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Update for the 14 May Briefing Book for NSC Meeting on "US Policy in Central America and the Caribbean"

Attached is a draft of Secretary Haig's talking points for the 28 May NSC meeting. We think it is consistent with our previous recommendations to the DCI to generally bless the strategy paper, and to support emphasis on positive economic and political measures in order to win domestic and international backing for the overall strategy.

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NIO/LA

NSC review completed

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U.S. POLICY IN THE CARIBBEAN BASIN

Major U.S. political and security interests in the Caribbean Basin are threatened by the current Cuban offensive and the appearance of two Cuban clients in Nicaragua and Grenada.

The first response required of us is to give threatened countries the means to defend themselves. We have already done so in El Salvador. But \$38 to \$50 million in additional security assistance in FY 1982 will be required for other countries.

NSC authorization is requested to seek that assistance through budget amendment or reprogramming.

The second response required is to keep Cuba on the defensive. Actions to accomplish that will be presented to the NSC next week.

The third response, for which NSC authorization is requested today, is to develop a plan to stimulate free enterprise, promote economic growth and build political support for U.S. policy in the Basin in order to reduce opportunities for Cuban export of violence and subversion. The plan would aim at:

- Helping countries build popular support needed to defeat and forestall Cuban-sponsored insurgencies;
- Engaging Mexico (now working at cross purposes with us in Central America), Venezuela, Canada, the Europeans and Japanese and multilateral banks in a broad positive enterprise, while we do what is necessary to make sure the insurgencies fail;
- Helping to build broader Congressional and public support and understanding for our policy in Central America and heading off the threat of crippling conditions on aid to El Salvador and a new Clark Amendment for Central America;
- Lessening the incentive to illegal migration to the U.S. by stimulating productive economic activity in the Caribbean Basin.

The plan would emphasize use and expansion of private sector resources in these countries and would consist of:

- Phased movement to one-way free trade (with appropriate safeguards for sensitive industries);
- Promotion of foreign and domestic private investment in the area through new regional insurance schemes and codes of investment treatment;

-- Some increased official capital flows for balance of payment and key project assistance on a transitional basis.

We would not describe this as a "Marshall Plan" for the Basin. That term would put the emphasis on official assistance, while we want to put it on private enterprise and trade. It also suggests that economic growth also can overcome insurgencies, while we know that revolutions are made by revolutionaries, who must be defeated militarily and politically. Economic growth needed for the long run, often creates conditions in the short run that revolutionaries can exploit. These programs are therefore not a substitute for efforts to enhance security.

U.S. participation in a Caribbean Basin plan would be dependent on that of others. Canada should join in the trade preferences, along with Venezuela and Mexico (on a symbolic basis). Other donors and the international agencies should share the burden of official assistance (our share might be \$300-400 million beginning in FY 1983). Recipient countries in the Basin should provide the protection for free enterprise necessary for growth. We would exclude Nicaragua and Grenada and any other Cuban clients from receiving benefits from us. We would make sure that countries friendly to us, like Jamaica, would be included.

There are obstacles to success. The Mexicans will be chary about being involved with us: with them we should emphasize (a) that we are building on the Mexican-Venezuelan oil facility which serves most countries in the Basin, and (b) that this is a collective enterprise, not a big U.S. initiative. Sensitive domestic industries (especially apparel) and their unions would have to be reassured. And the recipients would have to overcome traditional jealousies as well as rescind domestic obstacles to private enterprise.

With Presidential approval, we will staff this proposal out with the domestic agencies (USTR, Commerce, AID, OMB, and Treasury), and consult with Congress and foreign countries.

Meanwhile we recommend that the President seek to engage Lopez-Portillo with this concept while he is here. One possible vehicle for launching the plan might be the tripartite meeting with Trudeau and Lopez-Portillo (Trudeau says that he would welcome a Caribbean Basin focus). Even if the Mexicans do not engage, others will, and the plan should go forward. A major conference (say in Jamaica) might be called for a year from now to make commitments.