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THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with Prime Minister Michael Manley
of Jamaica (U)

PARTICIPANTS: The President
The Vice President
Nicholas F. Brady, Secretary of Treasury
Lawrence Eagleburger, Acting Secretary of
State
John H. Sununu, Chief of Staff
Brent Scowcroft, Assistant to the President
for National Security Affairs
Robert M. Gates, Assistant to the President
and Deputy for National Security Affairs
Bernard W. Aronson, Assistant Secretary of
State for Inter-American Affairs
Glen A. Holden, U.S. Ambassador to Jamaica
William T. Pryce, Senior Director for Latin
American Affairs, NSC (Notetaker)

Michael Manley, Prime Minister and Minister
of Defense
David Coore, Foreign Minister and Minister
for Foreign Trade
Peter David Phillips, Minister of State
Keith Johnson, Ambassador to the U.S. and the
Organization of American States
Donald Brice, Permanent Secretary to the
Prime Minister
Hartley Neita, Press Secretary, Office of
the Prime Minister
Anthony Bogues, Special Assistant to the
Prime Minister

DATE, TIME
AND PLACE: May 3, 1990, 11:25 a.m. - 12:05 p.m. EST
The Cabinet Room

The President: I did take the opportunity in our private meeting
to say how much we looked forward to this visit. Welcome! I
suggest that you start off and cover any items you would like,

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and then we can bring up a few points. We can then continue informally at lunch. (U)

Prime Minister Manley: Thank you for your very warm welcome. The ceremony at Arlington was so impressive. I will mention our economic problems. I am hoping for your analysis of how things are going in general. (P)

To set things in context, I'm looking at how far we have come. I think we have had a spectacular success in the economic area -- in the sense that we have got the country together. Even the trade unions have been supportive. We have achieved something important -- real consensus. Our government is going forward in education, in development, in tourism. We had 5% growth last year. The private sector is doing its job because it wants to. (P)

What is the down side? Growth is putting great pressure on the economy. The principal problem is the cash flow problem. The foreign exchange part of this is critical. There are a couple of life lines which would be disastrous if they were stopped. On the bilateral trade agreement, we worry that our success could endanger or put in jeopardy the agreement. On foreign exchange we want to be within the context of reality. You have many obligations in Eastern Europe and throughout the world. I can't ask for another \$100 million. But I can say, "don't divert funds from us." And I can ask for a little increase in money to fight drugs. (P)

Cash flow is very important for us. The question is, "how can we get it?" If we can't get incremental cash, we must use ingenuity. Let me elaborate. In the first half of the 1980's, there was a \$900 million net transfer out. From 1986 to 1991 there will be a \$1.1 billion transfer out. This is hard. The biggest problem is the IMF and the World Bank. There will be a \$208 million net outflow this year. This does not make sense. If we can just bring this down to zero, it would be a big plus. (P)

I talked with Secretary Brady yesterday. And I mentioned it this morning [at breakfast hosted by Acting Secretary of State Eagleburger]. I wonder if we could set up a small group, a task force, to look at imaginative ways to look at debt. (P)

The President: Nick [Brady], I might ask you to respond to this now. I understand the problem. I would like you and others to respond later, but would you like to respond preliminarily now? (U)

Secretary Brady: Certainly, Mr. President. Jamaica gave us a complete review yesterday. The steps they are taking seem good. The problem for Jamaica is a little different because our new debt strategy deals with commercial debt. The problem with Jamaica is that 42% of their debt is to International Financial

Institutions and 37% is official bilateral debt. So 80% is outside the plan you put forward last year. We want to deal with it, but it is difficult because the IMF and the IDB have problems with rescheduling debts, and they basically don't do it. (S)

Setting up a task force is a good idea. It is in keeping with what you have asked us to look at for all of Latin America. We will get right to work on it with Jamaica. The IMF has been involved in programs which encourage the return of flight capital. We should work with the IFI's and the private banks to get some new loans. (S)

The President: They [the IFI's] don't refinance? (U)

Secretary Brady: No. (U)

The President: Well, let's set a group up. By going to different sectors, perhaps we can get a positive solution. (S)

Secretary Brady: Well, the problem is that 42% is IFI's and they don't refinance or let up on requirements for interest payments. We support that position. We can't ask for an exception to refinancing, because then the IFI's would become like commercial banks. We don't have a solution at this time. But the steps that Jamaica has taken will bring flight capital back. (S)

Prime Minister Manley: What would be worse is if we were to stop having new flows in. We need to have positive momentum. (S)

The President: Let's see what we can do. I'm asking Treasury to set up a working group to address this problem and give it whirl. (S)

Prime Minister Manley: The second thing is investment capital. The question of 936 capital. There is now \$18 billion sitting in the fund, and it is growing at \$1 billion a year. Nobody can find a way to spend it. We have a few programs, and airport project -- there are administrative difficulties. Because people want to be sure that their debt is secure, they want major U.S. companies to underwrite the debt. We can sometimes do this, but not always. We have been looking at alternative ways of guaranteeing the debt. Perhaps the International Finance Corporation could share part of the debt. We need to try new programs designed to help Puerto Rico and the Caribbean if this does not hurt Puerto Rico. (S)

The President: What you are saying is that the 936 rules should be more flexible. (U)

Prime Minister Manley: Yes. Particularly regarding private sector involvement. If we could improve this, it would help on privatization. (U)

The President: Knowing this, aren't there discussions going on regarding privatization? The task force could throw it in as an additional item. (P)

Prime Minister Manley: The last part on investment. I have the idea that you have had imaginative ideas regarding Hungary. I wonder whether you could make Jamaica a similar target of interest. (P)

The President: We need to ask Larry about this, he has been in charge of our Eastern European operation on this. Is OPIC involved? Is that helping at all? (P)

Mr. Eagleburger: They have been very supportive. If they have been down to Jamaica -- {Prime Minister Manley interrupts} (U)

Prime Minister Manley: They have been very supportive. (U)

Ambassador Holden: I got them down in 30 days and they have been superb. (U)

The President: Excellent. (U)

Mr. Eagleburger: Let's look at the experience in Eastern Europe and see if it could be transferred. (P)

The President: Eastern Europe is much behind Jamaica on this. And the Soviet Union is way behind. They have no real concept of private property. Before they can run, they have to learn to crawl. Let's see if we can do something. These funds [Eastern European] are targeted? (P)

Mr. Eagleburger: Yes. They are appropriated funds. (U)

The President: I want to say in front of our colleagues here, that I think that in the Hemisphere there is a feeling that we are so involved in Eastern Europe that we forget the Hemisphere -- I can understand why CAP might have thought that -- he took me aside at one point and balled me out about it. This is not the case. This must not be the reality. We do not want it to be the reality. What I'm trying to do is to get Europe to help in the Hemisphere, in the Caribbean, in Central America. And Japan too. I just stopped by a meeting with Japanese Minister Miti, (the President stopped by a meeting General Scowcroft was having with the Japanese Minister) where he was saying that they want to help in your area. We want them to have a greater interest in the Hemisphere. It may be over a longer period of time -- but it need not be. I will be talking with the Economic Group of Seven this summer. I have talked with the president of the EEC Mr. Delors when he visited here. He made a positive verbal response. This is how we are working on it. I want to see these countries pulled in. I want you to know that this is on our mind. We think there is reason to be hopeful. There is a chance for success. (P)

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Prime Minister Manley: That is good to hear. (U)

The President: We are getting proper lip service. (P)

Prime Minister Manley: I would like to say a word about trade in the Caribbean. Please protect the programs we have there. In textiles if the advantages of the program were lost we would lose 25,000 jobs. If we keep the program we could create 100,000 new jobs. This is very important. Seventy thousand jobs exist because of the licensing program in the Dominican Republic and Jamaica. (P)

The President: There is an ignorance factor at play here. Some people say that this program hurts the U.S. This is not true. We'll continue to resist and fight the textile lobby on this. Tentatively, the industry is doing pretty well. They are modernizing and using these programs. The Unions think that if you get rid of growth and then protect, then you will have higher prices. When I was running for President, I went down and talked with the people in the state in support of free trade. We will stay with that policy. There are political problems. John [Sununu] do you want to say anything on this? (P)

Governor Sununu: We are getting pressed. We are putting off improvements for a year. They have a very powerful lobby. They may pass a bill over our objections. (P)

The President: I will fight protectionism. We will argue that our system will work to the benefit of all. This also affects our relations with Mexico and the Machilladora industry along the border. This also fits into trade relations with Japan. To Kaifu's credit, he has moved forward so that under Super 301 we would not name Japan. There is a move in the Congress to name Japan, but we will seek ties to favor less protection. (P)

Fortunately the employment side of our economy is pretty good. Some even say that we have full employment with an unemployment rate of 5.2%. I don't want to accept a situation where people who want jobs don't have them. If the employment situation changed, you would see more domestic pressure for protectionism. This would shrink markets and not be helpful, but there still is this idea of protectionism. (P)

Prime Minister Manley: We could talk with people if that would be helpful. (P)

The President: If we could get some key members of Congress to go down and work with you, Charlie Rangel for instance, I think that would help. I think that it would be helpful for people to get a better view of what you are doing. (P)

Prime Minister Manley: May I say a word about the CBI? (P)

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The President: Yes, of course. (U)

Prime Minister Manley: We are convinced that an area like the Caribbean must begin to rationalize its production. We need to take advantages of economies of scale. We are working on ways to rationalize means of production. I say that if Europe is integrating, who are we not to do so. I was wondering, looking down the road on CBI, whether there could be built into it something which lead to integration. We need to help the process of integration. Perhaps with seed capital. We want to have a partnership and work in the direction of integration. We actually have programs on this but there is great difficulty in getting ten governments to work on the same thing at the same time. It's not your problem, but if a window of opportunity were created in the CBI this would help CARICOM to do what it ought to do regarding economic integration. This is a new thought that I wanted to raise. (Q)

The President: All right, let's think about that. We can continue our discussion informally over lunch. (U)