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FM WASHINGTON 240050Z FEB 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 598 OF 23 FEBRUARY 1982

INFO MEXICO CITY, OTTAWA, CARACAS, SAN JOSE

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Prime Directive
The Americans are looking
for public support. This could
come up in Question.

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CARIBBEAN BASIN INITIATIVE

1. SENIOR LOCAL REPRESENTATIVES OF EC COUNTRIES AND SPAIN WERE CALLED INTO THE STATE DEPARTMENT TODAY FOR A BRIEFING ON THE CARIBBEAN BASIN INITIATIVE, ABOUT WHICH THE PRESIDENT WILL MAKE A SPEECH TOMORROW BEFORE THE OAS. THE BRIEFING WAS CONDUCTED BY ALLEN HOLMES, ACTING ASSISTANT SECRETARY FOR EUROPEAN AFFAIRS, TO BRING OUT THAT THE UNITED STATES WAS LOOKING FOR MORAL SUPPORT FROM ITS ALLIES. HOLMES WAS ACCOMPANIED BY AMBASSADOR ROBERT RYAN, US DIRECTOR OF THE CARIBBEAN BASIN INITIATIVE, AND CRAIG JOHNSTONE, DIRECTOR OF THE CENTRAL AMERICAN BUREAU AT STATE.

2. HOLMES LISTED THE MAIN ELEMENTS OF THE INITIATIVE:

(A) CONGRESS WOULD BE ASKED TO ELIMINATE TARIFF BARRIERS ON ALL CARIBBEAN BASIN PRODUCE FOR 12 YEARS, WITH THE EXCEPTION OF TEXTILES AND APPAREL AND, WHILE US PRICE SUPPORTS WERE IN EFFECT, SUGAR;

(B) TAX INCENTIVES TO ENCOURAGE US INVESTMENT IN THE REGION, AND NEGOTIATION OF BILATERAL INVESTMENT TREATIES TO IMPROVE THE INVESTMENT CLIMATE THERE;

(C) TECHNICAL ASSISTANCE AND INDUSTRIAL AND AGRICULTURAL TRAINING;

(D) A MARKET DEVELOPMENT PLAN TO IMPROVE PRODUCTIVITY;

(E) DLRS 350 MILLION FOR FISCAL 1982 TO ASSIST THE PRIVATE SECTOR IN COUNTRIES WHERE FOREIGN EXCHANGE WAS ESPECIALLY SCARCE.

AMBASSADOR RYAN SAID THAT THIS FIGURE WAS IN ADDITION TO DLRS 475 MILLION FOR THE REGION ALREADY PROPOSED FOR FY 82. IT WOULD BE DIRECTED PRIMARILY TO EL SALVADOR, COSTA RICA, HONDURAS, HAITI, JAMAICA AND THE DOMINICAN REPUBLIC, AND TO A LESSER EXTENT TO BELIZE AND THE EASTERN CARIBBEAN. LONGER TERM AID WOULD INCLUDE

STILL MORE COUNTRIES, BUT PROSPEROUS COUNTRIES LIKE THE BAHAMAS WOULD BE EXCLUDED, AS WOULD GRENADA AND NICARAGUA. (HOWEVER, CRAIG JOHNSTONE SAID THE AMERICANS WOULD CONTINUE TO ASSIST THE PRIVATE SECTOR AND QUOTE FORCES OF PLURALISM UNQUOTE IN NICARAGUA);

(F) PROGRAMMES TO IMPROVE TRANSPORTATION STANDARDS;

(G) MOVES TO FACILITATE COMPLIANCE WITH US AGRICULTURAL INSPECTION REQUIREMENTS.

3. HOLMES THEN MADE TWO APPEALS, AIMED PARTICULARLY AT THOSE COUNTRIES THAT ALREADY HAD SIGNIFICANT INTERESTS IN CENTRAL AMERICA AND THE CARIBBEAN:

(A) GENERALLY TO ENCOURAGE THE FOUR CO-SPONSORS OF THE INITIATIVE (US, CANADA, MEXICO, VENEZUELA) IN TRYING TO INCREASE AID, TRADE AND INVESTMENT IN THE REGION:

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/B)

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B) TO PROVIDE PUBLIC SUPPORT FOR THE INITIATIVE. SPEAKING FRANKLY, HOLMES SAID THAT THE AMERICANS WERE GETTING VERY TIRED OF CRITICISM FROM WESTERN EUROPEAN SOCIALISTS AND SOCIAL DEMOCRATS ABOUT US EFFORTS TO BRING STABILITY TO EL SALVADOR. THE RUSSIANS WERE EXPLOITING THE DEBATE OVER CENTRAL AMERICA SKILLFULLY: POLAND HAD NOW GIVEN WAY TO EL SALVADOR ON THE FRONT PAGES OF EUROPEAN NEWSPAPERS. IN FOCUSING UNDULY ON SECURITY ASPECTS, IT WAS OFTEN FORGOTTEN THAT THE AMERICANS WERE SPENDING THREE TIMES AS MUCH ON ECONOMIC AS ON MILITARY ASSISTANCE TO EL SALVADOR. THERE WAS NOW AN OPPORTUNITY, WHICH MIGHT NOT ARISE AGAIN, OF SUPPORTING A COMPREHENSIVE APPROACH TO THE ROOT PROBLEMS OF THE REGION. CRAIG JOHNSTONE ADDED THAT THE INITIATIVE REPRESENTED A MAJOR AND UNPRECEDENTED EFFORT TO ADDRESS THE REGION'S ROOT PROBLEMS. IT WAS A MULTI-FACETED PROGRAMME, NOT BASED SOLELY ON AN EAST/WEST VIEW OF THE REGION.

4. THOSE PRESENT AT THE BRIEFING WERE INTERESTED TO KNOW HOW MUCH OF THE PRESIDENT'S SPEECH TOMORROW WOULD BE DEVOTED TO ECONOMIC ASPECTS OF THE INITIATIVE, AND HOW MUCH TO SECURITY. WOULD THE PRESIDENT RESPOND TO LOPEZ PORTILLO'S REMARKS MADE OVER THE WEEKEND (SAN JOSE TELNO 66 TO THE FCO)? HOLMES REPLIED THAT THE PRESIDENT'S SPEECH WAS STILL BEING WRITTEN; IT WAS IMPOSSIBLE TO SAY WHAT WOULD BE IN IT, BUT HE EXPECTED THE MAIN THRUST TO BE ECONOMIC.

5. COMMENT: THERE IS SOME DANGER OF THE AMERICANS OVER SELLING THIS PACKAGE AND DISCUSSION WITH EUROPEAN COLLEAGUES AFTER THE BRIEFING REVEALED SOME UNDERSTANDABLE SCEPTICISM ABOUT IT. BUT THE AMERICANS HAVE BEEN CAREFUL TO EXPLAIN WHAT THEY WERE DOING IN ADVANCE BY VISITS TO CAPITALS, AND THE RESULT, THOUGH MODEST, IS A STEP IN THE RIGHT DIRECTION. IT IS THE CONSTRUCTIVE SIDE OF U.S. POLICIES IN THE REGION AND I HOPE WE SHALL BE ABLE TO GIVE SOME PUBLIC SIGN OF SUPPORT.

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FM WASHINGTON 250035Z FEB 82

TO IMMEDIATE FCO

TELEGRAM NUMBER 610 OF 24 FEBRUARY

INFO IMMEDIATE MEXICO CITY, OTTAWA, CARACAS, SAN JOSE, TEGUCIGALPA, HAVANA.

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PS/LPS
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[Standard] (X12)

US CARIBBEAN BASIN INITIATIVE

1. IN HIS SPEECH TO THE OAS REPRESENTATIVES IN WASHINGTON TODAY, PRESIDENT REAGAN DESCRIBED THE CARIBBEAN REGION AS A VITAL STRATEGIC AND COMMERCIAL ARTERY FOR THE US, WITH NEARLY HALF ITS TRADE, TWO-THIRDS OF ITS IMPORTED OIL AND OVER HALF OF ITS IMPORTED STRATEGIC MINERALS PASSING THROUGH THE PANAMA CANAL OR THE GULF OF MEXICO. EL SALVADOR WAS DESCRIBED AS QUOTE NEARER TO TEXAS THAN TEXAS IS TO MASSACHUSETTS UNQUOTE. ECONOMIC HEALTH WAS ONE OF THE KEYS TO A SECURE FUTURE FOR THE US'S CARIBBEAN BASIN NEIGHBOURS; THE US MUST HELP THE PEOPLE IN THE REGION BECAUSE IN A FUNDAMENTAL SENSE THEY WERE FELLOW-AMERICANS.

2. BUT ECONOMIC DISASTER HAD PROVIDED A FRESH OPENING TO THE ENEMIES OF FREEDOM, NATIONAL INDEPENDENCE AND PEACEFUL DEVELOPMENT. FOLLOWING CONSULTATIONS WITH OTHER GOVERNMENTS IN THE REGION, THE PRESIDENT WAS THEREFORE PROPOSING AN ECONOMIC PROGRAMME THAT INTEGRATED TRADE, AID AND INVESTMENT; THIS INITIATIVE REPRESENTED A LONG-TERM COMMITMENT TO THE COUNTRIES OF THE REGION TO MAKE US OF THE QUOTE MAGIC OF THE MARKET OF THE AMERICAS UNQUOTE TO EARN THEIR OWN WAY TOWARDS SELF-SUSTAINING GROWTH. THE PROPOSED PROGRAMME WAS AS UNPRECEDENTED AS TODAY'S CRISIS IN THE CARIBBEAN, THE US HAD NEVER BEFORE OFFERED A PREFERENTIAL TRADING ARRANGEMENT TO ANY

AS UNPRECEDENTED AS TODAY'S CRISIS IN THE CARIBBEAN. THE US HAS NEVER BEFORE OFFERED A PREFERENTIAL TRADING ARRANGEMENT TO ANY REGION.

3. AID WOULD BE AN IMPORTANT PART OF THE PROGRAMME BECAUSE MANY OF THE US'S NEIGHBOURS NEEDED IT TO PUT THEMSELVES IN A STARTING POSITION FROM WHICH THEY COULD BEGIN TO EARN THEIR OWN WAY. BUT THIS AID WOULD BE USED TO ENCOURAGE PRIVATE SECTOR ACTIVITIES, NOT DISPLACE THEM. THE CENTREPIECE OF THE PROGRAMME BEING SENT TO CONGRESS WAS FREE TRADE FOR CARIBBEAN BASIN PRODUCTS EXPORTED TO THE US. THE PRESIDENT ACKNOWLEDGED THAT SOME 87 PERCENT OF CARIBBEAN EXPORTS ALREADY ENTERED US MARKETS DUTY-FREE UNDER THE GSP. THESE EXPORTS, HOWEVER, COVERED ONLY THE LIMITED RANGE OF EXISTING PRODUCTS - NOT THE WIDE VARIETY OF POTENTIAL PRODUCTS THESE COUNTRIES WERE CAPABLE OF PRODUCING. THE IMPACT OF THE PROGRAMME'S FREE TRADE APPROACH WOULD DEVELOP SLOWLY. THE ECONOMIES THE US WAS SEEKING TO HELP WERE SMALL, AND THE PROTECTIONS NOW AVAILABLE TO US INDUSTRY, AGRICULTURE AND LABOUR AGAINST DISRUPTIVE IMPORTS WOULD REMAIN. TEXTILES WOULD BE EXCLUDED BECAUSE OF EXISTING INTERNATIONAL AGREEMENTS. GROWTH IN THE CARIBBEAN WOULD BENEFIT EVERYONE, WITH AMERICAN EXPORTS FINDING NEW MARKETS.

4. THE PRESIDENT WENT ON TO LIST THE MAIN ELEMENTS OF THE PROGRAMME, AS ALREADY REPORTED CONCLUDING HIS STATEMENT ON THE ECONOMIC ASPECTS BY NOTING THAT IT REPRESENTED A FAR-SIGHTED ACT BY THE AMERICAN PEOPLE AT A TIME OF CONSIDERABLE ECONOMIC DIFFICULTY AT HOME. HE WOULD NOT HAVE PROPOSED IT IF HE WERE NOT CONVINCED THAT IT WAS VITAL TO THE SECURITY INTERESTS OF THE US AND THE WESTERN HEMISPHERE. ONE EARLY SIGN WAS POSITIVE, AFTER A DECADE OF FALLING INCOME AND EXCEPTIONALLY HIGH UNEMPLOYMENT JAMAICA'S NEW LEADERSHIP WAS REDUCING BUREAUCRACY, DISMANTLING UNWORKABLE CONTROLS AND ATTRACTING NEW INVESTMENT. CONTINUED OUTSIDE ASSISTANCE WAS NEEDED TO TIDE JAMAICA OVER UNTIL MARKET FORCES GENERATED LARGE INCREASES IN OUTPUT AND EMPLOYMENT, BUT JAMAICA WAS QUOTE MAKING FREEDOM WORK UNQUOTE.

5. TURNING TO SECURITY, THE PRESIDENT SAID A NEW KIND OF COLONIALISM WAS SEEKING TO UNDERMINE MODERATE CONSTITUTIONAL GOVERNMENTS AND REPLACE ECONOMIC GROWTH AND IMPROVED LIVING STANDARDS WITH TOTALITARIAN REGIMES, ECONOMIC DECLINE AND HUMAN SUFFERING. CUBA AND ITS SOVIET BACKERS RECOGNIZED THAT PEACEFUL ATTEMPTS TO DEVELOP REGIONAL ECONOMIES RENDERED THEIR OWN RADICAL MESSAGE A HOLLOW ONE: THEY WERE THEREFORE BENT ON SUBVERTING SUCH EFFORTS. SINCE 1978 CUBA HAD TRAINED GUERRILLAS IN TERRORISM AND ECONOMIC SABOTAGE, AND HAD BEGUN AN UNPRECEDENTED REARMAMENT PROGRAMME. NICARAGUA HAD BECOME A PLATFORM FOR COVERT MILITARY ACTION AGAINST

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6. THE PRESIDENT CONTRASTED NICARAGUA WITH EL SALVADOR. IN THE FORMER, THE GOVERNMENT HAD ABANDONED ITS ASSURANCES TO THE OAS THAT IT INTENDED TO RESPECT HUMAN RIGHTS; ELECTIONS HAD BEEN POSTPONED, DOMESTIC REPRESSION (INCLUDING THE MURDER OF INDIANS) INCREASED AND SUBVERSION OF NEIGHBOURING STATES BEGUN. IN EL SALVADOR, THE GOVERNMENT WAS TRYING TO INSTITUTE DEMOCRATIC ELECTIONS (IN FACE OF GUERILLA OPPOSITION) AND TO INAUGURATE A LAND REFORM PROGRAMME. PEOPLE IN THE US AND EUROPE SHOULD NOT BE MISLED; GUERILLAS ARMED AND SUPPORTED BY AND THROUGH CUBA WERE ATTEMPTING TO IMPOSE A MARXIST-LENNINIST DICTATORSHIP ON EL SALVADOR AS PART OF A QUOTE LARGER IMPERIALISTIC PLAN UNQUOTE.

7. THE US HAD TO ACT DECISIVELY LEST NEW CUBA'S SHOULD ARISE FROM THE RUINS OF TODAY'S CONFLICTS. TO HELP GOVERNMENTS CONFRONTED WITH AGGRESSION FROM BEYOND THEIR BORDERS, THE PRESIDENT WOULD ASK CONGRESS TO PROVIDE INCREASED SECURITY ASSISTANCE. IT WAS IMPORTANT TO LIVE UP TO THE RESPONSIBILITIES CONTAINED IN THE RIO TREATY WHICH HAD ESTABLISHED RECIPROCAL DEFENCE ARRANGEMENTS LINKED TO COMMON DEMOCRATIC IDEALS. QUOTE LET OUR FRIENDS AND ADVERSARIES UNDERSTAND THAT WE WILL DO WHATEVER IS PRUDENT AND NECESSARY TO ENSURE THE PEACE AND SECURITY OF THE CARIBBEAN AREA. UNQUOTE

8. THE PRESIDENT ADDED THAT THE US WOULD NOT, HOWEVER, FOLLOW CUBA'S LEAD IN ATTEMPTING TO RESOLVE HUMAN PROBLEMS BY FORCE. US ECONOMIC ASSISTANCE TO THE REGION WAS MORE THAN FIVE TIMES THE AMOUNT OF US SECURITY ASSISTANCE. THE US SOUGHT TO EXCLUDE NO ONE; THOSE WHO HAD TURNED FROM THE AMERICAN NEIGHBOURS AND HERITAGE WOULD BE WELCOME ONCE THEY RETURNED TO THE TRADITIONS AND COMMON HERITAGE OF THE WESTERN HEMISPHERE.

9. FULL TEXT OF THE SPEECH AND ACCOMPANYING FACT SHEET FOLLOW BY BAG. THE LATTER OUTLINES SPECIAL MEASURES FOR PUERTO RICO AND THE US VIRGIN ISLANDS. IT GIVES DETAILS OF CURRENT ACTIVITIES IN THE REGION OF THE INITIATIVES OTHER SPONSORS, AS WELL AS OF EUROPE, JAPAN AND MULTILATERAL AND CONSULTATIVE BODIES. THE ADMINISTRATION WILL SEEK A SUPPLEMENTAL OF DOLLARS 60 MILLION FOR INCREASED MILITARY ASSISTANCE TO THE REGION IN FY 82, AS AGAINST DOLLARS 350 MILLION FOR ADDITIONAL ECONOMIC HELP.