

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telcon with President Jacques Chirac of France

PARTICIPANTS: The President
President Jacques Chirac

Interpreter: Marcel Bouquet
Notetaker: Bonnie Click, Joel Schraeder,
Robert Ford, Jim Smith

DATE, TIME: October 2, 1998, 1:35 - 2:02 p.m.
AND PLACE: Cleveland, Ohio

The President: Hello? (U)

President Chirac: Hello Bill. (U)

The President: Hello Jacques? How are you? (U)

President Chirac: It is a great pleasure to hear your voice.
(U)

The President: Thank you for your statements, we are doing better here. I wanted to speak to you about the economic crisis and Kosovo. First of all I am very concerned about the danger of financial crisis not only spreading into Latin America, but affecting growth in Europe and the U.S. because of what is happening in bank lending in both places. (U)

President Chirac: No doubt. (U)

The President: I liked your letter very much. I think we agree that the biggest danger is not inflation but deflation. We have your financial ministers and central bankers over here today. We had the G-22 meeting, and I am hoping we can get some good ideas. There are two things that need to be done. First of all we must do longer term work on the financial system itself, but even before we must have urgent action now to help on emerging

~~CONFIDENTIAL~~

Classified by: Glyn T. Davies
Reason: 1.5(d)
Declassify On: 10/06/06

DECLASSIFIED
E.O. 13526, Sec. 3.5 (b)
White House Guidelines, September 11, 2006
By VL NARA, Date 6/3/2019
2015-0775-m

economies and begin to rebuild countries in trouble. We have some thoughts on a package to bolster their international reserves. It should be centered on the IMF and should be spent only for economies with strong policies and of course it would not work without a quota increase. I am working very hard to pass it in Congress next week or so and I believe it will pass. (S)

I am concerned the typical IMF program might not be adequate and I am proposing an approach with three elements. First of all we need a short-term source of money for these countries from the IMF and a line of credit format that would not be permanent. It would have a sunset clause. Second, we need a coordinated set of bilateral credit lines such as our Treasury Department's stabilization fund that works parallel with the IMF mechanism. And, third, we need to get the private lenders' cooperation. Now the G-7 finance ministers and central bank governors are meeting here on Saturday. (S)

President Chirac: Tomorrow. (U)

The President: Right, tomorrow, and I hope they can reach agreement on this, and I understand that because of concerns from the EU and the historical German concerns about inflation this is difficult, but the real problem here is a worldwide recession. We have to limit the spread of this. Europe now has a big stake in Latin America. If you look at the exposure of European and American banks -- and they are already tightening their lending a lot -- we have a risk of a global recession. If we deal with the short-term crisis, we will buy ourselves a few months to build the long-term architecture, and, as I said, I thought your letter was quite good on that. (S)

President Chirac: Our analysis is exactly the same and I am perfectly open to a discussion on the three points you mentioned. Tomorrow the ministers of finance and government are going to meet in Washington. I perfectly agree with you on the prospects you defined. I just have one question, you have said that you thought Congress was going to complete the voting procedure for the IMF loan? (S)

The President: Yes, within a week. (U)

President Chirac: Of course that is a key element in fighting against the financial crisis. We also think that we ought to reform the IMF system. In particular, we think that some political power should be given to the steering committee that

represents all the countries, but that is a different issue altogether that we can look into at another date. I would like to say that I agree with your analysis and your proposal, which needs to be looked into in greater detail. I am also greatly concerned that the Asian crisis has only just begun, the Japanese crisis has only just begun. In addition to the monetary and bank crisis, there will be a crisis of structure and that will be difficult to handle in Japan and that is deeply anchored in the culture of that country. Nobody can say what will happen in Japan in the years to come if there are 5-6 million unemployed people in a country where according to the prevailing culture you are used to employment for life and when there is no money allocated whatsoever to unemployed people. So I am worried about Asia. Bill, I think we are on the same wavelength. (C)

The President: I agree with you about that. I believe Japan could make a quick rebound if they could make the changes in their banking system and put money in the way we did with our Savings and Loans. But it is difficult to get the political system to do that. (C)

President Chirac: Yes, but Bill the Savings and Loan system involved \$200 billion. In Japan, we're talking about a trillion dollars, or five times as much. If you assume that the Japanese economy is half that of the American economy it means that the problem is ten times more complicated than the savings and loan crisis. And you have the political and technical capacity to react very quickly. That is impossible in Japan for political and cultural reasons. (C)

The President: I agree with all of that, but Japan has a high savings rate and well over a trillion dollars. They wouldn't have to put the whole amount up, but they would have to put some of that up to get the lending back in the system. (C)

President Chirac: No doubt. (U)

The President: I think we are on the same wavelength and we'll see what happens tomorrow. Now on Kosovo, according to the briefing I received, we are pretty much on the same wavelength. We still have a chance to avoid conflict if Milosevic believes NATO is prepared for airstrikes. We intend to ask the NATO Council to authorize the full range of air operations at the meeting next Wednesday. Now I'm afraid the Russians are painting themselves into a corner by opposing any use of force and excusing what Milosevic is doing. I wish there was some way

out of this. My only concern is that it would put Yeltsin in a no-win situation, if he says yes, he loses support at home, and if he says no, he will lose internationally. It puts Yeltsin in a no-win situation. I am open to anything as long as we don't have undue delay. I think the pictures of the people who were slaughtered have finally persuaded public opinion, certainly in this country, and I think in others, that we can't let this winter come and let thousands of people die. (C)

President Chirac: I would like to tell you what I think. First of all, regarding the military aspect, if we are talking about carrying out a surgical operation, we will stand by your side, but we think it would not be reasonable to decide on principle right now. On Tuesday Kofi Annan is going to report to the Security Council. We do not yet know what this report is going to contain, but the Security Council is going to discuss the report, and the next day is going to be the North Atlantic Council meeting in Brussels. In addition to that, we will also have the NATO report, which we don't have yet. Lastly, I don't share your opinion on Russia. You say that if we force Yeltsin to accept, he will have to face difficulties at home, and if he doesn't accept, then he will be rejected by the entire international community. I think it would be much worse if there were to be a strike without Yeltsin having a say in the matter. He would lose face, and politically it would be even worse in Russia, especially because that would put an end to the Founding Act between NATO and Russia. Today we have had contact between the two foreign ministers of France and Russia. I do not exclude the possibility whereby they would accept not to veto a resolution after Kofi Annan presents his report. In any case, we have to wait until Tuesday evening to see what we have to do. (C)

The President: You might be right about that if Kofi is taking a firm line here, and he does have some influence with Russia. (C)

President Chirac: On the last point, if we have to go for a strike, the strike in itself does not solve any problems. If we strike, it is necessary to immediately and simultaneously engage in strong diplomatic action. (C)

The President I agree with that. (U)

President Chirac: If not, we will simply have helped the UCK a little bit and nothing will have happened. So, this is what I would suggest. If we go for a strike, then simultaneously there

should be a meeting of the Contact Group to bring together Milosevic and Rugova for a negotiation of the agreement. It has to happen the same day, and I suggest that we do it in France which is close to Pristina and Belgrade. If the diplomatic initiative is not launched right away, then I'm afraid that the strike would have been in vain. (C)

The President: I think that you are right. Let me talk to our people and get back to you right away. (C)

President Chirac: Maybe we could talk again on Tuesday night after the report of Kofi Annan is presented and before the NATO meeting. One last problem of course, we don't know what the German position is going to be. I talked to Schroeder the day before yesterday and he said agreement on the part of the German Parliament will be needed and it is not certain that there would be agreement on the part of the Germans. (C)

The President: Jacques, we got cut off but you were saying that we should talk again on Tuesday night. (U)

President Chirac: Then we will have an exchange of views on Tuesday evening around that time. (U)

The President: O.K. (U)

President Chirac: Thank you Bill. (U)

The President: I will tell Hillary that you said hello. (U)

President Chirac: Say hello to Hillary from me and Bernadette. (U)

The President: I will, goodbye friend. (U)

-- End of Conversation --