

21 September 1983

MEMORANDUM FOR: Director of Central Intelligence

FROM:
Director of African and Latin American Analysis

SUBJECT: US Policy Options in Jamaica

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1. The Seaga government faces tough economic challenges as the 1985 election nears. Chronic foreign exchange shortages have already necessitated a series of tough austerity measures that will have serious side effects. Public expenditure cuts will help push official unemployment over 30 percent this year. Recent import cuts and the defacto devaluation of the Jamaican dollar since January will slash private sector profits and boost consumer prices. A formal devaluation of the official exchange rate, advocated by the IMF, probably would dampen public confidence in the Seaga administration further and provide fuel for opposition rhetoric, in addition to further stimulating inflation. Without signs of a turnaround in the economy by the election, we judge that Seaga may well go down to defeat.

2. Balance of payments support: Jamaica needs significant funding from foreign and domestic sources to cover its financial gap--absent successful debt rescheduling, we project the country's capital requirement will be between \$600 and \$700 million in each of the next two years. Direct U.S. funding would help relieve foreign exchange constraints and free government resources for job-generating public works programs to defuse the growing unemployment crisis. Such assistance would be particularly meaningful after the current IMF program ends next March.

3. Strategic Stockpile: Further U.S. purchases of bauxite for the stockpile would increase Jamaican government revenues. These resources could not only be used for public works projects,

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but would increase the likelihood of success for the Prime Minister's ambitious agricultural development program, Agro 21.

4. Expanded Trade Credit: Greater support from the Export-Import Bank to increase quickly the now-dwindling flow of capital goods and raw materials to Jamaican producers. Such assistance would enable Jamaican entrepreneurs to take maximum advantage of the opportunities presented by the C.B.I. and also would contribute significantly to alleviating the unemployment problem.

5. Encouragement of support by the Multilateral Institutions: The U.S. should work with the IMF especially to continue funding even if, as we expect, Jamaica may be unable to meet its quarterly targets at the end of September and December 1983. On-going support by the IMF and like institutions is essential to continued availability to Jamaica of crucial commercial credit.

6. Support to the Security Forces: Budget stringencies have cut heavily into funds for much-needed upgrading of Jamaica's constabulary and defense forces, which have yet to recover from the serious underfunding of the Manley years. Direct assistance with U.S. equipment and training would prevent further deterioration, improve capability, and raise morale.

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