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THE WHITE HOUSE

WASHINGTON

MEMORANDUM OF CONVERSATION

SUBJECT: Meeting with President Rodrigo Borja
of Ecuador (U)

PARTICIPANTS: The President
The Vice President
James A. Baker III, Secretary of State
Nicholas F. Brady, Secretary of Treasury
John H. Sununu, Chief of Staff
William Bennett, Director of National Drug
Control Policy
Brent Scowcroft, Assistant to the President
for National Security Affairs
Paul Lambert, U.S. Ambassador to Ecuador
Bernard W. Aronson, Assistant Secretary of
State for Inter-American Affairs
William T. Pryce, Senior Director for Latin
American Affairs, NSC (Notetaker)
Stephanie van Reigersberg, Interpreter

DECLASSIFIED
PER E.O. 12958,
AS AMENDED
2000-0429-F
Zc 8/21/09

Rodrigo Borja, President of Ecuador
Diego Cordovez, Foreign Minister
Andres Vallejo, Minister of Government
Jorge Gallardo, Minister of Finance
Abelardo Pachano, Presidential Adviser
Jaime Moncayo, Ecuadorian Ambassador to
the United States
Washington Herrera, Secretary General of
Public Administration
Pablo Williams, Interpreter

DATE, TIME July 23, 1990, 12:15 p.m. - 1:10 p.m. EST
AND PLACE: The Old Family Dining Room

Secretary Brady: [Continuing conversation where it left off at Oval Office meeting.] President Borja mentioned that he hoped our debt negotiations would cover more than concessional debt. There is a congressional problem. It would be difficult to do more than concessional debt. It would be best to keep it at that level. And from a budgetary point of view, this was as far as we could go. (Ø)

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On the second idea, that the U.S. could get into negotiations between the Government of Ecuador and the Banks, we found that, like in Mexico for example, we could help bring the two sides together, but not get involved in the actual points. It was the same in Venezuela. We found that you can make the emphasis to try to get them not to do so much this year and then so much next year, but have a more overall approach. We found that it works better to have the negotiations take place between the two parties. (Ø)

President Borja: I want to make clear our position on Cuba. We agree completely in the aim of getting democracy in Cuba. We are debating methods. Which is the most efficient way to do this. But we want to emphasize that we all agree on the objective. (Ø)

The President: I understand. (U)

President Borja: On debt, we don't want the U.S. Government to get directly involved or to interfere, but rather to let the private banks know that it would be a good idea to go toward a lasting plan so that we are not involved in redefining our targets at every point. (Ø)

Secretary Brady: I see the point. But it may be that the banks have their eye on Brazil and Argentina and they see Ecuador as a precedent, and so that enters into the problem. (Ø)

Finance Minister Gallardo: Our proposal is consistent with your theme, but the banks are trying to defeat it. They see Argentina and Brazil, but we need to see that they follow the Brady Plan which stipulates that each country is a specific case. (Ø)

The President: I don't see why we can't encourage that kind of an approach. Do you, Nick? (Ø)

Secretary Brady: No, okay. (U)

Secretary Baker: I think it would be interesting to learn what President Borja thinks about the prospects in Peru. (Ø)

President Borja: As you can imagine, we follow events in Peru very closely. We had a bloody war in 1941, and we think that Peru took 200,000 square kilometers of our territory by force. They are militarily stronger than us. For us, it is good for them to have peace. So we do not want any Peruvian President to try to distract the populace from internal problems by evoking international problems. (Ø)

The President: Do you know Fujimori? (Ø)

President Borja: Not personally. In a social sense the situation in Peru has deteriorated immensely. The Sendero Luminoso is an aberration. It has no clear aim or purpose. They don't even have specific demands. It is mad terrorism. There is

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a military part which is adverse, with a tendency towards arms buildup. The political parties are belligerent -- they fight among themselves. There is an absence of Foreign investment. I feel pessimistic. (Ø)

The President: It is a poor picture, but probably true. What were his campaign and platform? His approach? (Ø)

President Borja: He never had a clear program. He deliberately avoided having one. What he did was take up on the disenchantment of people. The people voted for an unknown person of foreign origin. He was against the politicians. There was a disenchantment with the system, and every four years there was a further disenchantment. (Ø)

Secretary Baker: Do you think the military are likely to take over? (Ø)

President Borja: I don't think so. If they had been so inclined, they would already have done so. (Ø)

The President: With Alan Garcia. (Ø)

President Borja: You could see that they dislike the government, but didn't want to take over. (Ø)

Secretary Bennett: What is the major impact of the Colombian crackdown? Do you expect to see more traffickers? (Ø)

President Borja: The problem is to get more people to fight drugs. It is like having 10,000 runners waiting for a time to start. The murder of Galan was what got everybody off. Until then it was all fragmented. The police were doing one thing, the Armed Forces another. I think this will be a cruel and bloody fight, but the Government will win. We found an important trafficker in Ecuador and arrested him. (Ø)

Minister Vallejo: He had been living in Ecuador for two years before he was arrested. As soon as we found out he was there, we arrested him and turned him over. He was also wanted in Peru for a major crime, but the Colombians asked and we turned him over. There is a lot of territory. It is hard to find them. That's why we need helicopters. The eastern jungle is a hard place to find people. You said that aid this year was \$3 million. I would like to say that we think that with assistance which is not much greater, we could solve the problem right now. We feel that the aid required later would be much greater. (Ø)

Secretary Bennett: We will talk. There are problems with the Congress, but we will try. (Ø)

One more question. Where do drugs fit in an opinion poll. How is the problem perceived? (Ø)

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Minister Vallejo: The most important problem perceived is the cost of living. The second is unemployment. The third is drinking water. (Ø)

The President: Where are drugs? (U)

President Borja and Minister Vallejo: Way down! (U)

Minister Vallejo: The problem is very minor. (Ø)

President Borja: People do not perceive this is a major problem for them. (Ø)

Minister Vallejo: The middle class is starting to perceive it differently. They are putting this as in important problem. (Ø)

President Borja: Regarding the cost of living. We have to say that we got inflation from over 90% down to 47%. Even so there is a lot of protest. (Ø)

The President: When you have inflation at those rates, do you index your labor? (Ø)

President Borja: We are against indexing because we think it increases inflation. Concerning the history of Ecuador, when the Government got the power of deciding wages, it was a great help. Before, Congress had it, and it was a disaster. I am better able to fight because I can manage economic policy and wages at the same time. (Ø)

Secretary Baker: Can I go back to narcotics. (Reads from figures in a Briefing book.) We are talking about \$3.7 million in military assistance. We also have \$1.4 million in other assistance. I raised this because you said you could go to solving the problem with a little more. With this assistance there will be about \$5 million plus the helicopters. (Ø)

Minister Vallejo: On the basis of that kind of budget, we can take a positive step forward. (Ø)

The President: Any one else? Bernie, do you want to say anything? (Ø)

Assistant Secretary Aronson: We are looking for every source of assistance. You will find that we are doing all we can. (Ø)

Secretary Bennett: We are doing all possible, but we do have problems with the budget on the Hill. (Ø)

Minister Vallejo: We are ready to talk about plans. We would like to move forward on this. (Ø)

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Secretary Bennett: One more question. Given the location of your country, we have great respect that you have no serious drug problem. What is your secret? Strong family ties? Church? (Ø)

Minister Vallejo: I don't think it is only drugs, but also a sense of peace and tranquility despite that fact that we are surrounded by violence. We have had a relatively peaceful labor situation in part because Ecuador has made labor reforms years ago. Our reforms are 50 years old. We have had escape valves. This is the reason that it is important in certain areas of Ecuador to undertake drug programs. Abelardo wants to talk about programs. (Ø)

Presidential Advisor Pachano: According to a report of the World Bank dated September '89, Ecuador is considered a middle income country for several reasons including ratio of debt to exports and other indicators. They also say that Ecuador is the most indebted country in all of Latin America except for Nicaragua. That is why it is so important that, under the Brady Plan, and with the help of the International Financial Institutions, that our problems be solved on a global basis, so that we can free up resources and unleash growth. We have had two years of recession. With the support of the U.S. Government and the multi-national lenders we can come to global agreements that we seek. (Ø)

Secretary Brady: We would agree on one point -- that the conclusion of an agreement between Ecuador and the banks would unleash a return of investment and would encourage the return of flight capital. In Mexico, we found that the benefit from the agreement achieved wasn't as important as the return of capital and the infusion of new capital. It was as though Mexico had made known that it would go to a market economy. Those who come to an agreement (with the banks under the Brady Plan) sooner will be more likely to attract the limited investment funds which are available. There is only so much investment capital around. If you can narrow the gap between you and the banks that will be helpful, and it may be that you can come to an agreement before Brazil and Argentina. I know you have been working on the EMELEC matter. It will be helpful for facilitating foreign investment if you can come to a solution. (Ø)

Minister Vallejo: The problem is that the structural adjustments which the Bank and Fund have recommended and been adopted; but despite that fact, the private banks will not agree to an overall solution. They want to do it piecemeal. That is where we need your help. (Ø)

Secretary Brady: We will be glad to talk. The gap may be so wide that they put it off until next year. (Ø)

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Finance Minister Gallardo: It is said that the Brady Plan is to be implemented on an individual basis. The principle of doing things on a case-by-case basis is important. (Ø)

The President: Does the World Bank have you in the middle income category because of oil income? Are there new oil reserves? (Ø)

Minister Pachano: There is a new area of exploration which will be let out to bids which could possibly expand our reserves by 400,000,000 barrels. (Ø)

President Borja: There will be new proposals in August for prospecting. (Ø)

I would like to talk for a minute about ecology. Since we are part of the Amazon basin, we have a special responsibility for maintaining the Amazon basin. This is the world's most important rain forest. It produces 40 percent of the world's oxygen and one fifth of the world's sweet water. We are interested in making joint efforts to protect this ecology because in the best sense, all countries of the world are part of ecology. (Ø)

The President: How is this doing? Will programs have support in Ecuador? (Ø)

President Borja: This is doing very well. The press is positive. This is one of the few areas where the press supports us. (Ø)

The President: Ecology is very important. Our problem is to find a strong environmental approach without throwing a lot of people out of work. I think we can do it. But on our political left there is no recognition of the human element. Take the case of the spotted owl. These people think that there should be no forestry at all in certain areas where this would throw 30,000 people out of work. People say "the hell with people, protect the owls" -- they don't say it in those words, but that is their message. There must be a balance on this matter. (Ø)

I think that the press is out there waiting for us. I want to let you know what a pleasure it has been to have you visit me.
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-- End of Substantive Conversation --