraid so. ~~(C)~~

The President: But there's nothing I can do about it. ~~(C)~~

Prime Minister Blair:

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The President: One thing, we've got to do everything we can to keep their IMF program going. You know, they've only gotten, what, \$7 billion out of \$21 billion. There may be some other little things we could do, which I'm working on. But the hard truth is we will be pouring good money after bad if the banks keep taking the money and putting it in Europe. I'm worried about Russia becoming like Africa. It's bad enough the market takes the pipe, but the citizens of the country who ought to be putting their own wealth in there are shipping it out, and you have massive capital outflows instead of internally generated growth. We've got to talk through all that with them. They think they've been taken for a ride on an economic theory that they were not able to embrace. ~~(C)~~

Prime Minister Blair: Hello? Hello? Bill? (U)

The President: Yeah, I can barely hear you. It sounds like four other people are having a conversation on the same line. (U)

Prime Minister Blair: You were saying? (U)

The President: No, that's it. Look, if I find out anything about Russia in the next few days before I come, I'll call you. ~~(C)~~

Prime Minister Blair:

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The President: I got it. And I'll get to work on it. Honestly, I think politically for him, for Gerry, it might be easier for him to do the decommissioning if it comes about with me being there. There's a perception in Northern Ireland, and I've tried not to do this, but there's a perception that I've tilted more toward him than Trimble. In that case, it could be

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an advantage and could make it a little easier, if it all goes around this issue. (C)

Prime Minister Blair:

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The President: Let me get on it, and I'll give you a report. --

(C)

Prime Minister Blair: All right, Bill. (U)

The President: Goodbye. (U)

Prime Minister Blair: Goodbye. (U)

-- End of Conversation --

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