PN-AAW-552

IMPLEMENTATION OF SECTION 620(s) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

A REPORT TO THE CONGRESS FOR 1985

AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE
WASHINGTON, D.C.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

THE ADMINISTRATOR

23 JAN 1987

Dear Mr. Speaker:

In accordance with Section 620(s) of the Foreign Assistance Act of 1961, as amended, I am pleased to transmit for the President the annual report for 1985 on the implementation of this provision.

Eleven countries were cited in the report as appearing to have exceeded a comparative norm for military expenditures as compared to other countries regionally and worldwide. However, after examining these countries within their political, economic and security perspectives, no country was determined to be ruled out for assistance as a result of Section 620(s) considerations.

Sincerely,

M. Peter McPherson

Enclosure: a/s

The Honorable James C. Wright
Speaker of the House of Representatives
Washington, D.C. 20515

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

THE ADMINISTRATOR

2 3 JAN 1986

Dear Mr. Chairman:

In accordance with Section 620(s) of the Foreign Assistance Act of 1961, as amended, I am pleased to transmit for the President the annual report for 1985 on the implementation of this provision.

Eleven countries were cited in the report as appearing to have exceeded a comparative norm for military expenditures as compared to other countries regionally and worldwide. However, after examining these countries within their political, economic and security perspectives, no country was determined to be ruled out for assistance as a result of Section 620(s) considerations.

Sincerely,

M. Peter McPherson

Enclosure: a/s

The Honorable Claiborne Pell
Chairman, Committee on Foreign Relations
United States Senate
Washington, D. C. 20510

EXTRACT FROM FOREIGN ASSISTANCE ACT
OF 1961 AS AMENDED

Section 620(s) of the Foreign Assistance Act states that:

(1) In order to restrain arms races and proliferation of sophisticated weapons, and to ensure that resources intended for economic development are not diverted to military purposes, the President shall take into account before furnishing development loans, Alliance loans or supporting assistance [economic support fund] to any country under this Act, and before making sales under the Agricultural Trade Development and Assistance Act of 1954, as amended:

(A) the percentage of the recipient or purchasing country's budget which is devoted to military purposes; and

(B) the degree to which the recipient or purchasing country is using its foreign exchange or other resources to acquire military equipment.

(2) The President shall report annually to the Speaker of the House of Representatives and the Committee on Foreign Relations of the Senate his actions in carrying out this provision.

IMPLEMENTATION OF SECTION 620(s) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

A REPORT TO CONGRESS FOR 1985

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF STATE
WASHINGTON, D. C. 20523

December 1986

TABLE OF CONTENTS

INTRODUCTION

Section 620(s) requires the President to report annually to the Speaker of the House of Representatives and the Committee on Foreign Relations of the Senate on his actions in carrying out this requirement. The President's authority to administer this provision has been delegated through the Secretary of State and the Director of the International Development Cooperation Agency to the Administrator of the Agency for International Development (A.I.D.). The Administrator coordinates his report with other interested executive agencies which participate in the annual analyses of the quality and nature of military expenditures by countries receiving assistance under the economic aid programs described in the extract.

In implementing Section 620(s), the executive agencies involved, including the Agency for International Development, Departments of State and Defense, and the Arms Control and Disarmament Agency, examine the pattern of defense expenditures and military imports for each aid recipient country. To provide cross country comparability, defense expenditures are expressed as a percentage of gross national product (GNP) and of central government expenditures, and military import figures are expressed as a percentage of total imports. These three measures and their rankings are shown in the regional and worldwide tables included in this report. Statistical data used in the report are from 1983, the most recent year for which the most complete statistics were available for preparing the 1985 report.

Because of statistical deficiencies and the difficulty of making comparisions among disparate country methods of accounting, budget systems, and definitions of defense costs, the statistical analysis is used primarily to establish a checklist for Section 620(s) reporting purposes.

The report for 1985 cites the following eleven countries which appeared to have exceeded a comparative norm for military expenditures as compared to other countries regionally and worldwide, and were examined within their political, economic and security perspectives. Based on that review, it was concluded that considerations under Section 620(s) did not rule out assistance for these cited countries. Countries annotated below with an asterisk were not included in last year's report. For purposes of this report, Morocco has been included under the "Asia and Near East" category in line with A.I.D.'s structure.

AFRICA	ASIA AND NEAR EAST	LATIN AMERICA
Somalia	Egypt	*Ecuador
*Zimbabwe	Israel	Peru
	Jordan	
	Morocco	
	Oman	
	Pakistan	
	Yemen Arab Republic	

SUMMARY

AFRICA

Somalia has been in conflict with Ethiopia for a number of years. In 1982, Ethiopian forces attacked Somalia and continue to occupy two Somali border towns seized at that time. Tensions along the disputed Ogaden boundary continue between the two countries. Two dissident movements, supported by Ethiopia and Libya, have carried out border attacks against Somali forces in the Ogaden frontier area. In addition to the high cost of defending itself, Somalia is dealing with a heavy debt burden, a food deficit, and the continued flow of refugees from Ethiopia. Zimbabwe's defense expenditures, while still substantial, have decreased over the past several years. In addition to a perceived threat to its national security and the need to modernize and re-equip its army, the military forces also are challenged with securing its land locked petroleum pipeline and other transport links to the sea which pass through rebel-threatened areas in Mozambique.

ASIA AND NEAR EAST

The countries included in this region reflect the tensions within the region and perceptions of threats to security. Egypt's strategic location, security requirements of the Suez Canal, threats from Libya, and the revamping and upgrading of its defense capability, continue to place a heavy financial burden on the Egyptian Government. In order to deter aggression from other states, Israel continues to devote large amounts of resources to defense. It is not anticipated that defense expenditures will decrease in the near term. Jordan perceives its security situation as precarious because it is surrounded by more powerful states and subject to threats by radical groups. These groups have increased their acts of violence as a result of Jordan's peace efforts with Israel. However, given budgetary difficulties, Jordan is expected to scrutinize its defense expenditures. Morocco's defense expenditures have increased sharply as a result of a military modernization program undertaken in the 1970's, continued tensions in the Western Sahara and associated efforts to counter Soviet-supplied military equipment to Algeria. Defense expenditures are expected to remain at a high level as long as the Saharan conflict and rivalry with Algeria continue. In Oman, concern over the on-going war between Iran and Iraq, as well as modernization of its armed forces, and Soviet influence over the Marxist government of South Yemen, have kept defense expenditures at a high rate. Defense expenditures are expected to remain high in the near term although the lower oil prices may force Oman to review its heavy investment in military equipment. Pakistan's high level of defense expenditures are a result of the continuing modernization of its defense capabilities, concern about the Iran-Iraq war, the Soviet invasion of Afghanistan in 1979, and the Soviet intrusions into Pakistan. Defense expenditures for the Yemen Arab Republic (YAR) as a percentage of central government expenditures rose slightly from the 1982 statistics reported in last year's report, although as a percentage of gross national product, defense expenditures decreased slightly. Hostilities between the YAR and the communist-dominated South Yemen and Libya have waxed and waned since 1970. The recent coup in South Yemen has increased the external threat to the YAR as the doctrinaire communists now in power have advocated insurgency.

LATIN AMERICA

The high level of defense expenditures in Ecuador was incurred by an earlier administration which had purchased a significant amount of aircraft through the foreign military sales (FMS) program. President Febres Cordero, elected and inaugurated in 1984, represented the first successful democratic transition in over 24 years. He is carrying through on his promises to realign the priorities and activities of the government by establishing a policy framework within which markets can function, and government can focus on those social welfare activities the private initiative cannot support. Peru returned to constitutional democratic government in 1980 after more than a decade of military rule. Peru's high level of military expenditures is partly the result of Peru's concern for regional security, historically rooted in border disputes with Ecuador and Chile, and the fear that a flare-up on one frontier could lead to a two-front conflict. In addition, terrorism and drug trafficking pose threats to Peru's internal order. One of President's Garcia's stated policies is to reduce the size of Peru's military budget.

AFRICA

SOMALIA

The Somalia-Ethiopia War in 1977-78 seriously weakened Somalia's military, leaving the country with a very limited capability in air, naval and air/ground defense. The Somali Government correctly perceives that well-armed, Soviet-supported Ethiopian troops constitute a major threat to national security. Ethiopian troops made attacks on Somalia starting in 1982. Ethiopian forces continue to occupy two Somali border towns seized in 1982. Recently, tensions have risen along the disputed Ogaden boundary between Ethiopia and Somalia. Two dissident movements supported by Ethiopia and Libya, the Somali National Movement (SNM) and the Somalia Democratic Salvation Front (SDSF), have carried out border attacks against Somali forces in the Ogaden frontier area. Chronic skirmishes with Ethiopian troops and the activity of guerrilla factions have prompted Somalia to maintain high levels of military spending. We believe such events led the Somali Government to increase marginally its defense expenditures in 1983.

Beginning in early 1981, the Somali Government launched a major economic adjustment effort and successfully implemented two successive stand-by arrangements supported by the IMF. Substantial demand and supply-oriented policies including major exchange rate adjustment, fiscal and monetary restraint, and liberalization of agricultural pricing and marketing policies had a positive impact on the economy. After marked improvement between mid-1981 and late 1983, the Somali economy came under increasing stress in 1984 which continued into 1985. Somalia has had a continuing balance of payments (BOP) problem for over a decade with the trade imbalance and current account deficit steadily worsening. In addition, the country's heavy debt burden was estimated to be over $1.5 billion at the end of 1985. Responding to the continued flow of refugees from Ethiopia places an additional burden on the strained economy. Despite recent signs of growth in the agriculture sector, Somalia may not have overcome its traditional food deficit situation which necessitated large amounts of imports to maintain staple food consumption at minimum acceptable levels.

U.S. bilateral economic aid to Somalia is based on both long-term structural adjustment and short-term macro-economic stabilization objectives. The long-term effort is to build a base for productivity in a diversified economy. The short-term effort is to provide balance of payments support and reduce the public budget deficit. The FY 1985 U.S. economic assistance levels totalled $90.0 million. In addition, the humanitarian needs of Somalia's refugee population continue to be met through collaboration with other donors, under which the U.S. is providing a major portion of food assistance.

The Economic Support Funds (ESF) resources programmed for Somalia in FY 1985 were fully committed to a Commodity Import Program (CIP) supporting agriculture and the private sector and to studies related to policy reform and privatization. It provided the Somali economy with critical imports necessary to expand agriculture exports, domestic food production and activities of agro-based industry. Policy reforms in key sectors of the economy will continue to be tied to the ESF which provides needed foreign exchange for Balance of Payments support.

Conclusion: Considerations under Section 620(s) do not rule out assistance.

ZIMBABWE

Zimbabwe's defense expenditures, while still substantial, have declined in relative importance over the past several years despite a government perception of heightened threats to national security and the associated need for unusually high defense expenditures to modernize and re-equip an army which has had to absorb former guerrillas. Zimbabwe's military forces must face the challenge of securing the land locked country's petroleum pipeline and other transport links to the sea (which pass through rebel-threatened areas in Mozambique and require military efforts in support of Frelimo) through their presence in large numbers, controlling and diminishing dissident activities in Matabeleland, and the always present implicit threat of renewed South African border incursions.

Defense expenditures in 1983 as a percent of GNP are estimated at 6.4 percent of gross national product, considerably below the 1980 peak of 8.9 percent and equivalent to the 1977 figure. Defense expenditures as a percentage of central government expenditures (198[illegible] constant prices) are reported at 11.9 percent, less than one half of the 1980 peak ratio of 24.1 percent and just above the 1975 figure of 10.1 percent. There is a continuing government preoccupation with reducing the share of resources absorbed by defense expenditures as evidenced by the 1985/86 budget speech call for "a scaling down of the proportion of national resources being set aside for defense purposes".

Zimbabwe allocated a substantial share of its scarce exchange resources to non-military imports (98.4 percent) in 1983 although this pattern was less pronounced for the previous five years. The ratio of arms imports to total imports rose from 0.7 percent in 1978 to 5.4 percent in 1982 and then dropped precipitously in 1983 to 1.6 percent.

Conclusion: Considerations under Section 620(s) do not rule out assistance.

ASIA AND NEAR EAST

EGYPT

The statistical data for 1983 show that Egypt spent 17.4 percent of its government budget on defense. This was equivalent to 8.3 percent of GNP. Approximately 16.5 percent of the country's imports were military.

Egypt's strategic location and its willingness to assume the role of a stabilizing force in the region place a relatively heavy defense burden upon it. The security of the Suez Canal depends upon Egypt's ability to respond effectively to outside force. A threat exists from a hostile Libyan government on its western border. To assure its own defense, and to meet its responsibilities as a stable force in the region, Egypt has embarked on a program to replace outmoded Soviet defense equipment with modern Western weapons. This accounts for the high proportion of imports represented by military materials, though the percentage of military imports is down from 23 percent in 1982, due to rapid growth in non-military imports. Even with substantial assistance from the U.S. and other Western donors, this revamping and upgrading of defense capability continues to place a heavy financial responsibility on the Government of Egypt.

Growth of the Egyptian economy has slowed recently, due in large measure to the moderation of major external stimuli--revenues from oil exports, workers' remittances, tourism receipts--that propelled Egypt's rapid growth during the late 1970's. Gross Domestic Product has expanded at about 5 percent annually during the past two years, after growing at about 9 percent from 1974 to 1982. After showing a remarkable recovery from the effects of 1982-83 world economic recession, Egypt's balance of payments is now worsening again. Falling export earnings and increased imports caused balance of payments surpluses to become a deficit in 1985. Large government budget deficits in recent years have been a force for domestic inflation. Government expenditure increases have been led by rapid rises in salaries for government employees, subsidies and interest payments. Inflation runs at a relatively steady 15 percent to 20 percent per year. The Government of Egypt has begun the task of making a series of needed economic reforms, including exchange rate adjustments, measures to reduce government expenditures (includes subsidies), measures to improve the efficiency of government enterprises, and price reforms which will encourage production and more efficient use of scarce resources. Initial steps have been taken but further adjustments will be required.

The recent slowdown in Egypt's growth and development has not been the result of defense expenditures. Rather, it has resulted from outside shocks, especially in the world oil markets, and from numerous domestic economic policies that need reform. To the extent that economic adjustments succeed in stimulating the economy, probable levels of defense spending need not interfere with economic development objectives. Still, budget austerity will be part of the economic reform strategy. The defense establishment has already begun to feel the pressure for reduction of foreign exchange expenditure.

<u>Conclusion</u>: Considerations under Section 620(s) do not rule out assistance.

ISRAEL

While the Egypt-Israeli peace treaty brought peace between Egypt and Israel, the large amount of resources Israel devotes to defense reflects its continuing concern over the threat from Syria and from other Arab states in the region.

Through high levels of investment and with a highly skilled labor force, Israel has developed a modern industrial state whose citizens enjoy a standard of living comparable to that of Southern Europe. Since the Arab-Israeli war of 1973, Israel has continued to maintain both a large defense establishment and high levels of private consumption. An increasing proportion of national savings has, however, been channelled toward the financing of current government expenditures, and the level of gross domestic investment has declined from 32 percent of GDP in 1972 to 18 percent of GDP in 1985. High levels of consumption have been stimulated by deficit spending and by marked increases in real wages that outpaced productivity gains. In the early 1980's, the rate of inflation reached triple digit levels, but Israelis were largely protected against the erosive effects of inflation by a system of indexing nearly all forms of income and assets to rises in consumer prices or related exchange rate movements.

Expanding defense spending coupled with high levels of private consumption and the lessened ability of the Israeli economy to supply demanded goods and services because of falling investment led to growing goods and services deficits in the balance of payments. These deficits have been financed by large U.S. assistance flows, private transfers and concessional lending, and rising foreign commercial borrowing. At the start of the 1970's, the civilian goods and services deficit was under $700 million a year. In 1984, the deficit totalled $3.5 billion, equivalent to some 12 percent of GDP. External foreign debt ballooned from $5.1 billion in 1973 to $23.9 billion as of September 30, 1985.

In 1984, and the early part of 1985, balance of payments and inflation difficulties reached serious proportions. The U.S. responded with a $1.5 billion supplemenatal assistance program. In July 1985, the Israeli Government put into place an economic stabilization program. While serious long-term difficulties remain, these actions have eased the immediate problems and reduced inflation to about 15%-20%.

The United States maintains close security ties with Israel, and the U.S. assistance program is designed to help Israel deal with both its economic and military problems. In recent years, Foreign Military Sales credits and economic assistance have increased in amount, and, beginning in FY 1985, all such assistance has been provided as grants. U.S. economic assistance cannot, however, substitute for continuation and strengthening of the stabilization program Israel initiated in 1985, and for policies and programs designed to establish conditions conducive to self-sustaining growth.

Conclusion: Considerations under Section 620(s) do not rule out assistance.

JORDAN

Jordan has been and continues to be a friend of the West and a force for moderation, stability, and peace in the Middle East. Its security situation is precarious in that it is surrounded by larger and more powerful states and subject to threats and intimidation by radical groups. As Jordan's efforts towards peace with Israel have shown progress, radical and rejectionist elements have responded with increasing threats and acts of violence. Jordan's defensive capability relative to Syria's has declined dramatically over the last decade (though it is hoped that the reciprocal visits between King Hussein and President Assad marked the start of a period of reduced tensions). Like Israel, Jordan must have sufficient defensive strength to pursue a national policy of seeking peace without being intimidated or threatened by more radical elements.

Many economies in the region--Jordan included--have suffered serious setbacks in the wake of the worldwide recession combined with falling earnings from petroleum-related activities. Unlike many other countries, however, Jordan was quick to enact prudent domestic economic policies in response to the adverse impact of these developments, in particular reduced Arab aid flows, decreased remittances from expatriate Jordanians, and decreased export market opportunities in the region caused by the Iran-Iraq war. The growth in government spending was held down, and monetary expansion was kept low. Although the economic growth rate has slowed, it remained positive at 2% to 3% in 1984. (However, the per capita GDP growth rate was slightly negative.) Inflation has been kept low, at between 3% and 4%. Nevertheless, the government budget and the balance of payments are in deficit.

In showing a willingness to accept reduced growth rather than pursue a growth-at-all-costs course, the government of Jordan has made a sensible adjustment to adverse economic developments beyond its control. As the Government grapples with the problem of balancing its budget and dealing with balance-of-payment difficulties, it is expected that defense spending will come under greater scrutiny.

Conclusion: Considerations under Section 620(s) do not rule out assistance.

MOROCCO

Defense expenditures of Morocco increased sharply during the 1970's as a result of a military modernization program, fighting in the Western Sahara (previously a Spanish territory), and efforts to counter the introduction of Soviet equipment in neighboring Algeria. Saudi Arabia, France and the United States have provided support to upgrade the Moroccan armed forces. With the decline of oil prices, subsidies from the Saudis and other Gulf states have declined which has put pressure on internal financial resources to continue Morocco's military modernization.

Since 1976 Morocco has been fighting Polisario guerrillas in the Western Sahara, and occasionally in Morocco itself. The Polisario has received support from Algeria and Libya. The military situation in the Western Sahara has stabilized and Morocco has effective military control of the territory. However, this requires the stationing of a large part of the Moroccan army in the Western Sahara.

Morocco's current economic difficulties have their foundation in the phosphate boom in the 1970s. Morocco responded to the windfall of higher rock prices with inappropriately expansive economic policies including excessive external borrowing. When prices began to fall in the early 1980s, Morocco was over-extended. The global recession, high interest rates, the appreciation of the dollar, and five years of drought complicated the problem. With Spain and Portugal's entry into the European Community, export markets will be more restricted, exacerbating pressures.

External debt almost doubled between 1978 and 1984, reaching $13.2 billion or 108% of Morocco's GDP in 1984. In the absence of debt relief, the debt service ratio would have been approximately 63% in 1985. With debt relief, the debt service ratio was still a high 37.5%. In 1983, Morocco was unable to meet its debt servicing obligations and the government turned to the IMF and the World Bank for help. In negotiations with the IMF for an SDR 300 million ($317 million) Stand-By Agreement, the Government agreed to cut projected budget deficits, lift controls on a wide range of prices, reduce subsidies on consumer goods and move toward a more realistic exchange rate. These stabilization measures were complemented by fundamental economic reforms negotiated as part of the IBRD's first Industrial and Trade Policy Adjustment loan (ITPA I) signed in January 1984 for $150 million. Moroccan authorities negotiated ITPA II for $200 million in mid-1985. A second Stand-By Arrangement for SDR 200 ($220) million was signed in September 1985. Subsequently, the Paris Club of public creditors rescheduled Morocco's public sector debt and the London Club rescheduled debt to private banks (although this agreement was not ratified until early 1986). More debt rescheduling is still needed along with significant support from the World Bank.

Defense outlays have contributed to Morocco's resource gap and budget deficits. Other factors, already mentioned, were also important.

In fiscal year 1985, the United States provided Morocco with $34.5 million in economic assistance to enhance Morocco's capability to increase its agricultural production, reduce population growth and improve energy planning and policies. The program also focused on the continuing need for economic reform and stabilization and has begun to address constraints to private sector development.

Defense expenditures can be expected to remain high as long as the Saharan conflict and rivalry with Algeria continue. Resolution of the Saharan conflict could reduce military outlays. Concomitantly, a robust economy can be expected to increase the overall budget and thus reduce the proportion of resources being expended on the military.

Conclusion: Considerations under Section 620(s) do not rule out assistance.

OMAN

In 1983, Oman spent nearly half of its government budget and over one fourth of its GNP on defense. Defense continues to be a priority item in the budget, and expenditures have increased significantly in the past five years. Concern that the six-year war between Iran and Iraq could spill over to the Arab Gulf states and Iran's threat to close the Strait of Hormuz have kept modernization of Oman's armed forces a high priority. In addition, the Soviet influence with the Marxist government of South Yemen remains a major concern to Oman. The U.S. has helped Oman to upgrade and expand its defense infrastructure. We anticipate that defense expenditures will remain high over the next five years, although the recent drop in oil prices may force the Omanis to reconsider (among other things) the heavy investment in military equipment they have made in the past. Oman is expected to continue to look to foreign military sales (FMS) credits to defray some of these costs.

Oman is fundamentally an oil economy that needs and desires to diversify its economic base. In 1983, oil accounted for sixty-six percent of GDP and over ninety percent of export earnings. Because of this heavy reliance on oil, Oman is significantly affected by falling petroleum prices. Oman, not an OPEC member, has been able to increase its production of crude oil in the past to increase revenues. Since 1982 output has increased from about 325,000 barrels per day to almost 550,000 barrels per day. The Omanis are counting on new oil facilities coming on stream to push this level higher, although they understand that this higher level of production cannot continue indefinitely in view of Oman's limited oil reserves. In addition, because Oman has been producing oil at or near its production capacity, it does not have the option of trying to increase production to offset falling oil prices. Despite these production increases, Oman has a service account deficit in its current account, and the government has had to borrow funds in the international market. Economic growth is expected to slow in the coming years.

Since 1970, oil earnings have enabled the government to build infrastructure (roads, schools, hospitals), to establish a base for economic diversification and an environment for private enterprise, and to build a reserve fund for use after oil resources are depleted. Contributions to this fund, however, have declined as oil revenue has dropped. Some diversification has already occurred under the past five-year plan. Import substitution in petroleum refining led to a ten percent reduction in imports of petroleum products in 1983. Two cement works now fill the majority of construction needs. The decline in oil revenue has forced the government to rethink its five-year plan that was to begin in 1986. Some projects have been cancelled, others will be stretched out.

Oil revenues have permitted Oman to spend substantial sums on defense. Tighter budgets in the future will certainly impose difficult choices on the government. It is not yet clear what effect these changes will have on defense spending.

Conclusion: Considerations under Section 620(s) do not rule out assistance.

PAKISTAN

The Soviet presence in Afghanistan, since December 1979, continues to threaten Pakistan's security. Pakistan has extended an impressive welcome to the estimated two to three million refugees generated by the war, despite the risks to its internal stabilization. Since the 1979 invasion, the Soviets have maintained constant pressure on Pakistan through armed violations of Pakistani aerial and territorial sovereignty. Pakistan reported continuing incursions in 1985 and deaths among the civilian population. Pakistan's defense budget reflects the continuing modernization of its defense capabilities and concern about the on-going Iran-Iraq war, which threatens oil shipments through the Persian Gulf. Because of these threats, during the period 1979 to 1983, Pakistan's defense expenditures increased from 22% to 28% as a percentage of central government expenditures and from 5% to 5.4% of GNP. During the same period, Pakistan's military imports increased from 3.5% to 7.6% of total imports.

Pakistan's economy performed impressively under the 1979-1983 Five Year Plan despite military expenditures, the recent global economic slowdown and the enormous burden imposed by the Afghan refugees. (Multilateral assistance meets only about half of the cost of providing basic needs for the refugees.) Pakistan's GDP grew at 6.3% annually with manufacturing reaching a growth rate of 9%. Pakistan achieved self-sufficiency in wheat and its foreign exchange reserves grew from about $400 million to nearly $2 billion.

Then in FY 1984, Pakistan's economic performance suffered a set-back. Adverse weather and pests reduced agricultural production and various factors decreased remittances from workers in the Gulf. Reduced harvests, coupled with increases in world prices and excess liquidity built up during FY 1983, revived inflationary pressures. Given these conditions, the World Bank viewed favorably the 4.5% growth in GDP that Pakistan achieved.

In FY 1985, overall economic growth rebounded to 7.6%, but the budget deteriorated sharply, reflecting a substantially higher deficit because of tax revenue shortfalls and higher outlays for wheat, edible oil subsidies, and defense. The recovery in cotton output led to agricultural growth of 9.9% in FY 1985 compared to a decrease of 6.1% in 1984. The overall balance of payments deficit increased from $208 million in FY 1984 to $1 billion in FY 1985.

Pakistan substituted a shorter term Three-Year Priority Plan for its 1983-1988 Five Year Plan. Development priorities are similar but adjustments have been made to accommodate resource constraints, especially in the energy and education/social sectors.

The Soviet invasion of Afghanistan and Soviet intrusions into Pakistan have required an increase in Pakistan's defense expenditures. Although Pakistan has limited these increases. defense expenditures have imposed a heavy burden on this poor country, which has a per capita annual income of $390. Assistance from the U.S. and other friendly countries has made an important contribution to lessening the economic impact of Pakistan's military modernization efforts and maintaining economic growth.

<u>Conclusion:</u> Considerations under Section 620(s) do not rule out assistance.

YEMEN ARAB REPUBLIC

After the 1972 Revolution and nearly ten years of civil war, the Yemen emerged from a medieval theocracy as the Yemen Arab Republic (YAR). Hostilities between the YAR and the communist-dominated South Yemen have waxed and waned since 1970. During 1979-82, YAR military capability was the key in defeating the National Democratic Front (NDF) insurgency directly supported by South Yemen and Libya and indirectly by the Soviet Union. YAR military successes in mid-1982 and a subsequent political agreement with South Yemen and the NDF diminished the threat. However, the recent coup in South Yemen increased the external threat because it brought to power doctrinaire communists who have, in the past, advocated insurgency.

Yemen remains a poor country. Its per capita Gross National Product (GDP) is estimated at $550. Life expectancy is about 45 years; adult literacy is 9 percent; infant mortality rates are 173 per 1000; and only 14 percent of Yemen's six million people have access to safe water.

Yemen's Gross Domestic Product (GDP) growth rate decelerated from 9.6% in 1982 to 2.4% in 1983 and remained in this low range in 1984 and 1985. Agriculture, which contributed to 46% to GDP in 1973, declined in importance, accounting for only 23% of GDP in 1984. The end of the oil boom in the Gulf states led to leveling off in the inflow of remittances ($1 billion officially recorded in 1984/5) and to a sharp reduction in Arab aid (from $462 million in 1982 to $142 million in 1984).

In mid-1983 the Yemeni Government began to correct this fiscal situation. The budget deficit was reduced to 25% of GDP. To stem imports, the Government tightened import licensing and abandoned a fixed exchange rate. From February 1984 to October 1985 the Yemeni real depreciated by nearly 70% vis-a-vis the dollar. As a result of these steps, recorded imports fell, in dollar terms, by 8% in 1983 and 25% in 1984. While oil was discovered in the Marib region adjoining Saudi Arabia and South Yemen in 1984, and a small refinery for local consumption was later opened, Yemen's oil production is not expected to generate foreign currency until at least 1988. Even now the quantity of oil reserves is unknown.

The large budgetary expenditures for defense accounted for 32% of government expenditures and 15.4% of GNP in 1983. The large number of Yemenis that man the security forces adds to the male labor shortage in Yemen, although by far the main cause of the domestic labor shortage is the migration of Yemeni workers to Saudi Arabia and other Gulf states. Until recently, the YAR's efforts to modernize have been supported by assistance from a wide variety of donors, particularly Saudi Arabia, and by the remittance flows. Consequently, we do not believe that military expenditures have adversely affected economic development. On the other hand, the recent decline in remittances, the effects of the drought, and the sharp decline in Arab aid have made the YAR's financial situation extremely difficult. The expected increase in government revenues from oil exports should relieve some of the financial pressure and should permit the YAR to allocate a larger percentage of government revenues towards economic development than was possible previously.

Conclusion: Considerations under Section 620(s) do not rule out assistance.

LATIN AMERICA

ECUADOR

In spite of a worsening domestic and international economic situation, Ecuador successfully elected and inaugurated a new President in 1984, the first successful democratic transition in over 24 years. The administration of President Leon Febres Cordero was elected on a free-enterprise, market-oriented platform. Febres Cordero is carrying through on his promises to realign the priorities and activities of the Government of Ecuador (GOE) by establishing a policy framework within which markets can function, and government can focus action toward those social welfare activities that private initiative cannot support.

Social programs are vital in this country. Malnutrition and lack of access to educational opportunities are serious problems in rural areas. Infant mortality is high and population growth is outstripping agricultural production.

The GOE strategy has been, first, to stabilize the deteriorating economic situation and then to undertake a series of policy reforms aimed at restructuring the economy over the medium term. During FY 1985, the new GOE administration undertook a sweeping economic reform program. Through successful implementation, the government stabilized its finances in 1985. Going into 1986, the prospects were bright, with a 4% growth rate within sight.

The economic strategy did not foresee the precipitous fall in the price of petroleum. Crude oil prices fell from an average of $25.85 per barrel to $13.85 per barrel. As a result, Ecuador will lose over $800 million in oil export revenues and approximately $500 million in domestic revenues. The Ecuadorean authorities took immediate steps to increase non-petroleum revenues and curtail public expenditures. A far-reaching program of reforms which included the establishment of a free foreign exchange market for all private transactions, lifting the ceiling on most interest rates and reducing the reserve requirements on private domestic savings institutions was put in place.

In spite of the government's dramatic efforts, the outlook for the short and medium term is for a continued low rate of growth. Lower export earnings from petroleum will limit Ecuador's capacity to finance imports for the productive sectors of the economy. On the social side, the cost of the crisis is already high. Official unemployment in urban areas has risen to 12%, underemployment to 50%, and inflation to 28%. Hardest hit are the urban poor, the rural population not involved in the export sector, and indigenous communities. Incomes are likely to continue their downward plunge among these groups.

It is essential that the country continue to restructure its economy for long term growth. To reinforce the measures already taken and to address the social costs associated with them, Ecuador needs increased international support through a combination of public and private resources. Also, it must reinforce its efforts to promote foreign and domestic investment and broaden its export base.

The most recent IMF statistics on military expenditures available for this report are for 1983. Under the then GOE administration, a significant purchase of aircraft through the FMS program, in order to modernize equipment, temporarily skewed GOE military import statistics. The 1983 data show that military imports reached 11.6% of total imports temporarily placing Ecuador as the fourth highest country in military imports among AID recipients worldwide. For the same period, however, Ecuador ranked twenty-ninth on the list of A.I.D. countries worldwide measuring defense expenditures as a percent of government expenditures, and forty-sixth worldwide in defense expenditures as a percent of gross national product.

Conclusion: Considerations under Section 620(s) do not rule out assistance.

PERU

Peru returned to constitutional democratic government in 1980 after more than a decade of military rule. In July 1985, for the first time in 40 years, one democratically elected government succeeded another democratically elected government in Peru when Alan Garcia assumed the presidency. Garcia inherited an economy that was in one of the most severe economic recessions of Peru's history. That economic crisis continues, although it has been somewhat abated by a short-term economic program which has lowered the inflation rate and a debt service policy limiting payments to 10% of export earnings. Some progress was made in improving the welfare of the people during Garcia's first year in office by increasing employment and reducing inflation. Few reforms having long term beneficial effects have been implemented. Per capita income is lower than ten years ago and recent data indicate a surprisingly high incidence of malnutrition and poor health conditions in rural areas. The leftist "Sendero Luminoso" (Shining Path) insurgency and terrorist movement, which arose during the long period of stagnation, is a serious obstacle to peaceful social change and growth. The government is also devoting considerable time and resources to combatting the illegal cocaine trade.

Investment and savings have lagged in Peru. The country suffered in recent years from depressed commodity prices which have cut earnings from traditional exports. In mid-1984, Peru started to fall behind in its debt service obligations; arrearages are now about equal to yearly exports. Among the government's measures to generate short-term improvements, the 10% limitation on debt service implies that less than $300 million per year is being made available for payment of external debt obligations. This policy requires that only selected creditors be paid since current annual debt service coming due (amortization and interest) exceeds $2.0 billion. This policy has aggravated relations with creditors and, in addition, because of non-payment, Peru is now ineligible for new drawings from the IMF.

The GOP emphasis is on increasing agricultural production and promoting development in rural areas while providing improved health and social services, particularly in the poorest Andean regions which are targets of the insurgency. While we endorse this policy, a number of complementary reforms are necessary if self-sustained growth is to be achieved.

Peru's high level of military expenditure is driven by several factors, external and domestic. An important historical impetus for military procurement is Peru's concern for regional security, which is rooted in border disputes with Ecuador and Chile and the fear that a flare-up on one frontier could lead to a two-front conflict. Terrorism and drug trafficking are related threats to internal order which pose another strong motive for military expenditure. The Armed Forces Commander stated that Peru's primary concern today is countering the internal threat. The brutality of the indigenous Maoist Sendero Luminoso, which has terrorized the remote south-central mountains of Ayacucho to the extent that military control has been imposed on the area, is a well-documented corrosive influence on Peruvian society. The Sendero Luminoso has expanded beyond its mountain headquarters and is now a source of frequent terrorist acts in Lima and other parts of Peru. Similarly, illicit narcotics cultivation and trafficking have blossomed as major challenges to the GOP (as well as to

U.S. interests). Long oriented toward external threats, the Peruvian military found itself ill-equipped to handle the very different challenge posed by internal subversion. As a result, new requirements for military procurement have arisen. Within the GOP, between the civilian government and the military, there are conflicting views as to the balance which must be struck between military preparedness and fiscal prudence in a time of economic recession. Resolution of conflicting policy approaches is complicated by the military's strong role in the political system and the constraints this heritage imposes on economic planners trying to control the budget.

One of the stated policies of the Garcia government is to reduce the size of its military budget. Peru has negotiated a 50% reduction in planned purchases of Mirage jets. It has also tightened up on the military, particularly in the area of human rights. The new GOP has also initiated an effort in Latin America for a regional agreement limiting expenditures on armaments in Latin America.

United States concerns about the level and orientation of military spending in Peru, at a time of stringent economic circumstances, have been made known to Peruvian authorities in a variety of discussions. The relationship between military spending, overall fiscal measures and the requirements of economic stabilization is a topic we are continuing to discuss with the Garcia government in the context of our overall bilateral relationship. However, the United States has a broad range of interests in Peru. Although military spending levels are a valid matter of concern, suspension of bilateral assistance programs to Peru for this reason would be an inappropriate response at this critical juncture in Peruvian history.

<u>Conclusion:</u> Considerations under Section 620(s) do not rule out assistance.

COUNTRIES WITH THE HIGHEST RANKINGS
ON MEASURES INCLUDED IN
SECTION 620(s) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED
(LISTED ALPHABETICALLY)

AFGHANISTAN a/

BURMA a/

ECUADOR

EGYPT

ISRAEL

JORDAN

MOROCCO

OMAN

PAKISTAN

PERU

POLAND a/

SOMALIA

YEMEN, NORTH

ZIMBABWE

a/ Assistance for Afghanistan is not provided directly through the Government; therefore, no narrative is required for purposes of this report. Burma does not receive DA loans, ESF or PL 480/Title I; therefore, no narrative is required. Poland, while receiving ESF from the FY 1984 Supplemental, does not require a narrative since it otherwise would not receive assistance.

A STATISTICAL OUTLINE OF COUNTRIES
SECTION 620(S) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED
WORLD RANKINGS
OF AID RECIPIENT COUNTRIES

COUNTRY	DEFENSE EXPENDITURES AS PERCENT OF: CENTRAL GOVERNMENT EXPENDITURES PCT.	RANK	GROSS NATIONAL PRODUCT PCT.	RANK	MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS PCT.	RANK
AFGHANISTAN	35.7	2	5.0	13		
BANGLADESH	12.9	25	2.3	35	2.7	22
BELIZE						
BOLIVIA					0.0	39
BOTSWANA	7.1	44	3.0	25	0.0	39
BURKINA FASO	20.2	12	2.8	27	0.0	39
BURMA	19.5	15	3.3	22	7.4	8
BURUNDI	16.1	22	3.2	23	0.0	39
C. AFRICAN REP.	10.8	30	2.0	41	0.0	39
CAMEROON	8.2	40	2.1	37	6.0	14
CAPE VERDE					0.0	39
CHAD	20.5	11	2.4	32		
COMOROS						
CONGO	7.4	42	3.6	18	1.2	28
COSTA RICA	3.5	54	0.7	57	0.0	39
CYPRUS	11.2	28	3.6	18	1.6	25
DJIBOUTI						
DOMINICAN REP.			1.5	47	0.0	39
ECUADOR	11.0	29	1.6	46	11.6	4
EGYPT	17.4	18	8.3	6	16.5	3
EL SALVADOR	22.2	9	4.0	15	4.4	17
EQUATORIAL GUINEA						
FIJI					0.0	39
GAMBIA, THE			0.0	59	0.0	39
GHANA					0.3	37
GRENADA						
GUATEMALA	16.4	21	2.4	32	0.4	36
GUINEA					0.0	39
GUINEA-BISSAU					0.0	39
HAITI	8.9	39	1.4	50	0.0	39
HONDURAS					1.4	27
INDIA	17.6	17	3.5	20	7.1	9
INDONESIA	13.7	24	2.8	27	0.8	31
ISRAEL			29.0	1	3.8	19
ITALY	4.7	50	2.7	30	0.2	38
JAMAICA	2.6	55	1.3	52	0.0	39
JORDAN	29.5	4	14.9	4	36.2	1
KENYA	6.9	45	2.1	37	3.9	18
LEBANON	20.0	13			6.5	12
LESOTHO	10.7	31	3.7	17	0.8	31
LIBERIA	7.3	43	2.8	27	2.4	24
MADAGASCAR	10.2	32	2.1	37		
MALAWI	6.0	48	1.7	44	0.0	39
MALI	7.9	41	2.7	30	0.0	39
MAURITANIA	17.1	20	5.8	9	0.0	39

A STATISTICAL OUTLINE OF COUNTRIES
SECTION 620(S) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED
WORLD RANKINGS
OF AID RECIPIENT COUNTRIES

COUNTRY	DEFENSE EXPENDITURES AS PERCENT OF: CENTRAL GOVERNMENT EXPENDITURES PCT.	RANK	GROSS NATIONAL PRODUCT PCT.	RANK	MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS PCT.	RANK
MAURITIUS	0.8	56	0.2	58	0.0	39
MOROCCO	17.2	19	8.2	7	8.9	6
MOZAMBIQUE						
NEPAL	5.5	49	1.1	53	1.0	30
NIGER	3.7	53	0.9	55	0.0	39
OMAN	49.1	1	27.9	2	11.6	4
PAKISTAN	27.9	5	5.4	12	7.6	7
PANAMA					0.0	39
PARAGUAY	19.3	16	1.9	42	0.0	39
PERU	26.2	6	5.6	11	7.0	10
PHILIPPINES	15.1	23	1.9	42	0.5	35
POLAND	23.1	7	5.8	9	2.6	23
PORTUGAL	9.9	34	3.5	20	0.6	33
RWANDA	10.1	33	1.4	50	0.0	39
SAO TOME & PRINCIPE					0.0	39
SENEGAL	9.1	35	2.3	35	0.0	39
SEYCHELLES						
SIERRA LEONE	6.2	47	0.9	55	2.9	21
SOMALIA	22.7	8	9.1	5	33.4	2
SPAIN	9.0	36	2.1	37	0.6	33
SRI LANKA	3.9	52	1.5	47	0.0	39
SUDAN	9.0	36	1.7	44	5.9	15
SWAZILAND	11.5	27	3.1	24	0.0	39
THAILAND	19.9	14	3.9	16	3.1	20
TOGO	6.8	46	2.4	32	0.0	39
TUNISIA	9.0	36	2.9	26	1.2	28
TURKEY	21.4	10	4.9	14	6.4	13
UGANDA			1.0	54	7.0	10
YEMEN, NORTH	32.0	3	15.4	3		
ZAIRE	4.3	51	1.5	47	5.6	16
ZAMBIA					0.0	39
ZIMBABWE	11.9	26	6.4	8	1.6	25

38?

AID REGION: AFRICA

COUNTRY	DEFENSE EXPENDITURES AS PERCENT OF: CENTRAL GOVERNMENT EXPENDITURES		GROSS NATIONAL PRODUCT		MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS	
	PCT.	RANK	PCT.	RANK	PCT.	RANK
ALGERIA	6.2	25	2.7	13	3.3	10
ANGOLA	62.5	1	23.2	1		
BENIN			2.6	16		
BOTSWANA	7.1	21	3.0	10	0.0	19
BURKINA FASO	20.2	4	2.8	11	0.0	19
BURUNDI	16.1	7	3.2	8	0.0	19
C. AFRICAN REP.	10.8	11	2.0	25	0.0	19
CAMEROON	8.2	17	2.1	22	6.0	4
CAPE VERDE					0.0	19
CHAD	20.5	3	2.4	19		
COMOROS						
CONGO	7.4	19	3.6	7	1.2	16
DJIBOUTI						
EQUATORIAL GUINEA						
ETHIOPIA					60.0	1
GABON	5.0	28	2.7	13	1.3	15
GAMBIA, THE			0.0	35	0.0	19
GHANA					0.3	18
GUINEA					0.0	19
GUINEA-BISSAU					0.0	19
IVORY COAST	4.1	30	1.3	30	1.6	13
KENYA	6.9	22	2.1	22	3.9	7
LESOTHO	10.7	12	3.7	6	0.8	17
LIBERIA	7.3	20	2.8	11	2.4	12
MADAGASCAR	10.2	13	2.1	22		
MALAWI	6.0	27	1.7	26	0.0	19
MALI	7.9	18	2.7	13	0.0	19
MAURITANIA	17.1	6	5.8	4	0.0	19
MAURITIUS	0.8	32	0.2	34	0.0	19
MOZAMBIQUE						
NAMIBIA						
NIGER	3.7	31	0.9	32	0.0	19
NIGERIA	11.7	9	2.5	17	3.5	9
REUNION						
RWANDA	10.1	14	1.4	29	0.0	19
SAO TOME & PRINCIPE					0.0	19
SENEGAL	9.1	15	2.3	21	0.0	19
SEYCHELLES						
SIERRA LEONE	6.2	25	0.9	32	2.9	11
SOMALIA	22.7	2	9.1	2	33.4	2
SOUTH AFRICA	17.8	5	4.3	5	0.0	19
SUDAN	9.0	16	1.7	26	5.9	5
SWAZILAND	11.5	10	3.1	9	0.0	19
TANZANIA	6.3	24	2.5	17	3.7	8
TOGO	6.8	23	2.4	19	0.0	19
UGANDA			1.0	31	7.0	3
ZAIRE	4.3	29	1.5	28	5.6	6
ZAMBIA					0.0	19
ZIMBABWE	11.9	8	6.4	3	1.6	13

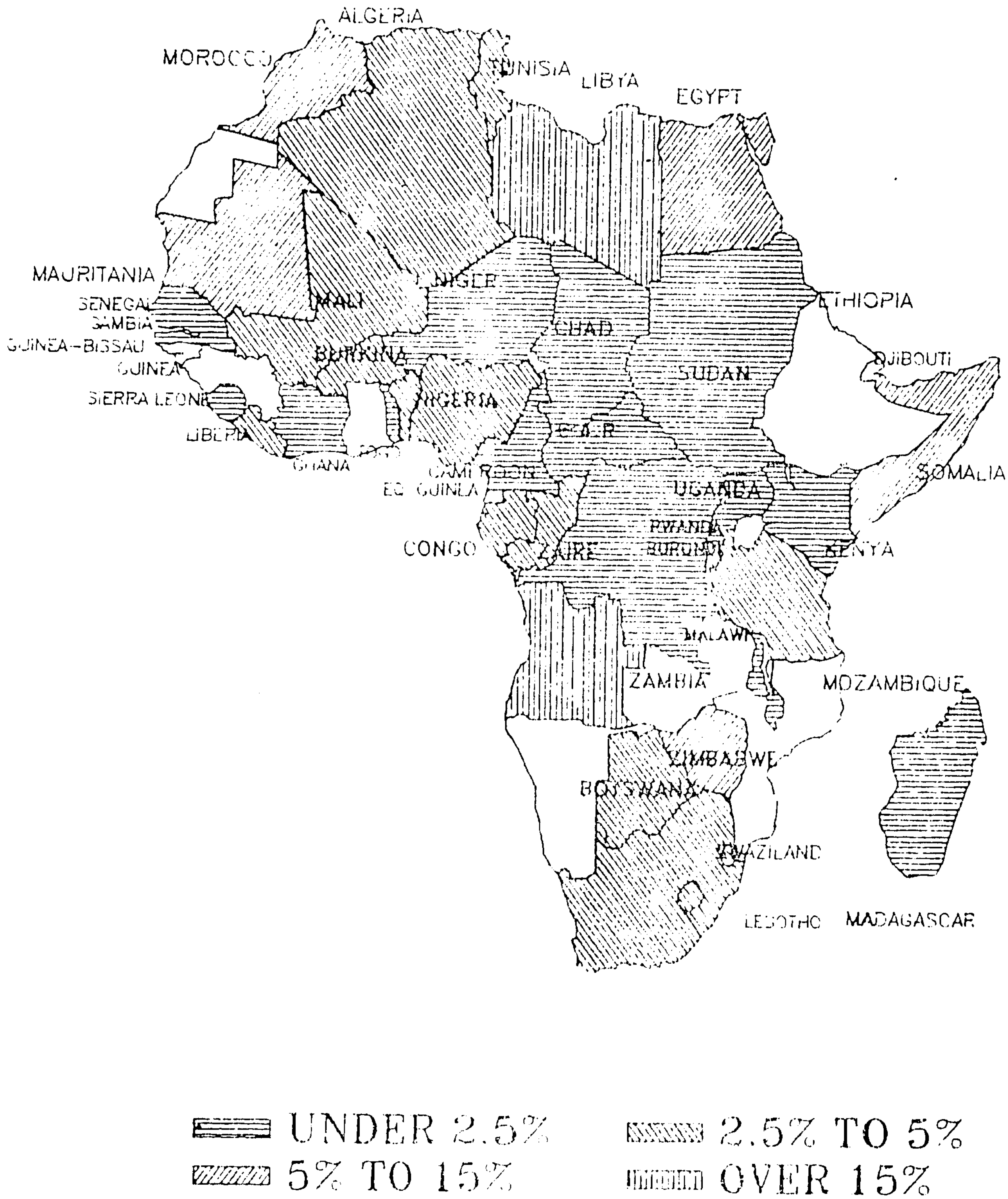
AID REGION: ASIA AND NEAR EAST

COUNTRY	DEFENSE EXPENDITURES AS PERCENT OF: CENTRAL GOVERNMENT EXPENDITURES PCT.	RANK	GROSS NATIONAL PRODUCT PCT.	RANK	MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS PCT.	RANK
AFGHANISTAN	35.7	3	5.0	19		
AUSTRALIA	10.2	29	2.8	31	1.7	21
BAHRAIN	10.8	28	4.0	23	0.5	33
BANGLADESH	12.9	25	2.3	34	2.7	19
BHUTAN						
BURMA	19.5	16	3.3	29	7.4	11
CYPRUS	11.2	27	3.6	26	1.6	23
EGYPT	17.4	18	8.3	10	16.5	5
FIJI					0.0	39
GREECE	15.0	22	6.2	13	4.9	15
HUNGARY	7.6	34	4.3	22	0.2	37
INDIA	17.6	17	3.5	27	7.1	12
INDONESIA	13.7	24	2.8	31	0.8	28
IRAN	14.9	23	5.0	19	4.1	16
IRAQ			47.2	1	42.3	2
ISRAEL			29.0	2	3.8	17
ITALY	4.7	37	2.7	33	0.2	37
JAPAN	5.5	35	1.0	42	0.5	33
JORDAN	29.5	7	14.9	8	36.2	3
KAMPUCHEA						
KOREA, REP. OF	27.9	8	5.8	14	1.1	26
KUWAIT	9.2	31	4.0	23	1.2	24
LAOS						
LEBANON	20.0	14			6.5	13
LIBYA	26.6	10	17.5	5	25.7	4
MALAYSIA	11.8	26	5.2	18	1.7	21
MALDIVES						
MALTA	2.5	41	1.1	40	0.0	39
MOROCCO	17.2	19	8.2	11	8.9	8
NEPAL	5.5	35	1.1	40	1.0	27
NEW ZEALAND	4.7	37	2.2	35	0.7	29
OMAN	49.1	1	27.9	3	11.6	7
PAKISTAN	27.9	8	5.4	17	7.6	10
PAPUA NEW GUINEA	3.0	40	1.2	39	0.0	39
PHILIPPINES	15.1	21	1.9	37	0.5	33
POLAND	23.1	11	5.8	14	2.6	20
PORTUGAL	9.9	30	3.5	27	0.6	30
QATAR					15.7	6
SAUDI ARABIA	29.6	6	24.3	4	8.4	9
SINGAPORE	17.1	20	5.8	14	0.6	30
SPAIN	9.0	32	2.1	36	0.6	30
SRI LANKA	3.9	39	1.5	38	0.0	39
SYRIA	29.8	5	13.0	9	43.7	1
THAILAND	19.9	15	3.9	25	3.1	18
TUNISIA	9.0	32	2.9	30	1.2	24
TURKEY	21.4	12	4.9	21	6.4	14
U.A.E.	36.4	2	7.9	12	0.4	36
VIETNAM						
WESTERN SAMOA						
YEMEN, NORTH	32.0	4	15.4	7		
YEMEN, SOUTH	21.0	13	17.4	6		

AID REGION: LATIN AMERICA AND THE CARIBBEAN

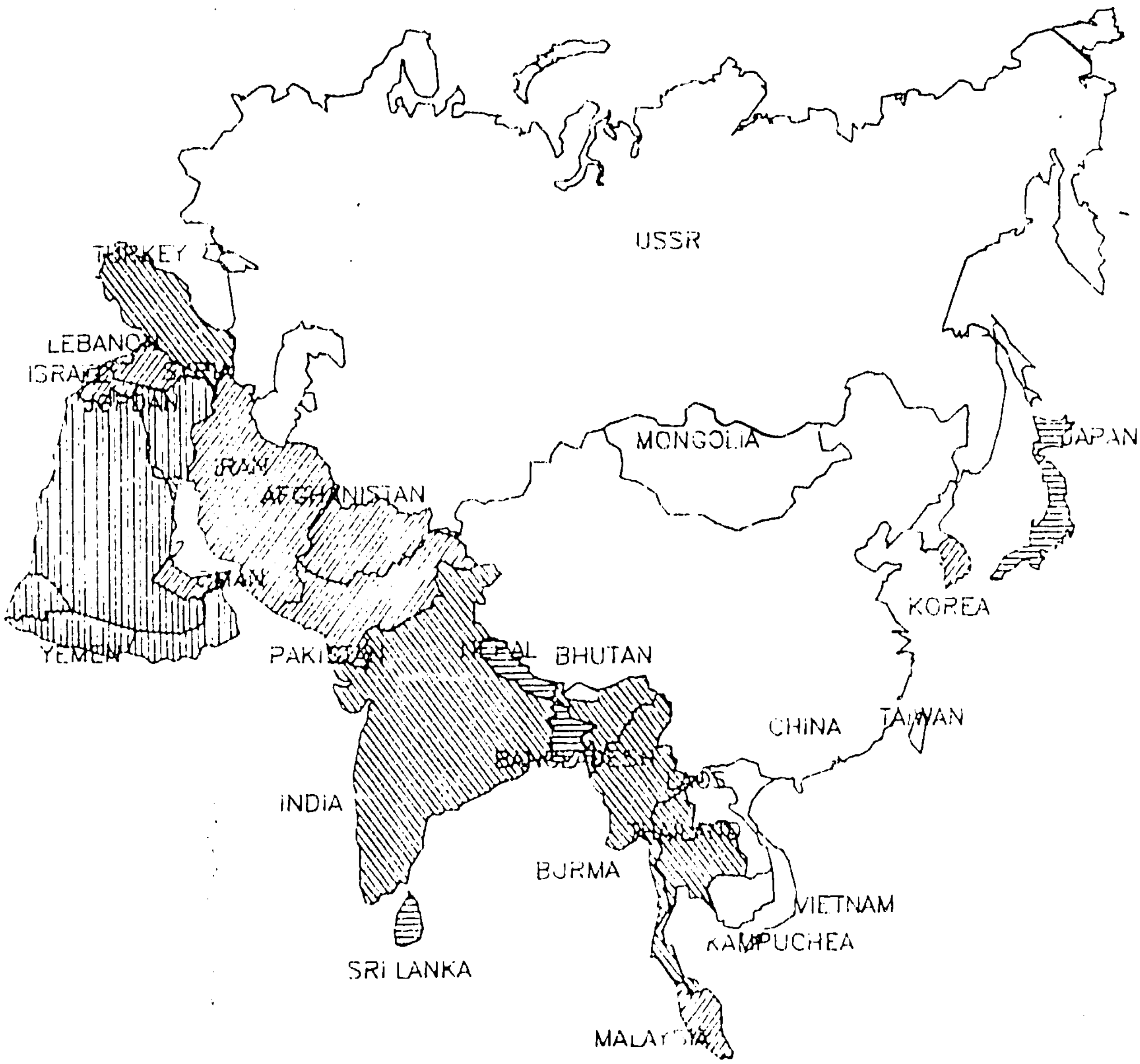
COUNTRY	DEFENSE EXPENDITURES AS PERCENT OF: CENTRAL GOVERNMENT EXPENDITURES PCT.	RANK	GROSS NATIONAL PRODUCT PCT.	RANK	MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS PCT.	RANK
ARGENTINA			2.7	7	22.0	1
BAHAMAS, THE	3.2	14	1.3	14		
BARBADOS					0.0	16
BELIZE						
BOLIVIA					0.0	16
BRAZIL	2.1	16	0.7	18	0.2	14
CHILE	12.3	7	4.5	3	2.9	8
COLOMBIA	9.4	9	1.2	17	0.2	14
COSTA RICA	3.5	13	0.7	18	0.0	16
CUBA					9.7	4
DOMINICA						
DOMINICAN REP.			1.5	12	0.0	16
ECUADOR	11.0	8	1.6	11	11.6	3
EL SALVADOR	22.2	2	4.0	4	4.4	6
GRENADA						
GUADELOUPE						
GUATEMALA	16.4	5	2.4	8	0.4	13
GUYANA					4.3	7
HAITI	8.9	10	1.4	13	0.0	16
HONDURAS					1.4	10
JAMAICA	2.6	15	1.3	14	0.0	16
MEXICO	1.4	17	0.6	20	0.6	12
NICARAGUA	16.5	4	10.2	1	16.2	2
PANAMA					0.0	16
PARAGUAY	19.3	3	1.9	10	0.0	16
PERU	26.2	1	5.6	2	7.0	5
ST. LUCIA						
SURINAME			2.2	9	0.0	16
TRINIDAD & TOBAGO	5.3	11	3.2	6	0.0	16
URUGUAY	12.4	6	3.3	5	1.6	9
VENEZUELA	5.0	12	1.3	14	1.0	11

DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



1983 DATA
BLANKS INDICATE NO DATA

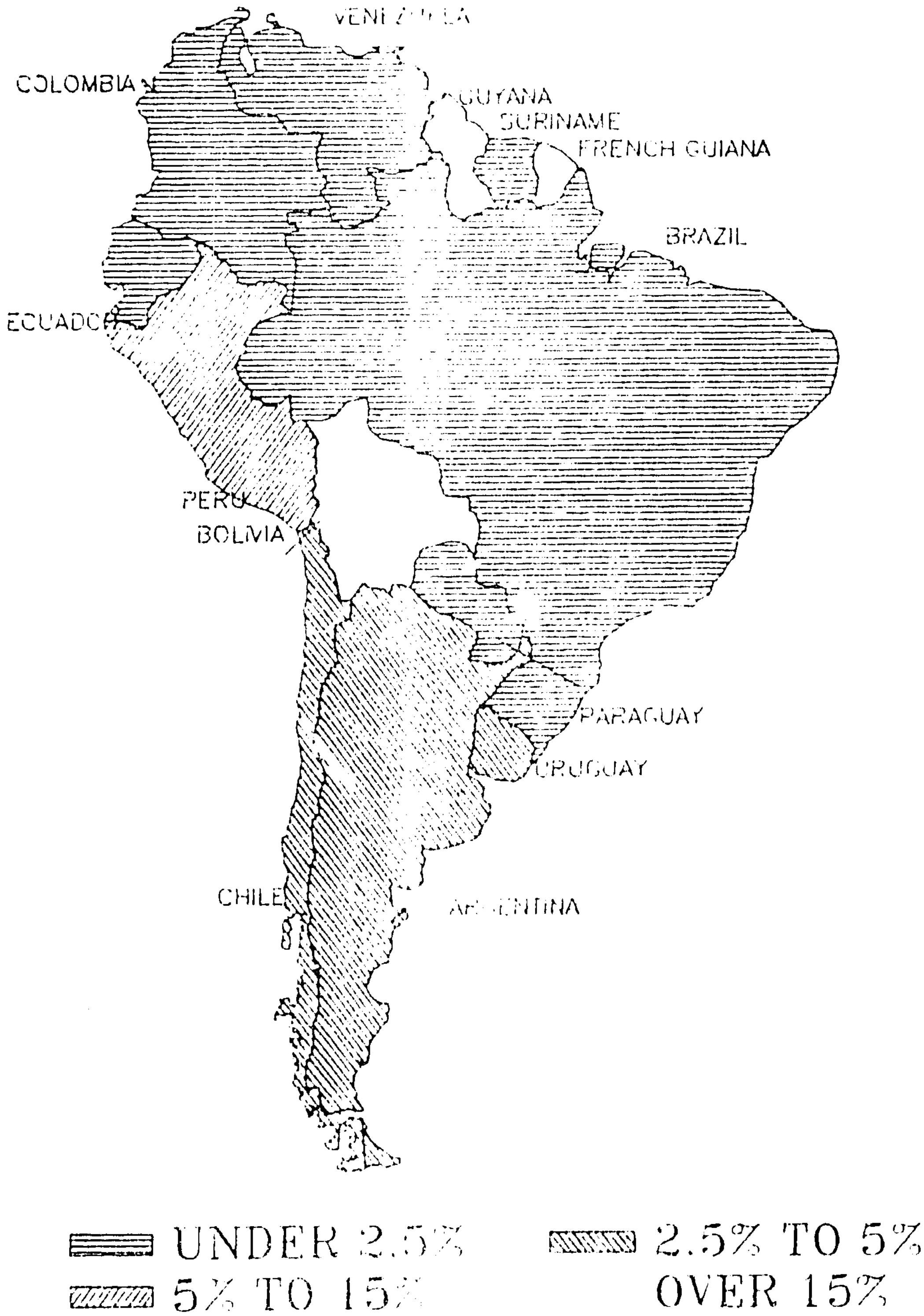
DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



UNDER 2.5% | 2.5% TO 5%
5% TO 15% | OVER 15%

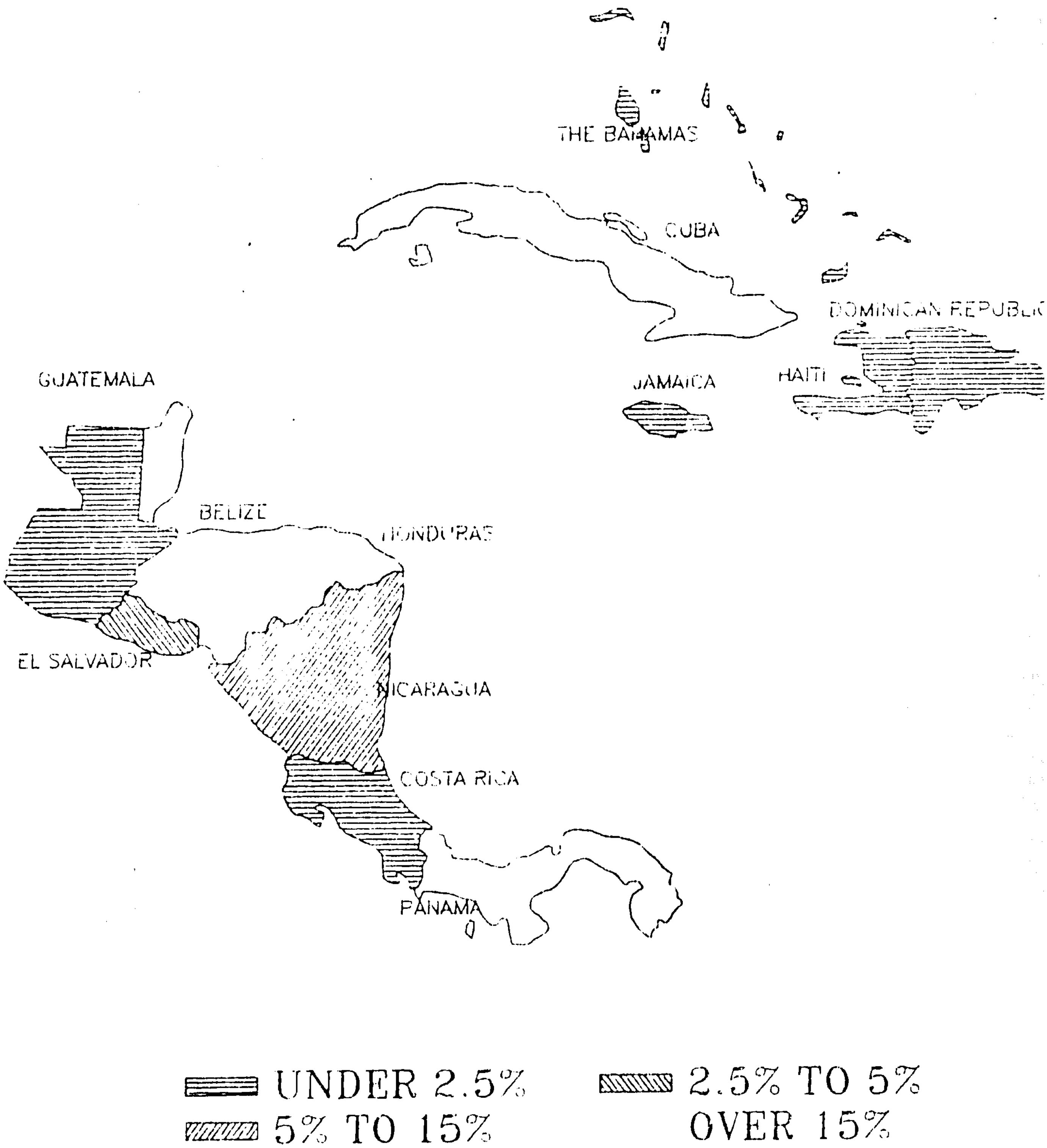
1983 DATA
BLANKS INDICATE NO DATA

DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



1983 DATA
BLANKS INDICATE NO DATA

DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



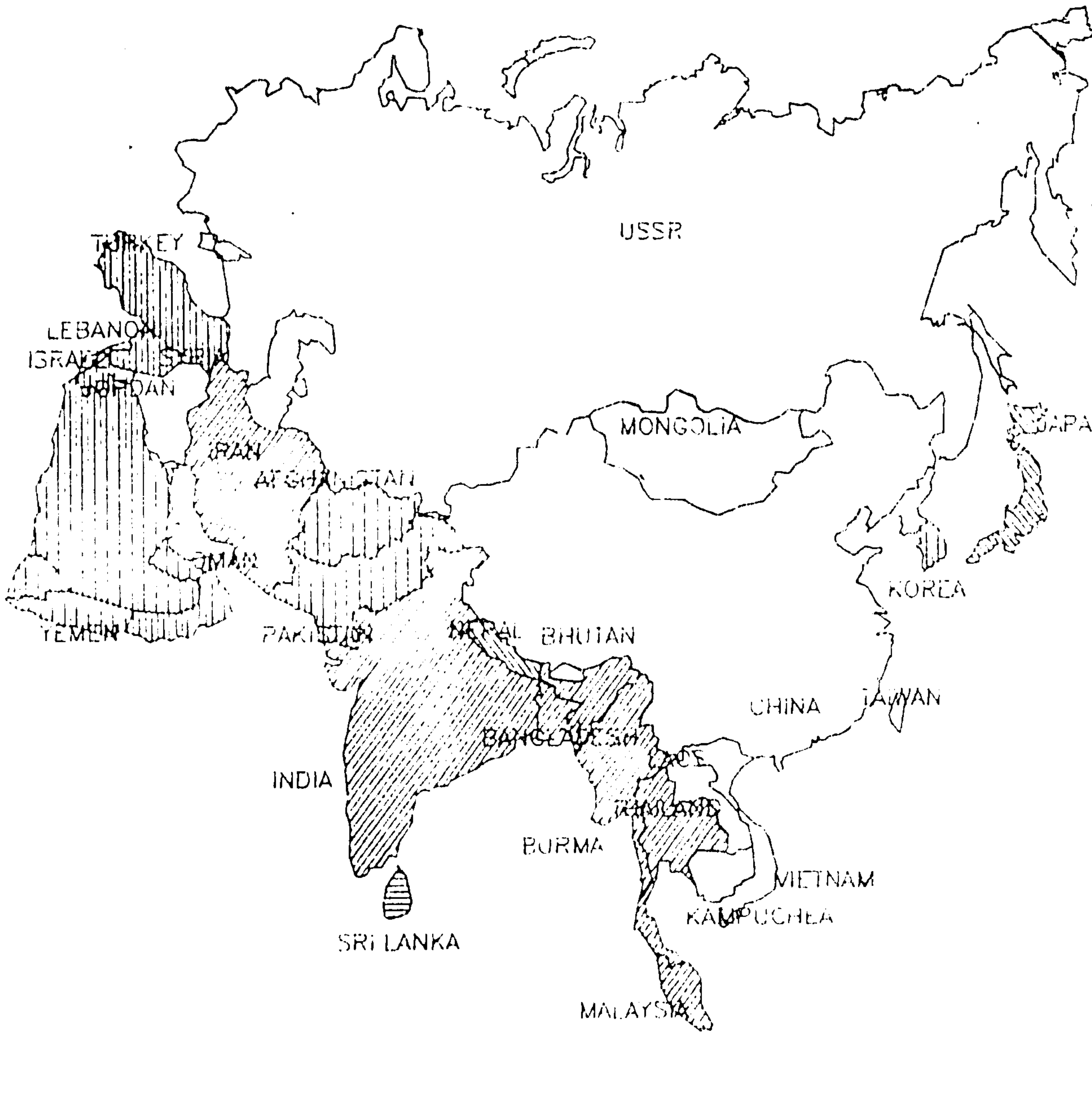
1983 DATA
BLANKS INDICATE NO DATA

DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES

UNDER 5% 5% TO 10%
10% TO 20% OVER 20%

1983 DATA
BLANKS INDICATE NO DATA

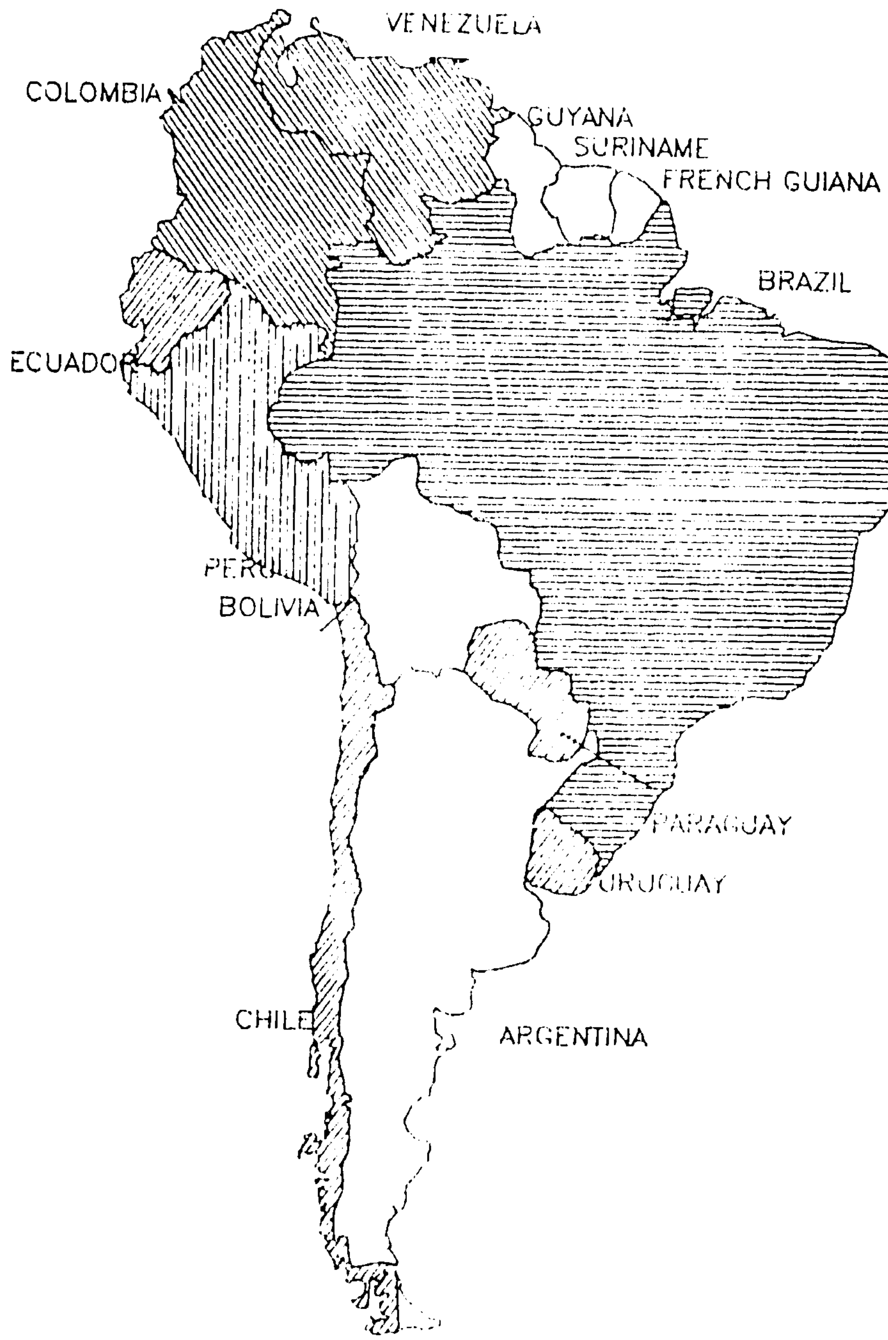
DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



UNDER 5% | 5% TO 10%
10% TO 20% | OVER 20%

1983 DATA
BLANKS INDICATE NO DATA

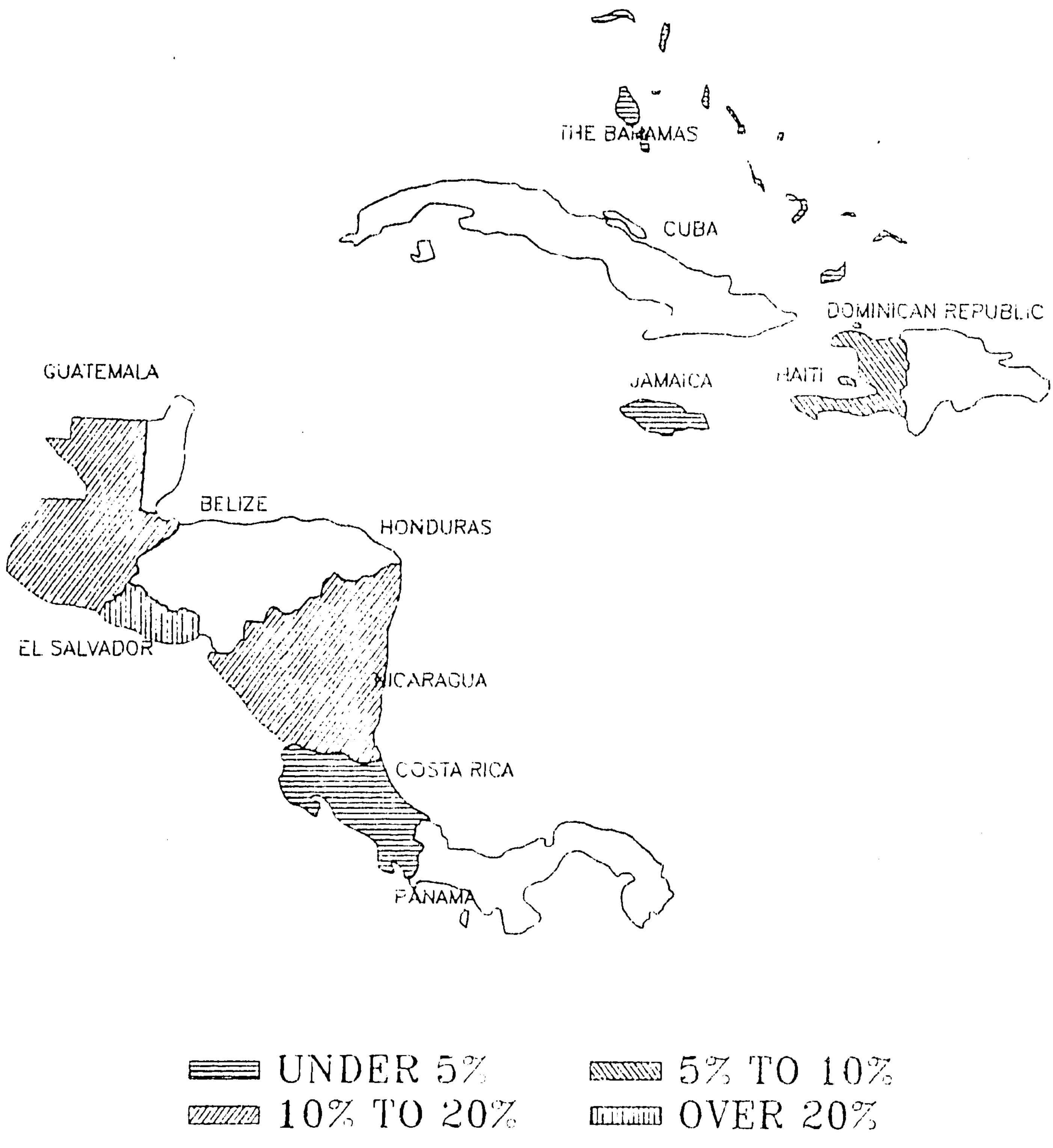
DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



UNDER 5%   5% TO 10%
10% TO 20%   OVER 20%

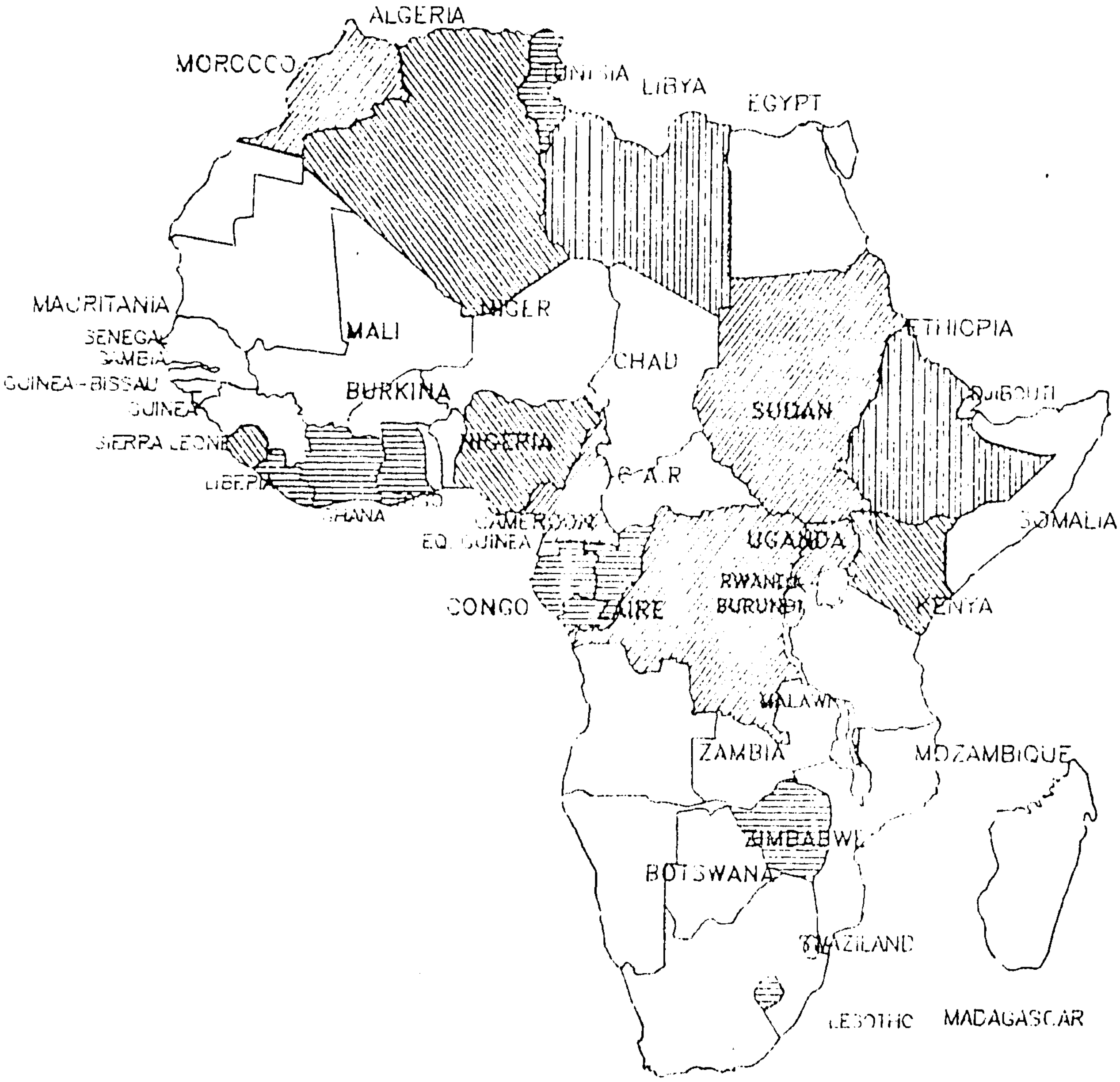
1983 DATA
BLANKS INDICATE NO DATA

DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



1983 DATA
BLANKS INDICATE NO DATA

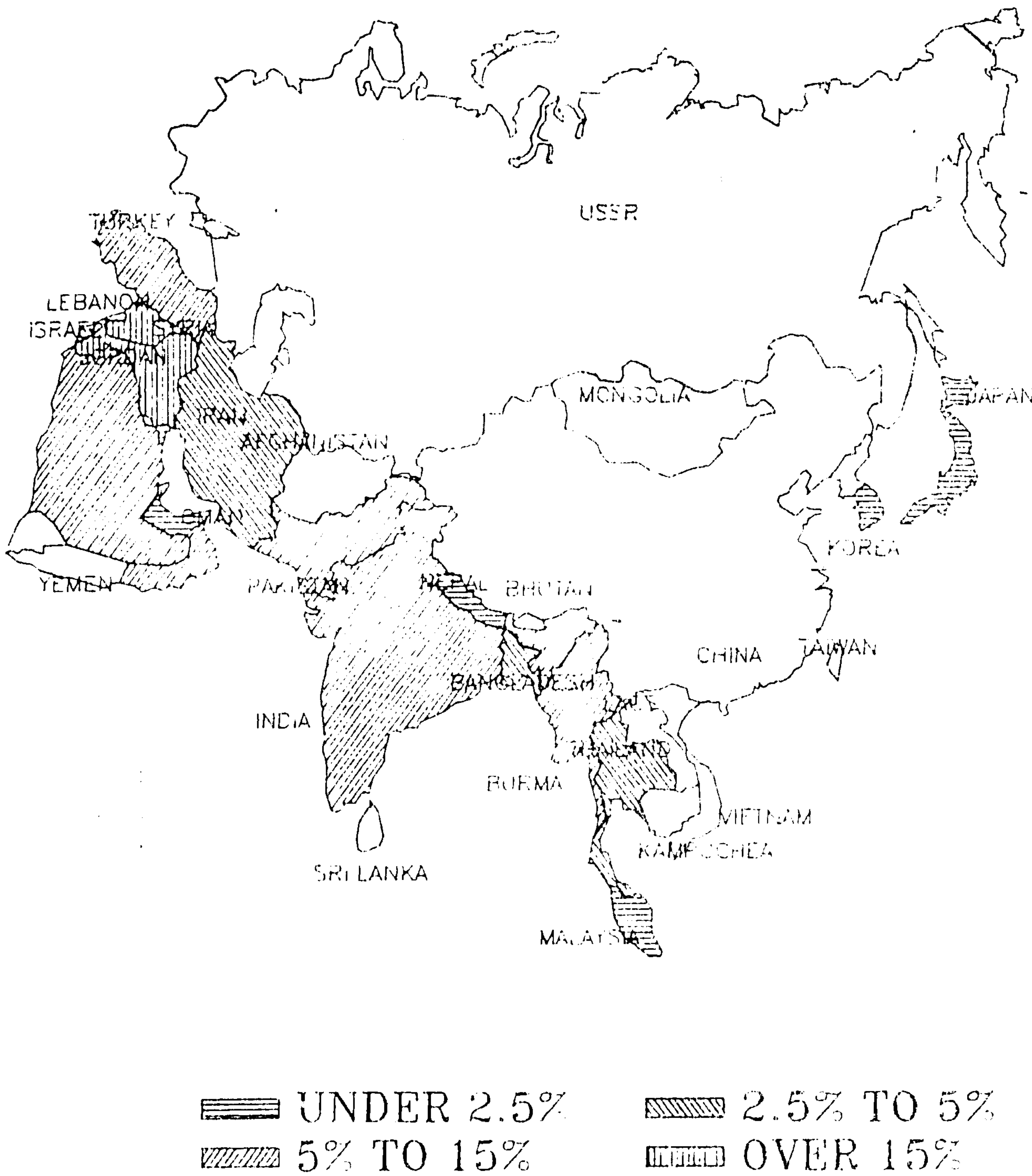
MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS



UNDER 2.5% — 2.5% TO 5%
5% TO 15% — OVER 15%

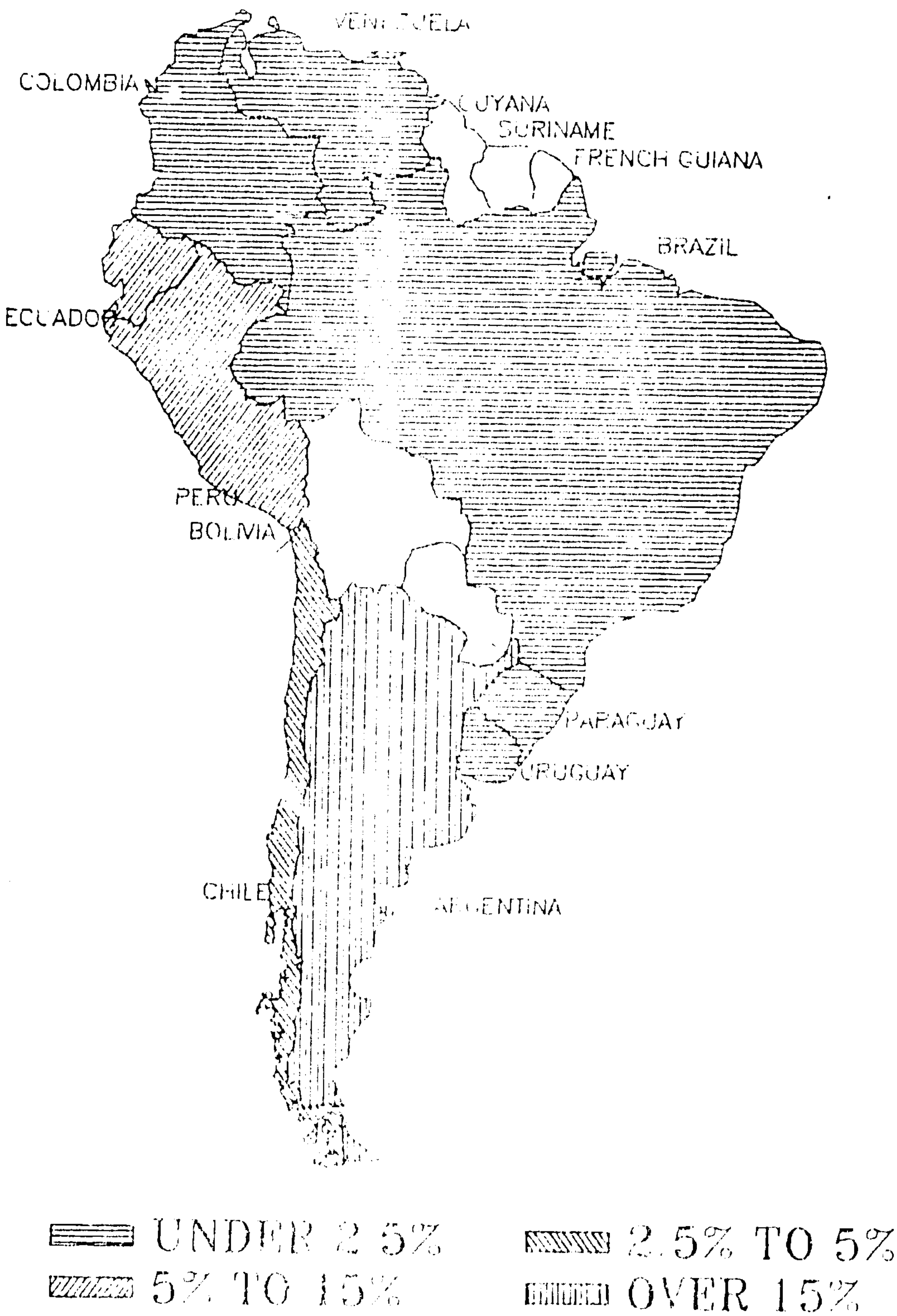
1983 DATA
BLANKS INDICATE NO DATA

MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS



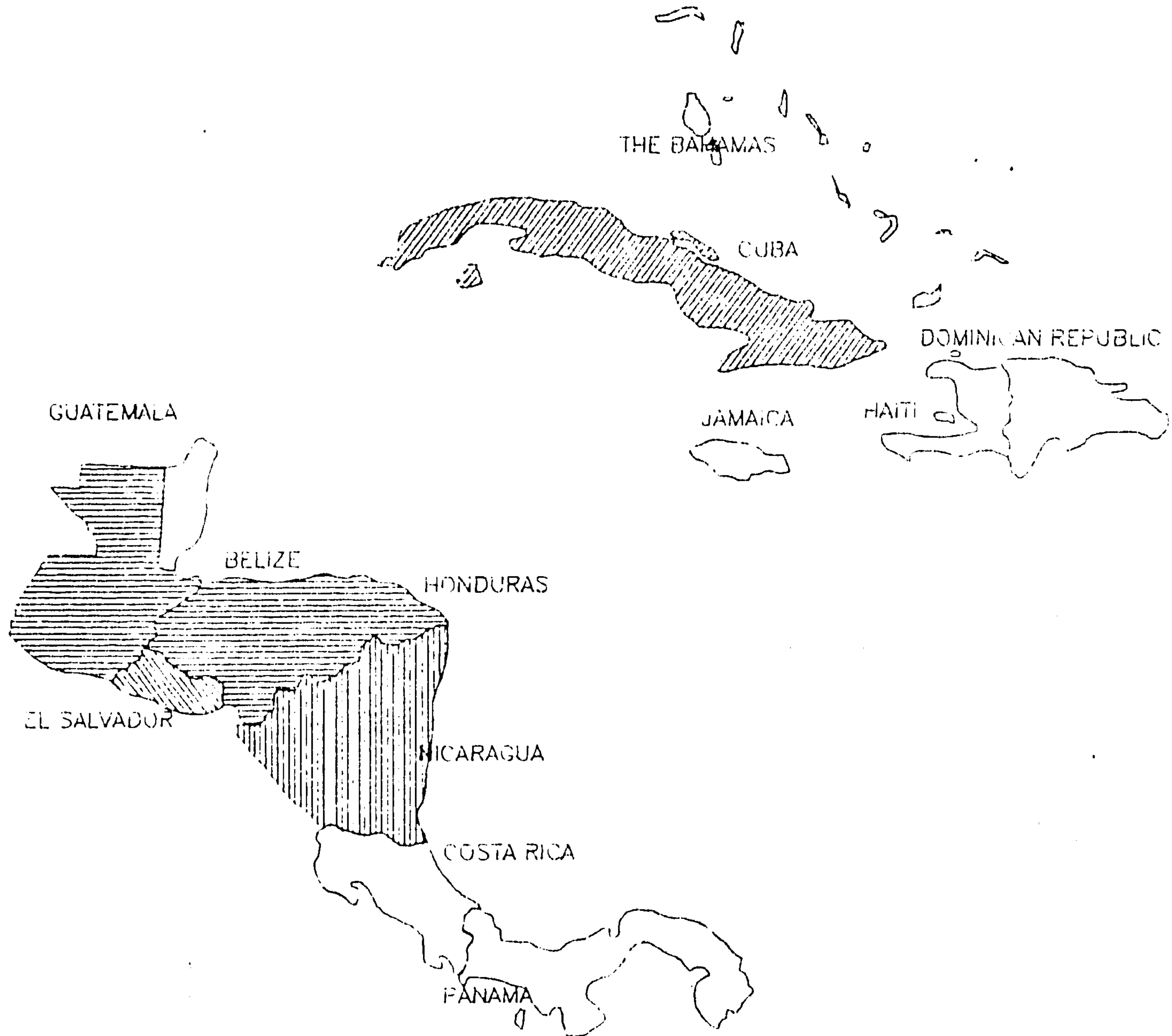
1983 DATA
BLANKS INDICATE NO DATA

MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS



1983 DATA
BLANKS INDICATE NO DATA

MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS



UNDER 2.5% 2.5% TO 5%
5% TO 15% OVER 15%

1983 DATA
BLANKS INDICATE NO DATA

APPENDIX

METHODOLOGY FOR PREPARATION OF SECTION 620(s)

In implementing Section 620(s), the executive agencies involved examine the pattern of defense expenditures and military imports for each aid recipient country. To provide cross country comparability defense expenditures are expressed as a percentage of gross national product and of central government expenditures. Similarly, military import figures are expressed as a percentage of total imports.

The three resulting measures and their rank are presented in worldwide and regional tables. All figures in this report refer to 1983, the latest year for which the most complete statistics were available for preparing the 1985 report.

DEFINITION OF DATA ELEMENTS

Gross National Product

Gross National Product (GNP) is the measure of total domestic and foreign output claimed by residents of a country. GNP is the gross domestic product (GDP) plus the net factor income from abroad defined as payments abroad for factor services rendered by non-residents less the income received from abroad by residents as compensation for factor services rendered. GDP is measured by final expenditure as the aggregate of final demand expenditures. It is measured at market prices including factor costs components (compensation of employees, operating surplus, and provision for the consumption of fixed capital) and indirect taxes less subsidies to producers.

Even for the most sophisticated countries, GNP totals are estimates only which may be altered substantially as (1) more complete and revised reports on details are received gradually following the close of a period and (2) concepts, methodologies and techniques improve. Therefore, margins of error in estimates may vary substantially from country to country. The source of data is the International Monetary Fund's (IMF) Government Finance Statistics Data Base.

Total Central Government Expenditures

Total central government expenditures figures include net lending. Expenditures include all non-repayable payments by the central government, whether requited or unrequited, and whether for current or capital purposes. Net lending comprises government transactions in claims upon others undertaken for purposes of public policy rather than for management of government liquidity or earning a return. In determining a government's deficit, the IMF groups net lending with expenditure as determining the deficit. The primary source of data is the IMF's Government Finance Statistics Data Base.

Defense Expenditures

Defense expenditures are defined as covering all expenditures, whether by defense or other departments, for the maintenance of military forces, including the purchase of military supplies and equipment, military construction, research, recruiting, training, equipment moving, feeding, clothing, and housing members of the armed forces, and providing renumeration, medical care, and other services for them. Military forces also include paramilitary organizations such as gendarmarie, constabulary, security forces, border and customs guards, and others trained, equipped, and available for use as military personnel. Also falling under this category are expenditures for purposes of strengthening the public services to meet wartime emergencies, training civil defense personnel, and acquiring materials and equipment for these purposes. Included also are expenditures for foreign military aid and contributions to international organizations and alliances. The primary source of data is the U.S. Arms Control and Disarmament Agency (ACDA), as reported in its publication, World Military Expenditures and Arms Transfer, 1985. The secondary source of data is the IMF's Government Finance Statistics Data Base.

Total Imports

Total imports include goods and services reported. This figure includes freight, insurance, interest, and dividend payments. The source of data is the IMF's Balance of Payments Statistics Data Base.

Military Imports

Military imports includes military equipment usually referred to as "conventional", including weapons of war, parts thereof, ammunition, support equipment, and other commodities considered primarily military in nature. Excluded are nuclear, chemical and biological weapons and strategic missile systems. Also excluded are foodstuffs, medical equipment and other items potentially useful to the military but with alternative civilian uses. U.S. arms transfer figures exclude services such as training, construction, and technical support. The data are estimates of the value of arms-related and other goods actually delivered to governments. The military imports are compiled by ACDA, as reported in its publication, World Military Expenditures and Arms Transfer, 1985.