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THE WHITE HOUSE
WASHINGTON

2858

MEMORANDUM OF TELEPHONE CONVERSATION

SUBJECT: Telephone conversation with President Carlos Salinas de Gortari of Mexico (U)

PARTICIPANTS: The President
Carlos Salinas de Gortari, President of Mexico
Notetaker: Donald C. Johnson

DATE, TIME AND PLACE: March 8, 1990, 9:06 - 9:16 a.m.
The Oval Office

The President: Hello? (U)

President Salinas: Mr. President, good morning. (U)

The President: Carlos, how are you? (U)

President Salinas: Fine, thank you, and you? (U)

The President: Well, I'm sorry not to have been available last night. They told me that maybe that would have been better for you. But this is more convenient, and I appreciate your phone call. (U)

President Salinas: You're very kind. Thank you very much, Mr. President. I want to talk about two aspects with you. First, trade issues. (Ø)

The President: All right. (U)

President Salinas: When we met in Houston, I remember you raised the issue of a possible free trade agreement between Mexico and the U.S. (Ø)

The President: Yes. (U)

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President Salinas: We initiated a sector-by-sector negotiation process, and some important progress has been achieved since then. But I think now that what's happening in the world and in Mexico suggests that we should speed up and broaden the scope of trade negotiations. (Ø)

So Mexico is willing to initiate a negotiation for a free trade agreement between Mexico and the U.S. (Ø)

The President: Well, I think it would be a very good thing. I think it has great possibilities. Is your trade minister coming here? (Ø)

President Salinas: He is coming tomorrow morning to have a dialogue with Mosbacher, Carla Hills, and maybe even Secretary Baker. (Ø)

The President: Well, that's very good. And I think the way you put it is good, too. Mexico will initiate, because I don't want to look like we're pushing you on it, but we'd be very glad to discuss this. And you know any discussions would need to be very carefully prepared, because of the different natures of our economies. But let's talk about it. (Ø)

President Salinas: You're very kind. I believe that what's happening in Europe, with Western Europe getting the benefit of cheap labor from Eastern Europe and the Pacific Rim would stimulate this agreement between us and Canada, which is already participating. By the way, I am meeting Mulroney next week. (Ø)

The President: You're going up there, aren't you? Or is he coming? (U)

President Salinas: He's coming to Mexico. On the other hand, Mr. President, in Mexico I want to consolidate the new policies for a market-oriented economy. (Ø)

The President: But in this instance, Carlos, you're talking about a bilateral trade agreement between the U.S. and Mexico, right? (Ø)

President Salinas: That's correct. (U)

The President: I think that's the way to start. Canada has some difficulties now with their free trade agreement with us. You might want to find out from Mulroney what they are. But I'm very interested in this idea, and it's going to take a lot of preparation. And I'm so pleased that you think it's time to at least start discussions on this. (Ø)

President Salinas: You're right. On the domestic front, I have to show results soon that privatization is meaning benefits for

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the population. And I'm sure that a trade agreement will strengthen these policies. By the way, I announced yesterday the privatization of the steel industry in Mexico. (S)

The President: You did announce that? (U)

President Salinas: Of the steel industry. (S)

The President: How did that go over? (S)

President Salinas: Well, it's coming on well. It's been very well received by the business community, and even by labor. (S)

The President: Well, that's fine. That's very interesting, and I will tell our various ministers here, Mosbacher, Carla, and Jim {Baker} to be ready for discussions, and see if we can't get something going. (S)

President Salinas: Very good, to explore the possibility very quietly, and maybe announcing it in June, during our meeting. (S)

The President: All right, I will tell them that you prefer that. You would like no publicity for these talks? (S)

President Salinas: No publicity now, until we have the meeting in June in Washington. If that's fine with you. (S)

The President: Fine. I understand we're all set for a quiet dinner up at our house on the tenth. (S)

President Salinas: Yes. (U)

The President: That's great. I'll buy you a good meal. What's the other item? (U)

President Salinas: The other item relates to Nicaragua. President Ortega called me yesterday. He told me that he's having a very proper dialogue with Mrs. Chamorro. That on April 25 he will hand over power. He would like to do so on normal conditions, but he will hand over power. That he finds maturity and seriousness in the new government. (S)

But there is one issue that worries him very much, and that is the demobilization of the contras. He asked me, as he will do with other Latin presidents, to create the atmosphere for a faster demobilization of the contras. He feels it is not going faster, and it worries him very much. (S)

The President: Well, I can understand that. In the first place, we have noted with approval and interest very moderate statements -- for the most part -- by him. There have been one or two, when

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he's dealing with the left in Sandinismo that he seems to revert back a little bit. But this is a very interesting conversation; I will be talking to Violeta, who will be in Houston for her knee, probably in the next few days. (Ø)

The problem that exists from our end is simply that when we hear about the ministry being retained under the Sandinistas, and the army staying as the arm of Sandinismo, that makes it extraordinarily difficult to encourage a more rapid laying down of arms. We have told these contras, to the degree we have any influence with them, that there must be no military action, that they will have to lay down their arms, and there seems to be no disagreement with them. But if he {Ortega} is saying "We want them to lay down their arms before power is peacefully transferred," that could be a difficulty. But is that what in essence he's asking, do you think? (Ø)

President Salinas: Yes, that what he's asking. He's not presenting this as a condition for handing over power. He says he will hand over power on April 25th, but that things would go smoother if the contras laid down their weapons before the transition of power. (Ø)

The President: Well, that's very interesting, and I'm very grateful for your call, because we've been sitting here wanting to be constructive, and by that I mean recognizing the problem of this contra movement at this point in history. And I will discuss this with our top people; I appreciate your call. I think the man has behaved pretty darn well in public, and quite differently, I might say, than I would have expected. (Ø)

If there's a way that we can have statements or encourage the peaceful transfer of power, we want to find a way to do that. (Ø)

President Salinas: Very good. I'm sure it will help. (U)

The President: I'd welcome any specific suggestions along the line here, because we want to see this power handed over. But did he talk about keeping the ministries of Defense and the Interior? Or is all that just newspaper talk? (Ø)

President Salinas: He mentioned that he believes that the Army and the Ministry of Interior should be kept, not by them, but by the new government. That is, that the new government should not disband the army totally. But he didn't mention that they want to retain it. As least he didn't mention it to me. (Ø)

The President: Well, that's an important point, because I believe she did talk about a Costa Rica-like solution, which means in the view of Violeta Chamorro that they wouldn't need a

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big standing army. You got the feeling that the power would be transferred on both the Army and the Interior Ministries? (S)

President Salinas: That's the idea I got. He asked me to receive Comandante Bayardo Arce this Saturday, and I will ask him more precisely about this. (S)

The President: You could accurately reflect our view that a visible attempt to hold Sandinista power in the Interior or in the Defense Ministries would complicate anything that can be done with the contras, certainly by us. I hope that's not what he's planning, and I get the feeling from others that is not what he is talking about, although there have been one or two statements by Borge that made us wonder about this. (S)

President Salinas: Yes, but he didn't mention it to me. He just mentioned the worries about the Army being disbanded, totally disbanded. (S)

The President: Well, we're not pushing that line at all. But I think that is one he can negotiate out with Violeta. But you know, I don't know whether they can agree on levels. They will not need that big a standing army, I don't think. And it was interesting that Cuba is saying they're going to suspend military support into Nicaragua, which I view as good. I think Castro is a little upset with the election, which is fine, but their not sending stuff in is a good thing. And I think the Soviets are going to be quite supportive of the new government. (S)

President Salinas: And we all in Latin America will also be supportive, because that's the government freely elected by the people. (S)

The President: Good. Well, listen, these are interesting times that both of us walked into, aren't they? (U)

President Salinas: Yes, they are moving fast. (U)

The President: They are. All right, we will get our people ready on the trade talks, and let me talk to our top people right away on the concerns that Ortega has raised with you. And if you would -- to the degree you can -- tell {the Sandinistas} "Here's the view of the U.S. There clearly will be demobilization. It's just a question of timing, because of some of the statements that indicated perhaps an unwillingness to finally transfer the Defense and Interior Ministries." (S)

President Salinas: Thank you very much, Mr. President. I appreciate your positive reception to the free trade agreement talks. (S)

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The President: I know it's not easy for you, but let's try.
Let's see what we can do. (U)

President Salinas: Thank you very much, Mr. President. (U)

The President: Good-bye. (U)

President Salinas: Good-bye. (U)

-- End of Conversation --