

THE WHITE HOUSE
WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting Between the President and Costa Rican
President Arias

PARTICIPANTS: The President
James Baker, Secretary of State
John Sununu, Chief of Staff
Brent Scowcroft, Assistant to the President
for National Security Affairs
Bernard Aronson, Assistant Secretary of
State for Inter-American Affairs Designate
Deane Hinton, Ambassador to Costa Rica
David Pacelli, NSC (Notetaker)

President Oscar Arias
Rodrigo Madrigal, Minister of Foreign Affairs
Danilo Jimenez, Ambassador to the United
States
John Biehl, Advisor to the President

DATE, TIME April 4, 1989, 9:40 a.m. - 10:30 a.m.
AND PLACE: Oval Office

The President and President Arias exchanged greetings and were seated while the press entered for the photo opportunity. The President remarked to President Arias about not taking questions during the photo opportunity. When the press entered and started asking questions, the President said that we have a new procedure in this administration and that President Arias would be available for questions at an appropriate time. (C)

The President said that he was delighted to have President Arias here. The Secretary of State had told him that he had had a good visit with Arias and that they had also discussed bilateral matters. The President invited Arias to bring up any subject he wanted. "The floor is yours," he declared, saying once again that he extended a hearty welcome. (C)

President Arias, speaking in English, began by saying, "Allow me to talk a few minutes about my own country." He noted that this was his fifth visit to the White House. On past occasions, the conversation had always focused on Nicaragua. He said he wanted to talk about Costa Rica for a change. (C)

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President Arias said that very few people know who the Costa Ricans are or what they are doing economically because of the focus on the Central American peace process and Costa Rica's relations with Nicaragua. Costa Rica is now well known as a supporter of peace but also wanted to become well known as a supporter of economic development.

President Arias noted that the Costa Rican economy had grown for the last three years at an annual rate of growth of 4.5 percent. It is one of the few countries where per capita income has increased over the last three to four years. Costa Rica's situation is completely unlike that of Argentina or Venezuela.

The President asked President Arias to repeat the figure on growth, which he did.

President Arias continued, saying that Costa Rica was not a case like the other Latin American countries and that Costa Rica was an exceptional case. There were many reasons for this. Costa Rica had the confidence of international investors and international financial organizations. Costa Rican unemployment was the lowest in Latin America at 5.5 percent. The fiscal deficit had been a problem, but was not now. In 1982 it was 19 percent, contrasted with a target figure of 2.8 percent for 1989.

President Arias said that Costa Rica was about to sign an IMF agreement. All this has been done "the Costa Rican way," as not one drop of blood has been shed. He had been able to persuade the IMF that an agreement is necessary to keep the peace.

President Arias said that the promotion of exports had been very successful, and the target figure for 1992 was \$2 billion. Today, it is three times the exports of El Salvador, with only half the population of that country. Costa Rica also has a disciplined monetary policy, and exchange rate policy management has been successful. The exchange rate has been the main incentive to exports.

President Arias went onto say that presently Costa Rica would reach agreement with the World Bank for a \$100 million structural adjustment loan. The Legislative Assembly is meeting to approve this loan. It was not an easy process of negotiation and he had to fight many interests in Costa Rica, mentioning farmers and industrialists. Yet, 97 percent of the electorate supports the new loan.

President Arias stated that Costa Rica is becoming a member of GATT and "we need your help in that." Two weeks ago, he signed a letter of intent with the IMF, a standby agreement for one year. This would open up the door for dealing with our debt, he said. Costa Rica can become a show case if we are able to deal with the foreign private commercial debt, which he added, is low by Latin American standards at \$1.6 billion. With \$250 million, Arias declared, we can buy it all back. The IMF is a most interested agent in these discussions.

The President asked for clarification on President Arias's statement that Costa Rica could buy back all its debt for \$250 million. He also asked if it were mainly held by U.S. banks.

President Arias repeated his statement about buying back all the debt and said that the banks were not limited to U.S. institutions.

Secretary Baker interjected that Costa Rica's total debt was \$4.2 billion.

President Arias stated that the IMF agreement opens the door for the buy back negotiations. He parenthetically observed that because of what happened in Venezuela, it was not an easy thing to do. He went on to say that he believed that Costa Rica's approach to the debt question could be the model for all of Latin America. But Costa Rica needs Washington to do some arm twisting with Taiwan and others to have success. He said, "We have been dealing with Taiwan for a year; we have not been successful up to now."

President Arias repeated his statement that with just \$250 million, Costa Rica could rid itself of its private commercial debt. All of this can be done within the framework of the Brady plan. He said that he wanted the President to know this because, "We are interested in reaching an agreement with you, but you might be interested in reaching an agreement with us." We have been successful in our economic program, he said, and we have had success in privatizing state-owned enterprises. All of this has happened in a climate of tranquility and confidence.

The President asked if President Arias was going to have an opportunity to talk to Secretary Brady. The President added that he knew that the G-7 was in town and the Secretary might be busy with them.

Secretary Baker said that the Secretary would be tied up through Wednesday.

The President said that it seemed to him that President Arias had outlined a plan of action that was in keeping with the Brady approach and that we might want to help.

Secretary Baker said that a standby loan could be the first application of the Brady plan. It allocates funds that are segregated and dedicated to buy backs. The Costa Rican approach is "the perfect example of what is called for."

Secretary Baker continued that he was not sure if the IMF was ready to do that yet. A standby for debt buy back may be too far down the road for the IMF.

President Arias agreed.

Secretary Baker continued by saying it was exactly what we are talking about. (C)

President Arias stated that he did not want to leave before discussing this problem. Costa Rica could be a model solution for all of Latin America. (C)

The President said he was "damned sure" that he did not want to see impossible demands on countries that would lead to a situation like what happened recently in Venezuela. He added, "It seems like we are on the same wave length on this." He wished Secretary Brady were present, but said we will talk to him to see what we can do. (C)

The President said we have been talking to countries south of Costa Rica on a case by case basis. Some countries have the feeling that this can be accomplished all at once in one large meeting. We should not do that. The countries are different, with different situations. "You people [the Costa Ricans] have the right idea." The President added, "Let us take it up with Treasury to see how we can be as helpful as we possibly can." (C)

Secretary Baker asked a question on the Bank Advisory Committee and asked if the deal with the commercial banks was contingent upon the IMF standby agreement. (C)

President Arias said that they were getting funds from Japan, Taiwan, Venezuela, and Spain. "We can get the \$250 million with your help." (C)

Foreign Minister Madrigal clarified to President Arias that Secretary Baker's question had been whether the buy back deal has been concluded. The answer was no. (C)

President Arias agreed, that there was no deal at the moment. (C)

The President averred that we may be in for some tough sledding. He observed that the buy back deal would reduce the debt by far over 50 percent. (C)

Secretary Baker said that only one country had gotten something close to that. He referred to Bolivia. But that was a different case, a "total basket case." (C)

Ambassador Hinton stated that the banks have agreed on the principle of a buy back, but some banks wanted Costa Rica to obtain soft loans to finance the buy back. That was the sticking point. (C)

Secretary Baker wondered out loud why the banks were concerned where the money comes from. (C)

The President said he missed the point. (C)

Ambassador Hinton said the banks agreed to buy back the loans but asked that the money be lent for that purpose by other donors on highly concessional terms. As an alternative, the banks said they would examine [and approve] any deal the Costa Ricans concluded.

President Arias gave an example of the terms.

Secretary Baker asked, "Twenty-five years at 6-7 percent before any buy back?"

President Arias said yes.

President Arias stated that he could not see Secretary Brady now. "But if I could send my Minister of Finance in the next few days, would that be appropriate?"

The President said yes. The President said that he did not hear the rate of inflation given.

President Arias said it was 25 percent last year. The target is 12 percent this year. We have succeeded up to now, he said, as in the past three months it has been no more than 2.5 percent.

President Arias changed subjects, saying that Costa Rica is fighting drugs as well.

The President said that he had written a letter to President Arias on that subject.

President Arias replied, "Yes, I wanted to thank you for that. I want to be your best ally on drug cooperation."

The President asked whether the problem "had gotten to your kids yet."

President Arias said that it had. But Costa Rica had a good record. It had "draconian legislation" and presently the Legislative Assembly is investigating drug trafficking. Some people have been sent to jail. He concluded by saying, "You have all my support on this."

The President said that we were ready to send specialists down to help with drug detection at Juan Santamaria Airport. He said that he felt fine talking about the subject of drugs. We are not "holier than thou" in our attitude on that subject because we have our own problems. The reason he asked if the problem in Costa Rica had "reached the kids" was because some people had argued that if the market for drugs were stopped, there would be no problem. Now people are finding out about the universality of the problem, that no one is immune. Even the Soviet Union has drug problems among its youth.

The President added that he approved the dedication of President Arias to the anti-drug struggle. We have to protect our children, the President said, particularly the young. We have a rather wide campaign ourselves, involving rehabilitation, drug treatment, and law enforcement. We have to adjust our own sights. The President said he hoped all these programs will have a helpful effect internationally. We do want to cooperate. We do not want any feeling that we are dictating to small countries. "We are delighted with your cooperation."

President Arias said, "We will do all we need to do."

President Arias turned back to economic topics, saying, "I don't know if I forgot to mention along with the World Bank agreement that the Japanese have offered a complementary loan of \$100 million."

The President said he thought Arias had mentioned this.

Secretary Baker said, "Yes, the Japanese are offering co-financing."

President Arias said that he had been extremely successful; only inflation was too high (by Costa Rican standards). He remarked how he had told Ambassador Hinton that he had remembered something from his first sociology studies, "When you define a situation as real, it can have real consequences." He repeated that Costa Rica had to reduce its inflation rate.

President Arias then said, "Now, do you want to talk about Central America?"

The President said, "I do. You know, we have gotten our act together in signing the Bipartisan Accord." The President said it had taken hard work by Secretary Baker and some of the others in the room. "That has been done," he said. "Some problems remain. We keep hearing that maybe [Nicaraguan President] Ortega has changed a little bit. That is fine. But our common goal is democracy and I have understandable skepticism about the Sandinistas."

The President said that he hoped we all could be together, all talking about Sandinista compliance with democracy. He told President Arias that it would be very helpful if Arias, with his standing in the international community, could emphasize this matter in his public statements. The President stated that he did not want to put Arias in a difficult position, but he did have the moral authority to speak out. The degree to which Arias could do so, in this, the 100th year of Costa Rican democracy, would be a very big help.

The President said that [Salvadoran President-elect] Cristiani would be visiting at the end of the week. He won the election freely, and our electoral observers--of both political parties--had attested to that. The President said that a double standard

is often used, condemning the Contras in the name of democracy, on one hand, while supporting the Salvadoran guerrillas.

The President said we are on the threshold of something big [with the peace plan], and that President Arias knew how much to believe about how much Nicaragua had done to democratize. What we seek is a free and fair electoral process. The President said he remembered walking into Arias's study when they talked about this subject the last time. We need to keep the pressure on, the President said. Despite whatever the Sandinistas say, "We are looking for performance now."

The President stated that if the election is free and the people choose a Marxist regime, fine, that is their business. But the Revolution was fought for democracy. The President said we can't shift our view and don't believe Costa Rica wants to shift its view on that fundamental point. "I hope we are together with you on this." The President added that President Arias was in a unique position to say what is happening to the Nicaraguan people.

The President concluded by saying, "end of speech." He added, "I carry it right from here [pointing to his heart], though." People have commented on a shift in our policy, but there has been no change in our support for democracy; no change in our opposition to violence, either from the left or the right. He ended by saying, "Now you have the floor."

President Arias said that he had been sharing with Secretary Baker his main concerns. First, he thanked the President for his support of the Esquipulas accord. "We can work together and be successful." At the El Salvador summit, Ortega was only interested in talking about demobilizing the Contras. Arias said he emphasized his interest in democracy in Nicaragua.

President Arias said two aspects must go forward simultaneously. "As long as he proves to the rest of the world that he will democratize, changing the electoral laws and other meaningful changes, then pari passu [hand in hand] we can talk about demobilization of the Contras." He said that he mentioned to Mr. Baker that our main task is the identification of an opposition leader with enough support to unite the opposition. We can work with [Spanish Prime Minister] Felipe Gonzalez and [Venezuelan President] Carlos Andres Perez on that at a later stage.

President Arias continued that the first stage is a mechanism for the electoral process. There is no history of this in Nicaragua. There are no identification cards and no registration of voters. He was told that in 1984, the year of last Sandinista election, voters were allowed only five days to register. Arias said that

he was very critical of Ortega for failing to accept proposals for constitutional changes, but Ortega resisted. At the end, Ortega only agreed to make changes through legislation.

President Arias said that the United States talks about incentives and disincentives. He said he thought one of the main incentives was economic. Since there were so many plans floating about--the Sanford Commission, the UN plan, the EEC plan--we need "something coming from you." We need a main carrot for the Nicaraguan opposition to fight in the campaign. "It has been said that democracy is a prerequisite for peace. But peace is a prerequisite for development." He added, "We need some sort of Bush Plan for recovery of the Central American countries." Arias said the President should come up with a new idea, with all these other plans floating in the air. The President could forge them together.

The President asked whether Arias's suggestion was a carrot for the Sandinistas or an economic relief program for the entire area.

President Arias replied that it would be for the entire area, but conditioned on compliance with Esquipulas commitments.

The President asked whether President Arias believed that Ortega is really prepared to accept demonstrably free certified elections within ten months, adding that he hoped the answer is that Ortega would do so. Did Arias think Ortega would grant access to the media and allow a free press? The President's own answer was that he did not know, but he was interested in Arias's response.

President Arias said, "Very reluctantly." The Sandinistas had accepted all these commitments because they have to admit that they have failed. Marxism has failed. Arias recalled how from time to time he hears Sandinista statements about adopting the Swedish model.

The President interjected, "Is that true? I don't believe it."

President Arias continued by saying that he told Ortega that you can't talk about a Swedish socialism and still say that you are a Marxist-Leninist. You cannot say you will rely more on private enterprise when you keep telling everyone you want to build Socialism. "I keep telling him, the problem with Nicaragua is the Sandinista Front."

President Arias added that he said "reluctantly" because there will be pressures from outsiders for democratization. We need observers, he said, right now, not just at the time of the balloting.

Secretary Baker raised a new subject saying that he and President Arias "had touched on this earlier." "The press wants to keep

you in a debate on demobilization of the Contras." They want Arias to say that our aid to them is violating the regional peace agreement. "As we discussed, this is not the case at all." The Secretary said that the Resistance had the right to reintegrate into Nicaragua under safe and democratic conditions. He said, "We think that this is the guts of the Esquipulas agreement." The Secretary asked Arias, if he could, to be helpful on this to show that together we can give peace a chance. But, let us see democratization. (S)

Governor Sununu said to Arias, "Mr. President, the Secretary's point is important. What you say to the press is very important. They are trying to reverse what the agreement says." (S)

Mr. Aronson said that democratization of Nicaragua is the only way that reintegration of the Resistance can work. (S)

Ambassador Jiminez agreed that reintegration must be voluntary. There must be guarantees that those returning will not be persecuted. Repatriation should be tied to democratization. He recalled a statement by President Arias that the two should go together "pari passu;" as one was developing, the other one would also. (S)

Governor Sununu observed that this must be known publicly. (S)

The President said the press will ask for public comments. The degree to which President Arias could emphasize what is said here in his public comments, the better our chance for progress which we all want. (S)

The President noted that time was getting late. He asked if President Arias was on his way to Canada. (S)

President Arias said he was, for a state visit. (S)

The President asked if he had good relations with [Prime Minister] Mulroney. (S)

President Arias said yes. He then said he was glad for the visit. He said that his peace plan owed something to the vague ideas he discussed with the President at his home, recalling that Mrs. Bush was not there at the time of the visit. (S)

The President asked if President Arias and the Secretary got to talk about the Soviets. (S)

Secretary Baker said that he did say that we raised the issue of Central America with the Soviets. (S)

The President mentioned his letter to Gorbachev, saying, "That will be our area of concern." He added that he was not that pessimistic. He said that the closer we [the United States and Costa Rica] are together on need for democracy, the better our

chances for relieving the problem of Soviet aid to Nicaragua. "You know that we are not going to cut off all relations with Gorbachev." The Secretary had recently met with [Soviet Foreign Minister] Shevardnadze, as well as our NATO allies. The President concluded by saying that the more President Arias says publicly about democracy in Nicaragua, the better off we will be.

The President and President Arias then exchanged closing salutations and good wishes.