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January 9, 1986

National Security
Study Directive 1-86

Caribbean Policy Review (U)

Stability in the Caribbean is critically important to the economic and physical security of the U.S. In the hands of our adversaries--as was Grenada prior to October 1983--these island states would pose major problems for us. Although the Caribbean is relatively quiet today, it is threatened by an economic malaise that could be used by our strategic adversaries to our detriment. In Grenada, we were willing to sacrifice the lives of Americans to rescue that nation from Communism and chaos. We must now reaffirm our commitment to the Caribbean by finding new ways to strengthen the economies of the region. (S)(U)

Since my announcement of the Caribbean Basin Initiative (CBI) on February 25, 1982 and the entry into force of the CBI's one-way free trade area provision on January 1, 1984, important economic progress has been registered in the Caribbean Basin countries under this program. U.S. aid levels to the region have been increased four-fold over 1981 levels and non-traditional exports from the region to the U.S. have increased significantly in the last two years. (U)

However, a series of adverse economic developments affecting most countries of the Caribbean region has apparently more than offset the progress registered to date under the CBI. Consequently, popular expectations of economic gains from the CBI have not yet been met. Specifically: (S)(U)

- Caribbean nations dependent for export earnings on refined petroleum products and bauxite exports have been buffeted by the weak international oil market and slack demand for bauxite, coupled with increased competition from other bauxite suppliers; (U)
- Caribbean nations largely dependent on sugar for export earnings have faced a sharply depressed world market price for their sugar and stand to have their U.S. sugar quotas cut severely in accord with the provisions of the 1985 Farm Bill, requiring the operation of the U.S. sugar price support program at no cost to the Federal Government; and (U)

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-- Protectionist measures have emerged in Congress which threaten to close or limit existing U.S. market access for products of Caribbean Basin countries and to foreclose development of trade in new, non-traditional products. (U)

Moreover, leaders and the public more generally in many Caribbean Basin states evince disappointment at the economic results achieved to date under the CBI, for a variety of reasons, including: (S)(u)

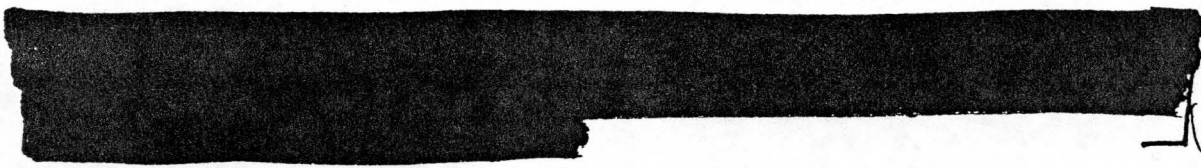
-- New investments and job creation in the Caribbean region to take advantage of the CBI's one-way free trade area have proceeded more slowly than desired, partly due to the lack of infrastructure in many Caribbean Basin states to attract and support investments; and (S)(u)

-- Some Caribbean states have benefitted significantly less than others from the CBI, partly owing to their different individual circumstances. (S)(u)

In view of the continuing high priority U.S. interest in bolstering the economic health and viability of countries in the Caribbean region -- to support and promote friendly, democratic governments in this strategically important area -- an inter-agency review should be conducted to determine what measures can be adopted to increase the effectiveness of the CBI and broaden its benefits for countries of the Caribbean region, and to mitigate the adverse economic impact for Caribbean countries stemming from reduced revenues from sugar and other traditional exports. This review should specifically identify: (S)(u)

-- measures or initiatives that could be taken to facilitate, or more rapidly create the necessary conditions for, Caribbean Basin states to take greater advantage of existing CBI opportunities; (S)(u)

-- measures or initiatives that could be taken, either by Executive action or through legislation, to broaden the current benefits available under the CBI, along with appropriate strategies to secure Congressional endorsement where necessary e.g., execution of an executive order expanding textile opportunities under section 807 of the Customs Code in CBI countries; (S)(u)

--  1.3 (S)(u)

-- impending legislative or regulatory threats to restrict existing access to the U.S. market for Caribbean region products, and steps necessary to avert these restrictions. (S)(u)

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Special attention should be given in this review to identify dramatic measures or initiatives to stimulate and promote new foreign investments in the Caribbean region. (u)

This review should also consider ways of enhancing cooperation of the Caribbean states with our efforts in the fields of narcotics and taxation enforcement,

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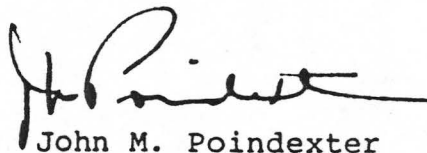
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Conduct of this review shall be the responsibility of an interagency group to be chaired by the National Security Council and with the participation, at the Assistant Secretary level, of the Departments of State, Treasury, Defense, Commerce, Agriculture, Justice, U.S. Special Trade Representative, U.S. Information Agency, U.S. Agency for International Development, U.S. Drug Enforcement Agency, and the Office of Management and Budget. Preparation of the particular CBI-related initiatives under this review shall be coordinated for presentation to the interagency group by the Caribbean Basin Initiative Task Force chaired by the U.S. Special Trade Representative. Preparation of the sugar related measures will be coordinated by the EPC working group on sugar. Preparation of the narcotics enforcement portion of this review will be coordinated by the National Drug Enforcement Policy Board. A report summarizing the conclusions of this review shall be submitted no later than February 7, 1986.

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FOR THE PRESIDENT:


John M. Poindexter