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March 8, 1993

PRESIDENTIAL REVIEW DIRECTIVE/NSC-21

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MEMORANDUM FOR THE VICE PRESIDENT

THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE ATTORNEY GENERAL
THE SECRETARY OF COMMERCE
UNITED STATES TRADE REPRESENTATIVE
DIRECTOR OF CENTRAL INTELLIGENCE
CHAIR, COUNCIL OF ECONOMIC ADVISERS
ASSISTANT TO THE PRESIDENT FOR ECONOMIC
POLICY
THE CHAIRMAN, JOINT CHIEFS OF STAFF
ADMINISTRATOR, AGENCY FOR INTERNATIONAL
DEVELOPMENT

SUBJECT: U.S. Policy Toward Latin America and the Caribbean (S)

OBJECTIVE

The objective of this policy review is to develop broad goals and strategies that will guide our policies toward Latin America and the Caribbean. The review should design overarching policies that apply to the region in general, as well as approaches that are specific to prominent sub-regions and individual nations. No presumptions should be made about limitations on policy. Possible conflicts among different policy options should be made explicit in the analysis. (S)

BACKGROUND

The United States has important interests in the survival and deepening of democracy and in the economic prosperity of Latin America and the Caribbean. The immediate challenge for the Administration is to reverse the backsliding from democratic practices experienced in Haiti and Peru, and to forestall the evident threats to democracy in Venezuela, Paraguay, Nicaragua, El Salvador, and elsewhere. At the same time, the United States must design a strategy that seeks to strengthen democratic institutions and practices throughout the region. This pro-democracy strategy should have both bilateral and multilateral components, and should give particular attention to reforming and bolstering the Organization of American States (OAS), as well as to the involvement of the non-governmental organizations seeking to advance human rights and democracy. (S)

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On the economic front, we also face serious challenges. While there has been significant progress in financial stabilization and trade and investment liberalization, the reforms are not deeply rooted and the risk of retrenchment to an inward-looking populism remains. Clearly, the U.S. has a strong political and economic stake in Latin American prosperity. Open and growing Latin American economies in which all segments of society share in the benefits of growth provide strong support to democratic governance. They also offer major commercial opportunities for U.S. business, which historically has viewed Latin American countries as important trade and investment partners. (S)

One important element of that economic strategy will be to implement the North America Free Trade Agreement (NAFTA). The President is committed to moving ahead with the NAFTA provided that adequate supplemental agreements can be negotiated on the environment, labor standards, and import surges. We will also want to explore mechanisms for establishing closer trade and investment relations with other Latin American and Caribbean countries, particularly those well advanced on economic reform. The availability of U.S. Government financial resources to support this strategy will be extremely limited, however. To the extent that significant official resources are needed, we will have to engage the multilateral development banks and third countries. (S)

Separate policy review directives are being initiated on several functional issues relevant to the region, including non-proliferation, environmental protection, foreign assistance, and anti-narcotics policy. Cuba, Nicaragua, Haiti, and Panama will also be addressed separately. (C)

I. ASSESSMENT

DEMOCRATIC GOVERNANCE

1. What are the major obstacles to the stability and deepening of democratic institutions and practices in this hemisphere? (State, CIA, AID) (C)
2. How has narcotrafficking impacted on the capacities and legitimacy of democratic institutions? Focus not only on the Andean countries, but also on the Caribbean, Mexico, Central America, and Brazil. (State, CIA) (C)
3. In which countries are military coups a serious threat? In particular, consider the outlook for democracy in Nicaragua, El Salvador, Peru, Paraguay, Guatemala, Honduras, the Dominican Republic, Suriname, and Venezuela. (State, CIA) (S)
4. What are the strengths and weaknesses in the structure, operations, and charter of the OAS that affect its capacity to promote human rights and democracy? Which countries generally have been supportive and which have been obstructionist in this regard? (State, USOAS) (C)

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5. Discuss the major political-military trends in the region, with particular reference to progress on subordination of military organizations to civilian rule, military downsizing, arms control, proliferation, regional security arrangements, and the definition of new missions for the military (e.g., U.N. peacekeeping missions). Include discussions of trends toward strengthening judiciary, legislatures, human rights organizations. (State, DOD, JCS) (C)

TRADE AND ECONOMIC DEVELOPMENT

1. What are the economic conditions, prospects, and trends in the region, including those for income growth and distribution? What are the implications for U.S. interests? (NSC, NEC, State, CIA, CEA, Commerce) (C)
2. How important, in trade and investment terms, is the hemisphere to the United States, both at present and potentially? For example, what would be the costs and benefits to the United States of a free trade community encompassing the entire hemisphere? Of an arrangement that permitted free investment flows? Of participation by nations beyond the hemisphere? (NEC, NSC, State, USTR, CEA, Commerce) (C)
3. What is the outlook for the various subregional trading areas, and what opportunities and competitive disadvantages does each offer for U.S. business? (NEC, NSC, State, USTR, CEA, Commerce) (S)
4. What is the likely outlook and timeframe for completing negotiations and Congressional approval of the NAFTA, implementing legislation, and the parallel agreements? What are the implications of an extension of "Fast Track" legislation for potential FTAs with other countries and groups of countries? (NEC, NSC, USTR, State) (C)
5. Do current circumstances warrant a continuation or modification of existing debt-reduction strategies? Project net resource flows by official and private sources, for countries of the region for the period 1990-1996. (NEC, NSC, Treasury) (S)
6. What is the likely economic impact of the NAFTA on the trade and investment opportunities facing the rest of the region, CBI, and ATPI beneficiaries? Political impact? Impact of a NAFTA disapproval by the Congress? (NEC, NSC, USTR, CEA, Commerce) (C)
7. How effective have the World Bank, the Inter-American Development Bank, and U.S. bilateral assistance been in promoting regional integration, structural adjustment, human resource development, and poverty alleviation in the region? (NEC, NSC, Treasury, AID) (S)

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MAJOR COUNTRY CASES

1. What are U.S. interests and objectives in Mexico? What are the objectives of the Mexican government regarding our bilateral relationship, and what leverage does that give us? What is the potential for improving cooperation on narcotics, immigration, and other issues? What is the likely future of economic and political reform in Mexico after Salinas? (State, CIA) (S)
2. What are U.S. interests in Brazil? What are the opportunities for us to engage Brazil over the short and medium run on trade, proliferation, narcotics, and other issues? (State, CIA, Treasury) (S)
3. How can we encourage Argentina to continue to pursue a constructive role in international issues of importance to us, such as nonproliferation? (State, NSC) (S)

II. POLICY PROPOSALS

Policy proposals should specify preferred course of action, other options, instrumentalities, and indicate resource requirements and their implications if any for the budget and for legislation. Moreover, a detailed schedule of events that demand action or that offer opportunities for initiative should be provided, including recommendations for speeches, meetings, and trips to the region by the President, Vice President, Secretary of State, and other cabinet officials. Include recommendations on the substance, timing, and venue of a first Latin America policy speech by the President. (S)

DEMOCRATIC GOVERNANCE

1. What policies should the U.S. pursue, bilaterally and multilaterally, to strengthen human rights and democratic institutions and processes throughout the region? Give special attention to policies tailored for Peru, Venezuela, and Central America, and within Central America, El Salvador, Guatemala and Nicaragua, aimed at overcoming the legacies of civil violence and polarization and at promoting reconciliation and democratic tolerance by both Right and Left. (State, DOD) (S)
2. In the event that we fail to forestall illegal interruptions of democracy, how should we and others react to get democracy back on track? How should we publicly signal such an intent? Proposed options should consider their symbolic impact on the rest of the Hemisphere, and the signals they emit regarding the risks that anti-democratic actions are likely to entail. (State) (S)
 - a. Design generic contingency plans to deal with a coup attempt while it is in progress, including a range of options in the public and private diplomacy areas. (State) (S)

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- b. Design specific contingency plans for responding to a successful coup in countries where the threat appears particularly grave, including Venezuela. (State, CIA) (S)
3. In considering instrumentalities for promoting democracy, suggest options for strengthening the OAS and NGOs. (State) (C)
 - a. In examining various ways to make the OAS a more effective instrument for the collective defense of democracy, what should be done to fortify the Unit for Democracy? Should the OAS evolve a peacekeeping capacity? How can the OAS best work with the United Nations? In this regard, what diplomatic strategies must we pursue to gain the cooperation of Europe and Japan? (State) (C)
 - b. NGOs (including political parties, trade unions, business and consumer groups, civic associations, and community organizations) are major building blocks of civil society. Without compromising their independence, how can the U.S. government and multilateral agencies nourish their development? (State) (U)
 - c. How can public diplomacy, including educational and cultural exchanges, be employed to promote grassroots democracy and other U.S. policy goals? (State, USIA) (C)
4. Explore the options for the United States to achieve the goals of smaller, professional armed forces subordinate to civilian rule in the region, and new, more effective regional proliferation and security arrangements? Can a reformed Inter-American Defense Board play a role? (State, DOD, JCS) (C)

TRADE AND ECONOMIC DEVELOPMENT

President Clinton has underscored the value to the U.S. economy of increased trade with Latin America and the Caribbean. Keeping in mind this objective and our interest in promoting open, market-oriented economies in Latin America:

1. What should be the Administration position on the concept and components of the Enterprise for the Americas Initiative? How can its component elements -- the Multilateral Investment Fund, bilateral debt relief, freer regional trade -- be modified to better reflect Administration priorities? (NEC, NSC, Treasury, State, USTR) (C)

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2. President Clinton has advocated building free trade agreements with other nations of the hemisphere:
 - a. Should the NAFTA be the cornerstone of our trade policy toward the hemisphere? If so, what should the NAFTA's role be? If not, what alternative approaches exist? (NEC, NSC, USTR, Treasury, State) (S)
 - b. What should be the criteria for opening FTA negotiations, and what should be our requirements for admission, to an FTA? Which countries or groups of countries would meet these criteria today, or are likely to do so in the next three years? (NEC, NSC, USTR, Treasury, State) (S)
 - c. President-elect Clinton reaffirmed U.S. intentions to negotiate an FTA with Chile. Should Chile be the next country in line for an FTA? If so, when? Should Chile accede to the NAFTA, or is a bilateral accord preferable? Should Argentina then be next in line? (NEC, NSC, USTR, Treasury, State) (S)
3. At least some countries will not be eligible for an FTA in the near future. What should we do to offset the predictable diversionary affects of the NAFTA? In particular, should we entertain some variant of the "parity" proposals being advanced by the CBI countries? (NEC, NSC, USTR, Treasury, State) (S)
 - a. How can we strengthen our trade and investment relations with non-FTA countries? For example, should the NAFTA establish a form of temporary, associate status, possibly allowing for a gradual phase-in of required reforms? (NEC, NSC, USTR, Treasury, State) (S)
 - b. As the number of countries adhering to the hemispheric free trade area increases, will it be desirable to strengthen the various incipient institutions established by the NAFTA, including the Ministerial Commission, the commissions on environment and labor, and the dispute settlement mechanism? Will an overarching institutional structure be necessary? (NEC, NSC, USTR, State, Treasury) (S)
 - c. Should we promote the development of an Americas Commission as a streamlined, more modest equivalent to the EC Commission? Of an organization modelled on the OECD for the hemisphere? Can such institutions help the hemisphere achieve sustained economic growth while also advancing human rights and democracy? (NEC, NSC, State, Treasury) (S)

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- d. What contributions can existing institutions, including the IDB, UN, ECLAC, and the OAS, make to this emergent regional architecture? (NEC, NSC, State, Treasury) (C)
 - e. How do we deal with exogenous impediments to trade that impact on key commodity exports, such as bananas, coffee, and sugar? For example, how can we overcome proposed EC regulations biased against Central America and Ecuadoran banana producers? (NEC, NSC, USTR, State) (C)
4. Latin America needs to generate and attract more financial resources if it is to attain non-inflationary, steady growth. We should, however, avoid market-distorting subsidies that promote the outflow of U.S. capital to low-wage areas. (C)
- a. What strategies should we encourage in the region to stimulate domestic savings and investment? (NEC, NSC, Treasury, State) (S)
 - b. Provide options to existing strategies to reduce debts owed to official and commercial lenders. How can we induce other donors to join our bilateral debt-reduction efforts? (NEC, NSC, Treasury, State) (C)
 - c. How can we induce the international financial institutions to be more responsive to the needs of countries with long-term negative resource flows? How do we deal with Sec. 701 and other restrictions that trigger cutoffs? (NEC, NSC, Treasury, State) (C)
5. Overcoming the region's vast inequalities and widespread poverty is essential if our other economic and political objectives are to be achieved. Please outline an integrated development assistance strategy, encompassing our bilateral programs and the international financial institutions, to achieve these ends in Latin America and the Caribbean. (NEC, NSC, AID, Treasury) (C)
- a. Propose options for obtaining MDB support for our key economic objectives, including regional integration, environmental protection, structural adjustment, human resource development, and poverty alleviation. In addition, consider their potential contribution to our human rights and democracy strategies, including dealing with corruption and other governance issues. (NEC, NSC, Treasury, State) (C)
 - b. What should be done to avoid wasteful duplication between the World Bank and the Inter-American Development Bank, fostering instead enhanced collaboration and an efficient division of labor? (NEC, NSC, Treasury) (C)

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- c. Critically assess the progress of the PDD and provide options for strengthening it. (NEC, NSC, State) (S)
- d. Provide options for reconsidering U.S. immigration policies in the Caribbean Basin in light of the region's economic development needs as well as the requirements of U.S. labor markets and other U.S. interests. Consider a program to provide work opportunities that offers preferential treatment to the Caribbean Basin, or to the Western Hemisphere (NEC, NSC, State, AID, Justice) (S)

THE MAJOR NATIONS: MEXICO, ARGENTINA, AND BRAZIL

To fulfill our hemispheric goals, we will need the cooperation, or at least the acquiescence, of the region's three dominant powers--Mexico, Brazil, and Argentina. What strategies should we pursue to gain their support for our hemispheric political and economic strategies? (State, Treasury) (S)

A POSSIBLE WESTERN HEMISPHERE COMMUNITY OF DEMOCRACIES

President Clinton has suggested the construction of a "Western Hemisphere Community of Democracies." What actions, in addition to those recommended above, might we take to advance this overarching objective? In particular, all agencies participating in this PRD should propose ways in which it can support regional cooperation, economic integration, and democratic progress through interactions with its counterpart agencies in Latin America and the Caribbean. (State, NSC, all participating agencies) (S)

III. TASKING

1. The Assistant Secretary of State for Inter-American Affairs, should convene a high-level Interagency Working Group (IWG) to conduct this review and to task specific drafting responsibilities. (S)
2. Working groups should be established for both the Assessment and Policy Proposals sections as follows:

<u>Working Group</u>	<u>Lead Agency</u>
Democratic Governance	State
Economic Development	NSC/NEC
Major Nations	State
Western Hemisphere Community	State/NSC

Agencies should contribute as indicated under each part of the Assessment and Policy Proposals sections. Other agencies receiving this memo may contribute as desired. Differences of opinion should be clearly stated rather than compromised for the sake of consensus. (S)

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3. Assessment papers are due March 17, and options papers are due March 25. Papers should be submitted to the State IWG Chairperson for forwarding to the NSC through formal channels. Information copies should be sent informally to the NSC by the chairman of each Working Group. (C)
4. NSC should draft the final options paper in consultation with State, and it should be submitted to the NSC Executive Secretary no later than April 12, 1993. (C)

Anthony Lake

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