

Prime Minister Cavaco Silva: It took Portugal 10 years to create the necessary new financial institutions to make its private sector viable. (S)

The President: At Malta, Gorbachev gave me a lecture about the reasons not to have private ownership and shareholding by private stockholders in corporations. He seems to understand capitalism only in the 19th century terms of the large corporations being owned by a Rockefeller or a Vanderbilt. (S)

Secretary Baker: Regarding the EBRD, what is your view of Soviet membership? We would prefer to see observer status for the USSR, or at least non-borrowing status. If we were to agree to have them as members of the EBRD, it would be only a year or so before they pushed for membership in the World Bank. (S)

Prime Minister Cavaco Silva: We share your concerns. (S)

The President: Regarding South Africa, how do you see events moving forward? (S)

Prime Minister Cavaco Silva: As you know, we have connections to South Africa. Although Portugal received 700,000 returning colonists from Angola and Mozambique, 600,000 additional Portuguese went to South Africa. They are generally moderates. I believe De Klerk and Mandela are seeking a path of greater moderation. They are seeking something similar to the EC model for the Southern African cone, since other countries of the region cannot have economic development without South Africa. Within the EC, Portugal opposes sanctions against South Africa. We oppose the isolation of South Africa. (S)

Secretary Baker: I believe you have said that Zimbabwe is also changing. (S)

Prime Minister Cavaco Silva: Yes. Mugabe has 30,000 soldiers in Mozambique, and he is facing elections. It is not popular to maintain so many troops in a foreign country. Chissano has pressed Mugabe to take a softer tone in his relations with South Africa; and Mugabe has agreed to do this. In general, we are against sanctions. It is the same as with China; we don't believe in isolating them. (S)

The President: On China, I believe that the lifting of martial law does mean something. I believe that contact with the U.S. has helped to improve things in China. Things are certainly better than during the Cultural Revolution. I would also like to hear your view about the Strasbourg Summit. (S)

Prime Minister Cavaco Silva: Despite all the media excitement in advance of Strasbourg, the Strasbourg Summit was the quietest since 1985, even though it was one of the most important. We agreed to a revision of the EC treaty, to a common monetary

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policy, to the concept of the social charter, and to greater sovereignty for EC institutions. The Portuguese presidency will be in the first half of 1992. We will use it to favor a more open Europe with close ties to the U.S. We are against a fortress Europe. (S)

Secretary Baker: Did you sense any German reluctance on the question of a European monetary union? (S)

Prime Minister Cavaco Silva: No, there was no real German reluctance. I believe such talk in advance of the meeting was a tactic which the Germans used to get their paragraph on reunification into the final communique. (S)

Secretary Baker: Do you believe there will soon be a single, central bank and a single currency in Europe? (S)

Prime Minister Cavaco Silva: I don't believe that either will exist before the end of the century, but the pace of integration has been faster than anyone had predicted. The trend is clearly toward more integration. (S)

Foreign Minister Deus Pinheiro: And events in Eastern Europe have pushed this process further along. (S)

Prime Minister Cavaco Silva: Yes, I agree. We in the EC must show that we are sure of ourselves. This is because we are the hard inner core of the "European economic space." (S)

The President: I saw Zbigniew Brzezinski at the launching of the Emergency Committee for Action on Poland this morning, and he told me that in Poland the working people are still inclined to give the new government time to carry out its reforms. This is based on the workers' great pride on what their country is now doing by way of reform. (S)

Prime Minister Cavaco Silva: But if their hopes are disappointed, will this support last more than a year or two? It is important to build up private enterprise quickly. This will take training and the development of necessary skills among the Polish population. (S)

Foreign Minister Deus Pinheiro: A lot of what we are seeing in Eastern Europe has a very familiar ring to it because of the similarities with what happened a few years ago in Portugal. (S)

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03. Memcon	Re: Luncheon with Prime Minister Cavaco Silva of Portugal (4 pp.)	1/11/90	(b)(1)	S

Collection:

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File Location: Presidential Meetings - Memorandum of Conversations 1/11/90 - 2/21/90

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P-2/P-5 Review Case #:	Disposition Date:
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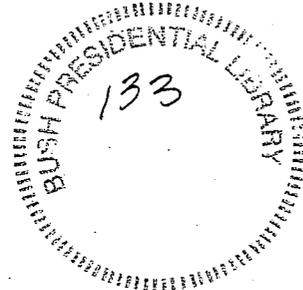
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THE WHITE HOUSE
WASHINGTON

0422



MEMORANDUM OF CONVERSATION

SUBJECT: Luncheon with Prime Minister Cavaco Silva of Portugal (U)

PARTICIPANTS: The President
The Vice President
James A. Baker, Secretary of State
Brent Scowcroft, Assistant to the President for National Security Affairs
Robert M. Gates, Assistant to the President and Deputy for National Security Affairs
Raymond Seitz, Assistant Secretary of State for European Affairs
Edward Rowell, U.S. Ambassador to Portugal
Adrian Basora, Director for European Economic Affairs, NSC Staff (notetaker)

Anibal Antonio Cavaco Silva, Prime Minister
Joao de Deus Pinheiro, Foreign Minister
Joaquim Martins Feirreira do Amaral, Minister of Commerce
Joao Pereira Bastos, Ambassador
Jose Luis Almeida Fernandes, Chief of Staff, Office of Prime Minister
Antonio Martins da Cruz, Diplomatic Adviser to the Prime Minister
Jose Eduardo Carvalho de Paiva Morao, Military Adviser to the Prime Minister
Jose Maria de Almeida Shearman de Macedo, Director General for Political and Economic Affairs, Ministry of Foreign Affairs

DATE, TIME: January 11, 1990, 12:15-1:20pm
AND PLACE: White House, Old Family Dining Room

The President initiated the conversation by turning the subject to Brazil.

The President: President Sarney seems to have [redacted] (b)(1)
switched policies since he has been in office. I was there for his swearing-in. (S)

Prime Minister Cavaco Silva: That is true, but Brazil does need help in view of its \$100 billion foreign debt. (S)

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The President: Is it true that Argentine President Menem will be visiting you? I found him very impressive. (S)

Prime Minister Cavaco Silva: Yes, he will be visiting and I agree that he is impressive. (S)

The President: I would like to mention briefly the reason for the U.S. intervention in Panama. I made the decision to go in because of the need to protect U.S. lives and because of our treaty rights in Panama. I am pleased to see that President Endara is moving fast to restore order and civilian government. U.S. troops will be leaving as rapidly as possible. I am encouraged that 92 percent of the Panamanian people are supportive. Nevertheless, we have a lot of diplomacy to carry out in Latin America and Vice President Quayle will be going there soon as part of this effort. (S)

Prime Minister Cavaco Silva: The EC countries, with the exception of Spain, have shown their understanding for your action in Panama. (S)

Foreign Minister Deus Pinheiro: The Spanish reaction can be explained partly by the fact that a Spanish photographer was killed in Panama during the intervention. (S)

The President: It seemed clear that Noriega had flipped. When our troops went into his homes, they found voodoo dolls. No wonder I felt that ache in my neck at Christmas! (S)

Prime Minister Cavaco Silva: I would like to hear your impressions of Gorbachev. (S)

The President: I believe that Gorbachev is definitely committed to peaceful reform. The press asks me "what if Gorbachev uses force in Lithuania?" However, my response is that I do not answer such hypothetical questions. It would do no good to comment on such contingencies. I believe that Gorbachev is not asking for and does not want an economic bailout. However, we should support his reform program and I very much hope that he succeeds. (S)

Prime Minister Cavaco Silva: It is ironic that we in NATO are now supporting a Soviet leader for the first time and that we are now also being supportive of the Warsaw Pact. In Portugal, we have moved to liberalize the economy and to denationalize, as well as changing what had earlier been a Marxist constitution. (S)

Secretary Baker: It is clear that the Soviets do not yet even understand the concept of a market economy. Regarding the European Bank for Reconstruction and Development (EBRD), the trick is going to be figuring out how to promote the private sector and private enterprise. (S)