

NATIONAL SECURITY COUNCIL MEETING

Thursday, May 28, 1981

TIME AND PLACE: 1:30-2:30 p.m.
The Cabinet Room

SUBJECT: US Policy for Caribbean Basin, US Relations
with the PRC, and Sinai Multinational Force
(S)

PARTICIPANTS:

The President

The Vice President

State
Secretary Alexander Haig
Deputy Secretary William F. Clark

Defense
Secretary Caspar Weinberger
Deputy Secretary Frank Carlucci

Commerce
Secretary Malcolm Baldrige

CIA
Director William Casey

JCS
General David Jones
Lt General John Pustay

ACDA
Director-Designee Eugene Rostow

White House
Edwin Meese III
James Baker
Michael Deaver
Richard V. Allen
Janet Colson

OMB
Associate Director William Schneider

NSC
Mr. James Lilley
Mr. Roger Fontaine
Maj. Robert Kimmitt
Maj. Christopher Shoemaker

Office of the Vice President
ADM Daniel J. Murphy

MINUTES OF MEETING

Mr. Allen began the meeting by outlining the agenda items. They were: Caribbean Basin policy, US relations with the PRC, arms transfer policies, and funding for the Multinational Force for the Sinai. He noted that decisions need to be taken only on the first issue; the other issues need preliminary discussion only. (S)

Issue 1 -- Caribbean Basin Paper

Mr. Allen said that at Secretary Haig's request the Caribbean paper should be taken up first. Last week it was reviewed, but this time the paper needed discussing.

Secretary Haig stated that what the US needed was a comprehensive long-term strategy to restore stability to the region. The three elements of the plan are (1) increased security assistance to the region; (2) comprehensive Caribbean Basin economic plan; and (3) firm measures to deal with Cuba.

The paper, the Secretary added, focuses on the first two issues. There is general agreement on the need for further security assistance. There are some questions being raised on the economic plan.

Nevertheless, we need to address both problems at the same time. We especially need the economic program as a backdrop to get support of Allies in Europe and Mexico and Venezuela.

The plan calls for a framework for cooperation with Canada, Mexico and Venezuela with the smaller countries of the Caribbean Basin. It would involve one-way free trade, promotion of foreign and domestic private investment and increased official capital flows. It is a long-term policy whose effect would be felt in FY 1983, and the amount involved is \$300-400 million.

The Secretary emphasized that we must act now to prevent further adverse propaganda, and he urged the President to approve the concept. If so, we can begin the consultative process.

Secretary Haig added that \$20 million in military sales and training would be needed in addition to the money being spent in El Salvador.

Secretary Haig expects contributions from other nations: Japan, Brazil, even Chile, and Argentina, plus the Europeans.

In this respect, this new approach differs from the Marshall Plan and the Alliance for Progress.

And again, the plan gives us the backdrop to do the tougher things. Finally, the Cuba paper will be ready for next week, though it is not a conclusive paper.

Mr. Allen asked if the Caribbean plan would be discussed with Lopez Portillo.

Secretary Haig said yes, it should be a key agenda item. Policy has already been discussed with the Venezuelans.

Mr. Allen recalled that Prime Minister Seaga of Jamaica had discussed this concept in January with even dollar amounts being assigned to countries. Could we involve Seaga in this in a public way?

The President observed that this plan would bring together the two continents. He very much would like to go to our friends with this while it is in the working level and thus elicit their views. The President made two other points. First, if we opened with the social end of it and then brought in the security element, this would avoid the stigma of gun boat diplomacy. "Throw the sweet end out first." The second point was that as the immigration discussion showed, if we did have a "baby Marshall Plan" for countries like Haiti, the economic refugees we now pick out of the water would have an incentive to stay home.

Secretary Haig observed that was precisely our intention. Moreover, countries now criticizing us would be in no position not to join in.

Mr. Schneider of OMB stated the concept was visionary, but OMB's concern was over a specific resource commitment. How are we going to allocate our available resources? Can we defer decision on this until we sort out FY 83?

Secretary Haig understood the problem, but the rough figure can be estimated to be \$300-400 million.

Secretary Weinberger believed the plan to be positive and affirmative, and it would have a multiplier effect. It would be hard to argue against it. Getting the private sector engaged will make it even better.

Mr. Allen asked if this can be advanced in Ottawa.

Secretary Haig said yes, after consultations with key Latin American states.

Secretary Weinberger argued that we should not wait too long for an announcement. The Lopez Portillo visit would be a good opportunity.

Mr. Allen asked if it should be a presidential announcement.

Secretary Weinberger said yes.

Director Casey suggested it should be done soon because there is now an organized campaign worldwide to make the US the villain in Central America.

Mr. Allen suggested that we have a coordinated, White House directed effort. Cabinet members and others should mention it in speeches, Qs & As, TV appearances.

Secretary Weinberger suggested that before a public announcement is made, it should be run by the ambassadors of the affected countries. He added this would be our response to the North-South rhetoric.

The President accepted the concept, and added "all signals are go."

Mr. Baker with the others agreed that we should also notify the major proposed participants before a public announcement was made.

Secretary Haig said we can move after the Lopez Portillo visit and the Venezuelans' and Canadians' acceptance.

Deputy Secretary Clark said Trudeau had already approved the concept. He also suggested avoiding using the term Marshall Plan because it is not a unilateral plan at all.

Mr. Allen observed the Japanese have already agreed to pay for a feasibility study on a Sea Level canal. Their interests in the Caribbean are increasing, and we will get their support.

Mr. Meese stated that if we got our priorities straight now, the budget question will resolve itself. It won't be an add-on figure because the Caribbean plan will have a high priority.

The President observed finally that he did not want it called the Reagan Plan. He already had a bridge named after him in Illinois, and a bar in Ireland.

Issue 2 -- China Policy

Mr. Allen introduced this issue by saying that this is a preliminary discussion only, and we will discuss five questions which have been put before you. This is not intended to take precedence over papers that we know are underway, but to complement what is going on in interagency groups. Next week

we hope to have a decision on these items and still have time to consider the whole question of China before the Secretary leaves for China. The five items under discussion will be:

- (1) Technology transfer to the PRC
- (2) Arms sales to Taiwan
- (3) China, Cambodia, Vietnam and the US role therein
- (4) China and Taiwan policy
- (5) Security relations with Peking

The NSC will meet on or about 4 June, and the China matters will be taken up again. If the process is more or less completed, then we can still reconsider the matters until the Secretary's departure. All of you are aware of the President's basic views, and we look forward to hearing from State, Commerce and Defense.

Secretary Haig said that it is somewhat premature to deal with five options, as there is a meeting on it this afternoon. But we can discuss matters in a preliminary way. On the first issue, there are, in fact, highly restrictive export controls on China which treat it like the USSR. While we are selling to countries like India on a much more liberal basis, these countries are in fact allied with the Soviet Union. The Chinese, on the other hand, are in the front line against the USSR and are fighting the Vietnamese. In the previous Administration, Carter made many promises to liberalize these controls, and Brzezinski had given almost a *carte blanche* in Peking. What we do must be done in full cognizance of what we plan to do on Taiwan. What we do with Peking will soften their resistance on Taiwan for what we plan to do later in the year. It is important to eliminate these restrictions which are offensive to China and to change China's status and not to treat it as a strategic adversary, which it is not.

The bureaucracy still views Communist China as the USSR, and we would like to get your approval for a liberalization of export controls. This liberalization option will be spelled out when the interagency review is over. But I must emphasize this is a very sensitive matter, and we cannot afford to have it leak. The final decision should be made by only a very few people and the decision held closely.

The President asked what is Japan's position.

Secretary Haig responded that the Japanese would not necessarily object to a liberalization of our exchange controls with China, as they could also benefit from this.

Secretary Weinberger pointed out that there would be a limitation to defensive weapons. We just want to get China off the prohibitive list, and we would look carefully at each item on a case-by-case basis. We must realize that Taiwan is a firm and strong ally, and we cannot preclude doing what we have to do for Taiwan. Ultimately, we cannot waiver from what we must do.

The President agreed with that principle.

Secretary Haig asked where we go on Taiwan.

Mr. Allen said that we should give the President a clear choice, but Secretary Baldrige has some comments on technology transfer to the PRC.

Secretary Baldrige said that the question is how far we should go in technology transfer.

Secretary Haig pointed out that what we are talking about is dual-based stuff--military and industrial, and placing the People's Republic of China in a different category from the USSR, and the items would be reviewed on a case-by-case basis.

Secretary Baldrige said that he is concerned about the fact that trade goes up and then tends to fall apart, as they do not have the infrastructure and the absorptive capability to handle advanced technology. He does not want to go too fast on this, but believes that if we handle it on a case-by-case basis, that would be all right.

Secretary Haig argued that there is a clear psychological value in raising the restrictions on China. They have felt this to be an insulting matter to be categorized as the Soviet Union.

Mr. Rostow said yes, China should be changed to a friendly and non-allied country, and we should encourage these exports to stabilize things in the Pacific. In our control process, we lack the clear-cut policy from the high levels, or real guidance. The lower levels do not sabotage the system; they just don't know what the top levels want. We must give them the word. Secretary Haig is right in moving concurrently on Taiwan, but we have these problems. The USSR pressures ourselves and our allies not to export to China, and China in turn pressures us and our allies not to export to Taiwan. We have to move both quietly and deliberately and ignore the noises from both sides.

Mr. Allen asked about arms sales to Taiwan.

Secretary Haig responded that we ought to be in-phase on this issue, and we should wait for Departmental advice on this. There is a separate paper in preparation on the Taiwan Relations Act, and what we should do about it. We are not moving on the advanced aircraft now and probably should not until after Peking and discussions. We look towards the end of the year. As you know, former President Ford got hit heavily in Peking. The Party Plenum is coming up, and any action we take in this respect could damage Deng, and he could fall. But we are going to sell defensive weapons to Taiwan, but it depends upon when we do it.

Mr. Allen emphasized that it is important to stress to the Chinese over and over again the Taiwan Relations Act.

Secretary Haig said that there is some pressure to move on the aircraft before we leave for Peking.

Mr. Meese argued that no decision should be made before Secretary Haig goes to Peking, that it is something for the future. That if we move on this before Peking, then you are taking over a completed decision. It is better to face this with some ambiguity on the sale.

Secretary Haig said that if we were to sell an F-16 or F-18, it would be difficult. They are now using an F-5E as an advanced aircraft. The new model of the F-5 would cause less problems, as it would be an extension of the current aircraft.

Mr. Meese said that this is probably not the time to raise arms sales in the Congress. There are a number of major arms sales there now--El Salvador, Venezuela, Pakistan--and we really don't need another one at this point.

Mr. Allen said that he doesn't really see that there is a contradiction here.

Secretary Haig said that the F-5G is probably a more cost-effective aircraft for Taiwan, but it is probably not the time to push it.

Director Casey said that we have a CIA report to the effect that you could never give enough planes to Taiwan to deal with China's air force. Probably a better way to go is to build up Taiwan's ground air defense. In this way they would be better prepared to deal with China.

Mr. Allen agreed. Taiwan should have more for air defense. This whole discussion we are having should crystallize matters for a decision next week. Now, we have China, Cambodia and Vietnam. Border incidents have intensified recently; Pol Pot's resistance is picking up, and Son Sann was here in the United States recently and had media treatment. The concern is that he will be swallowed by Pol Pot. So far we have been backing ASEAN, which is looking for a solution to the matter.

The President said that the Chinese are linked to Pol Pot, and back him as far as he knows. The US could not link up with this man. He has already murdered half of the Cambodians, and if he ever got back, he probably would murder the other half.

Secretary Haig said that the Chinese know that Pol Pot is not the answer, but there are nuances in this matter of a united front versus a third-party arrangement.

Secretary Haig recommended that we go very, very slowly on this. The Chinese have kept Pol Pot's Cambodians going, but in his view Hanoi can never win this fight, and there is no great hurry for us to take any specific action. We should support ASEAN, and he will be in ASEAN and will take this up with them. He will tell them what he discussed in China. He believes that the Chinese will go for a coalition where the Pol Pot people can win, but we have to be on guard on this matter.

Mr. Allen then said that there are two additional items on the list which we will allow to pass today and we will conclude this next week. One of the principal questions is how far do we go in our security relationship with China. We have in fact already in part discussed this question today.

Issue 3 -- Multinational Force in Sinai

Mr. Allen introduced this issue, citing the need to address the cost of the multinational force as negotiations continue. He pointed out that cost estimates already have increased from \$60 million to \$225 million. We know the costs may go up further due to inflation and other factors. We do not yet know where the money will come from to pay for this force. Even though the exact nature and composition of this force has not yet been determined, it is important that we examine, in a preliminary way, costs and their impact on the budget process.

Secretary Haig said that the costs to the US Government are not yet fully calculable because of a number of uncertainties. We do not yet know how much different parties will contribute and how much the US will pay by itself. We do know that the force we are talking about consists of three battalions (2500 men), of which one battalion and some support elements (1000 men) will be US. We also know that in FY 81 we will need \$10 million, \$3 million for the Director General's office and \$7 million for long-term procurement.

Sadat has said publicly that we cannot use existing Israeli facilities, but he will probably allow some limited use. Israel and Egypt have agreed to equal cost-sharing with the US, but it is very likely that we will have to bear most of the costs. In FY 82, we estimate that we will need approximately \$130 million in one-time start-up costs and then \$95 million in recurring annual costs. These figures assume that we will pay for everything. If DOD absorbs some of the costs and other developed states contributing units do likewise, the costs will come down. We need to acknowledge, however, that we will probably have to pay for the contribution of Third World states, and we should be tongue-in-cheek about the Israeli and Egyptian commitments as well. This means we will need a supplemental in FY 82.

We should bear in mind that the agreement we are about to reach is of historical proportions. The Carter Administration, which committed us to establishing this force, was completely unable to make progress on the negotiations. It is only President Reagan's credibility that has allowed negotiations to progress.

The President then asked about personnel costs. Aren't we just relocating troops and equipment that we would have to pay for anyway? So, aren't the personnel costs listed artificial?

Secretary Weinberger agreed, but pointed out that we were taking one US battalion effectively out of our available force structure.

The President argued that a battalion in the Sinai is a strategic advantage, because it is in the area in which we will probably have to fight.

Secretary Weinberger pointed out there are severe restrictions in what the US unit can and cannot do and therefore would probably not be available in an emergency.

The President said that, in an emergency, we would simply tell the Egyptians and Israelis that the troops are "going on leave" and move them where they are needed.

Secretary Haig agreed with this and said that, in private conversations, Sadat had encouraged the contingency role of the US unit. Sadat wanted the US unit to be available along the Red Sea littoral, the Horn of Africa, or other places.

Secretary Weinberger then suggested that OMB produce recommendations on how we should proceed.

Mr. Schneider said that, in OMB's view, the US will probably be stuck with the whole bill. Because of the policy issues involved, OMB supports the MNF, but OMB should have a role as the budget planning is developed. He asked for specific procedures:

- OMB would like details of the budget supplemental which will be proposed.
- OMB should clear on any Congressional consultations before they take place.
- DOD should be prepared to justify why DOD money is being used for peacekeeping operations, a break from tradition.
- OMB should be informed of changes in the agreement which have budget implications.

The President summarized his position by saying that we will not have a larger Army as a result of this deployment to the Sinai. We will simply pay for the same forces in a different location. Therefore, the costs may be somewhat misleading.

Issue 4 -- Arms Transfer Policy

Mr. Allen said that because of the Cabinet meeting we would not have time to discuss the arms transfer policy. We would, however, take up the issue next week which will allow one more week for interagency deliberations.