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

A REPORT TO CONGRESS FOR 1986/7

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

DEPARTMENT OF STATE

WASHINGTON, D.C. 20523

MARCH 1988

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

THE ADMINISTRATOR

March 16, 1988

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

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 1986/7 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,

Alan Woods

Enclosure: a/s

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

THE ADMINISTRATOR

March 16, 1988

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

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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.

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 1984-85, which are the most recent years having the necessary statistics to prepare the 1986-87 report.

Because of statistical deficiencies and the difficulty of making comparisons 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.

This report cites the following eleven countries which appear to have exceeded the norm for military expenditures as compared to other countries regionally and worldwide. Political, economic and security considerations were taken into account in this analysis. Based on this review, it was concluded that considerations under Section 620(s) do not rule out assistance for these cited countries. Countries annotated below with an asterisk were not included in last year's report.

620 (S) COUNTRIES

Countries annotated below with an asterisk were not included in last year's report.

AFRICA	ASIA AND NEAR EAST	LATIN AMERICA
*Chad	Egypt	*El Salvador
Somalia	Israel	Peru
*Zambia	Jordan	
	Oman	
	Pakistan	
	Yemen Arab Republic	

SUMMARY

Africa

Chad has been in conflict with Libya since 1973. Occupying Libyan forces in northern Chad pose a threat to Chad's national security. Continuing Libyan aggression and an unexpected loss of cotton export earnings have seriously hurt Chad's fragile economy. The Libyan military occupation of the northern 40% of Chad discourages potential investment in the country, thereby hindering economic growth.

Somalia continues to be threatened by Ethiopia as dissident groups operate from Ethiopia and attack Somalia army units across the border. The economy is burdened with increased military expenditures. A large number of refugees add to the economic difficulties. The combination of skirmishes with Ethiopian troops, external debt and severe trade imbalance continue to plague Somalia.

The Zambian Government is concerned with on-going conflicts and potential insurgencies in neighboring states. The Zambians justify their defense expenditures as a necessary precaution against the politically unsettled conditions in the region. The country is dealing with significant external and internal financial imbalances and has undertaken a series of corrective measures to stablilize the economy.

Asia and Near East

Egypt is threatened by a hostile Libyan government on its western border. The security of the Suez Canal depends on Egypt's ability to respond effectively to outside force. To assure its own defense capability there is a relatively high import of military materials which places a heavy financial burden on the Government of Egypt.

Israel's defense spending reflects its concern over potential hostilities with some of its Arab neighbors. The 1973 Arab-Israeli war threatened Israel's ability to provide for the security and economic well-being of its people. A massive diversion of civilian manpower and financial resources resulted from the Government of Israel's decision to expand and modernize its military forces.

Jordan is surrounded by larger, more powerful states and is subjected to threats, acts of violence and intimidation by radical groups, especially in response to Jordan's attempts for peace with Israel. Jordan must have sufficient defensive strength to pursue its peace seeking policies without being intimidated by these threats.

Oman's economy and security interests are threatened by the continued conflict between Iraq and Iran, the escalating violence in the Gulf, Islamic radicalism, and the presence of a Marxist government on its southern border. The continued instability in the region has resulted in a high level of defense expenditures and Oman, like other Persian Gulf states, began developing a high-tech military capability only recently and thus experiences short-term high costs.

Pakistan's security is threatened by the continued Soviet presence in Afghanistan and intrusions into Pakistan, and the ongoing buildup of Soviet military equipment in India. Pakistan also has deep concern about the ongoing Iran-Iraq war. Pakistan's increased defense budget reflects the continuing modernization of its defense capabilities. In addition there is a heavy financial burden imposed by the presence of more than three million Afghan refugees.

The Yemen Arab Republic (YAR) borders the Marxist-dominated People's Democratic Republic of Yemen which attacked the YAR in 1979, and is faced with unusual security concerns. Unsettled border issues and the ongoing friction with South Yemen result in continued emphasis on national defense spending.

Latin America and the Caribbean

El Salvador, in its attempt to defend itself against leftist guerrilla insurgency, has devoted approximately 30 percent of government revenues to defense expenditures for a larger, better led and equipped army. These expenditures are essential to defend the democratic government, prevent destruction of the economic infrastructure, and protect the Salvadoran people against acts of terrorism.

Peru's military spending levels are required by its concern for regional security, which is rooted in border disputes with Ecuador and Chile. The leftist insurgency, terrorist movement, and drug trafficking are related threats to internal order and pose other strong motives for military expenditures.

AFRICA

Chad

Chad is locked in a struggle for its national existence with Libya. Qadahfi, intent on furthering his own territorial and political objectives in Africa, occupied and annexed the Aozou Strip in northern Chad in 1973. In 1980 he sent 7,000 Libyan troops into Chad to put down a nationalist uprising by Hissein Habre. In 1983, when Habre unseated the Libyan-backed government of Goukouni Oueddai, Qadahfi intervened with ground and air forces and occupied the northern half of Chad. Habre's government launched a series of successful attacks against Libyan positions in northern Chad, driving Libyan troops back into a few strongholds in the Aozou Strip. In spite of these successes, Libya still poses a serious threat to Chadian national existence as evidenced by continued violations of Chadian sovereignty such as terrorist actions and overflights. Chad's military expenditures are designed to meet this threat.

Chad's defense expenditures in 1984 are estimated as 1.6% of gross national product (GNP). Libya's defense expenditures were estimated as 17.8% of GNP. The statistical data for 1984 show that Libya (40%) ranked higher than Chad (22%) in defense expenditures as a percentage of central government expenditures. Libya's ranking with regard to military imports as a percentage of total imports was higher than Chad at 24% and 23%, respectively. The Government of Chad (GOC) must continue to deal with the threat to its national security which is posed by occupying Libyan forces in northern Chad. In this case, increased military spending is warranted.

Continuing Libyan aggression and an unexpected loss of cotton export earnings (50% decrease in world market price for cotton in 1985) have seriously hurt Chad's fragile economy. The GOC relies upon cotton export earnings for 25% of its revenues. To assist in redressing Chad's severe public sector deficit (estimated at $22 million), A.I.D. provided $9.5 million in Economic Support Funds (ESF), $7 million for budgetary support and $2.5 million to support road maintenance project activities in FY 1986. Including the P.L. 480 Title II program, total U.S. economic assistance to Chad in FY 1986 was $21.2 million.

Given the good harvest in 1986 and indications that the 1987 harvest was also good, the emphasis of U.S. development assistance to Chad has shifted from drought relief to longer-term economic development based on improved productivity and market access in the agricultural sector. A.I.D. is supporting numerous private and voluntary organizations (PVOs) which have designed and are now transferring small-scale appropriate technologies to small farmers. These

PVO-implemented activities are focused on small-scale irrigation and drainage systems, water catchments, agricultural production activities and private enterprise loan programs to small farmers and businessmen. Farm-to-market access is being improved through a $27.5 million effort to strengthen road maintenance and rehabilitation capacities in the Ministry of Public Works.

Chad did not receive P.L. 480 Title I commodities during FY 1986. The P.L. 480 Title II program has shifted from an emergency relief to a developmental phase.

The primary U.S. political objective is to assure the territorial integrity and independence of Chad. Political stability in Chad is a strong security interest because of Chad's strategic location in the heart of Central Africa. Chadian defense forces and equipment levels represent a stabilizing presence and do not pose any arms control or proliferation problems in the region. U.S. foreign policy interest in Chad is also humanitarian and developmental. All Economic Support Funds have been programmed for developmental purposes. U.S. foreign assistance goals in Chad have not been compromised by levels of defense spending.

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

Somalia

The Somalia-Ethiopia War in 1977-78 seriously weakened Somalia's military, leaving the country with very limited air, naval and air/ground defense capabilities. A military incursion by Ethiopian regular forces in February 1987 indicated a continuing Ethiopian threat. Dissident groups also continue to operate from Ethiopia and attack Somali army units across the border. During the past year, there have been meetings between Somali and Ethiopian officials to attempt to resolve differences that persist between the two states. There has been no progress to date, and the sides cannot even agree on an agenda. It appears any rapprochement will require considerable time to develop, and depends somewhat on the Somali perception of the adequacy of their defense. The combination of continuing skirmishes with Ethiopian troops and the guerrilla factions' activities have pressed Somalia to maintain high levels of military spending.

The early 1980's saw considerable economic progress as the Government of Somalia (GSDR) embarked on a series of comprehensive economic/financial programs supported by donors and IMF Standby Agreements. The GSDR largely adhered to the terms of these programs. Major reform actions taken were: decontrol of agricultural prices, reduction or elimination of some GSDR monopoly enterprises, decontrol of inter-regional food shipments, and legalization of a free market exchange system. As a result, food production increased to the point where Somalia is self-sufficient in maize and sorghum, farmer income increased, the private sector expanded, inflation dropped from 97% per year in 1984 to around 30% for subsequent years and exports increased.

Two critical economic problems continue to plague Somalia -- external debt and a severe trade imbalance. With an overwhelming external debt of $1.9 billion, the country started 1987 with arrears of over $150 million on debt service payments owed in 1986. The severe trade deficit cannot easily be corrected since imports are approximately four times the level of exports.

Compounding their economic problems, the GSDR announced measures in September 1987 which appear regressive and raise questions about the outlook for Somali economic reform. Aside from abolishing a foreign exchange auction system and fixing the exchange rate artificially low (which mitigates against use of market mechanisms for determining prices and allocating resources), the GSDR also has announced plans to fix prices on unspecified food commodities (which has yet to be implemented). These measures violated the IMF Standby Agreement and resulted in suspension of planned disbursements to the auction by the World Bank, A.I.D. and other donors.

Somalia (continued)

Liberal debt rescheduling terms were reached at the Paris Club rescheduling session in July 1987. However, until the agreement is ready and bilateral debt negotiations have been concluded, Somalia remains under Brooke Amendment sanctions (for nonpayment of $2.8 million due 9/2/87 on a DOD loan). Internal debate in the GSDR on alternatives to the foreign exchange auction continues, and it is still unclear what the new foreign exchange system will look like. However, donors appear to have taken a hard line that the alternative to the cash auction for allocating foreign exchange and determining a market rate must be acceptable to all.

The objective of U.S. bilateral economic aid to Somalia remains to assist in establishing the basis for a self-sustaining, productive economy. This objective will be accomplished through policy dialogue and technical assistance focused on three primary topics: (1) economic stabilization, including balance of payments and debt; (2) expansion of domestic production (both agricultural and industrial), primarily by the private sector, for increased export earnings and import savings; and (3) improvement of public sector efficiency, primarily through budget rationalization, tax system improvements and civil service reform.

The Economic Support Fund (ESF) resources programmed for FY 1986 and FY 1987 were designed to help alleviate balance of payments difficulties by providing foreign exchange to the private and public sectors while initiating and sustaining essential policy reform, such as maintaining a realistic exchange rate. Through August 1987, the program successfully contributed to the establishment of a unified, market-oriented exchange rate based on a foreign exchange auction. However, recent economic measures have forced suspension of the FY 1987 ESF agreement until an acceptable market-oriented exchange system is in place. This will enable donors to continue to support reform activities and the IMF to negotiate a new Standby Agreement.

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

Zambia

The Zambian Government does not publish figures on defense expenditures; however, it is estimated that defense spending in recent years averaged about 20 percent of the government's national budget. The Zambians justify these expenditures as defensive precautions related to the politically unsettled conditions in the region.

The Zambian Government is concerned about ongoing conflicts and potential insurgencies in neighboring states. The Zambian defense forces are neither well-trained nor adequately equipped to protect the country's extensive frontiers. Zambian defense forces and materials levels do not pose any arms control problems for the region.

Human rights are constitutionally guaranteed in Zambia. Although the president possesses emergency powers to suspend certain human rights "in the interest of State security", basic human rights are generally observed.

Zambia does not presently receive U.S. military assistance, nor does the U.S. plan to request such assistance during FY 1988-90. The United States assistance program in Zambia has been provided by Economic Support Funds (ESF) for a number of years to cover costs for the Commodity Import Programs (e.g. U.S. fertilizer, agricultural machinery and spare parts), and technical assistance projects in the agricultural sector. The FY 1986 assistance level to Zambia consisted of $17.0 million from the Economic Support Fund, $2.1 million from Development Assistance, and $10 million in P.L. 480 to continue supporting the Zambian Government's efforts to improve agriculture production and implement economic policy reforms adopted during the past three years.

Zambia's significance to the U.S. stems from (a) the key role it can play in the resolution of southern Africa's regional crisis, and (b) President Kaunda's leadership as Chairman of the Front Line States and as Africa's elder statesman involved in the issue of maintaining a dialogue between whites and blacks to achieve a peaceful solution to the political problems of the region.

Zambia continues to experience serious economic problems. At the present time it is in arrears in foreign debt servicing. However, the increase in world copper prices should substantially increase their hard currency resources.

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

ASIA AND NEAR EAST

Egypt

The statistical data for 1984 show that Egypt spent 25.0 percent of its government budget on defense. This was equivalent to 13.5 percent of GNP. Approximately 11 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. A possible threat also exists from Iran due to Egypt's support of more moderate regimes in the Persian Gulf area. 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 relatively high proportion of imports of military materials. Even with substantial assistance from the U.S., this revamping and upgrading of defense capability continued to place a heavy financial responsibility on the Government of Egypt.

Growth of the Egyptian economy has slowed, due to moderation of major external stimuli -- revenues from oil exports, workers' remittances, tourism receipts -- that propelled Egypt's rapid growth during the late 1970's. (Economic Growth has slowed during the past few years, after rapid expansion between 1974 and 1982.) After showing a remarkable recovery from the effects of 1982-83 world economic recession, Egypt's balance of payments worsened. Falling export earnings and increased imports caused a balance of payments deficit in 1985. Large government budget deficits in recent years have been a force for domestic inflation. Government expenditure increases have included rises in salaries for government employees, subsidies and interest payments. As a result of a U.S. - Egypt economic policy dialogue effort, Egypt implemented a limited series of reform measures, including customs reforms, new taxes, and a reduction in government operating expenses. In May 1987, Egypt reached agreement with the IMF on a Standby Agreement. To achieve the Standby, Egypt has had to address several of its most serious macro-economic problems. It has begun a phased program to decontrol the exchange rate, raised energy prices moderately, increased bank interest rates, and agreed to establish credit ceilings to curb credit demand. In addition, Egypt has taken measures to reduce government expenditures (including subsidies) and to improve the efficiency of government enterprises, and has instituted price reforms which will encourage production and more effective use of scarce resources.

Egypt (continued)

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 remains a part of the IMF economic reform program strategy. Egypt has been forced to keep all new defense purchases made with hard currency or foreign loans to an absolute minimum, relying predominantly on forgiven loans of U.S. Foreign Military Sales.

Conclusion: 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 potential hostilities with some of its Arab neighbors.

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 $25.5 billion as of March 30, 1987.

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 supplemental 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

Israel (continued)

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 because it is surrounded by larger, more powerful states and subject to threats and intimidation by radical groups. As Jordan has shown signs of moving towards peace with Israel, radical and rejectionist elements have responded with threats and acts of violence against Jordan. Jordan's defensive capability relative to Syria's has declined dramatically during the last decade, though reciprocal visits between King Hussein and President Assad and the two countries' prime ministers marked the start of a period of reduced tensions. Of particular note in this regard is the recent signing of the Jordan-Syria accord for the construction of the Unity Dam, earlier known as the Maqarin Dam. Jordan must have sufficient defensive strength to pursue a national policy of seeking peace without being intimidated by threats by radical elements.

Lower oil prices in the world market and competition among oil producers have cut the oil revenues of the region's oil producing nations. The consequent contraction of these economies has meant a smaller market for Jordanian skilled labor and manufactured products, reduced remittances from expatriate Jordanians, reduced Arab aid, and there is now a severe shortage of foreign exchange. Unlike many other countries, however, Jordan was quick to enact prudent domestic economic policies in response to these increasingly adverse economic conditions. The growth in government spending was held down, remained low though still positive through 1986 at 2% to 3%. (The per capita GDP growth rate, however, has been slightly negative because of Jordan's very high birth rate.) Inflation has remained between 3% and 4%. The government budget and 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 responsible adjustment to adverse economic developments beyond its control. As the Government grapples with the problems of balancing its budget and dealing with balance-of-payments difficulties, expenditures on defense are unlikely to increase.

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

Oman

The economy of Oman is closely linked to the petroleum industry. Declines in oil prices have precipitated a sharp drop in government revenues with the budget shifting from a substantial yearly surplus to deficit spending since 1983. The oil price collapse led to a 30 percent drop in revenues and a record budget deficit of $1.7 billion in 1986. Budget cutbacks in 1986 resulted in a 20 percent reduction in defense and security spending. Defense-related spending dropped to a 36 percent share of the budget, down from a high of 43 percent in 1983, and 38 percent in 1985.

The continued conflict between Iraq and Iran and the escalating violence in the Gulf are direct threats to Omani economic and security interests. As with other countries in the region, Oman is threatened by the possibility of Islamic radicalism, inspired or sponsored by Iran. The presence of a Marxist government in the Peoples Democratic Republic of Yemen on the southern border poses an additional security concern to Oman.

The U.S. has assisted Oman to upgrade and expand its defense infrastructure. Defense spending has continued to drop. We anticipate that expenditures will remain at levels high enough to sustain existing programs, and perhaps to permit some limited modernization and upgrading, given the continued instability in the region.

The Government of Oman has demonstrated a strong commitment to the economic development and modernization of the country and has invested oil revenues heavily in a broad range of domestic programs, including efforts to diversify the economy and reduce petroleum dependence. A.I.D. programs are managed through the Omani-American Joint Commission and support water resources, fisheries development and education and training activities. Although budget cuts have affected non-military spending as well as the defense budget, the current five-year plan continues to place a high emphasis on improvements in physical and social infrastructure.

<u>Conclusion</u>: Considerations under 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 over three million refugees generated by the war, despite increasing risks to its internal stability. Since the 1979 invasion, the Soviets have maintained constant pressure on Pakistan through armed violations of Pakistani aerial and territorial sovereignty. Pakistan experienced continuing incursions in 1987 and rising deaths among the civilian population from a series of random bombings in both frontier areas and major cities. Pakistan's defense budget reflects the continuing modernization of its defense capabilities and concern about the ongoing Iran-Iraq war, which threatens oil shipments through the Persian Gulf. Because of these threats, Pakistan's defense expenditures during the period from 1979 to 1984 increased from 22% to 27% as a percentage of central government expenditures and from 5% to 5.9% of GNP. During the same period, Pakistan's military imports increased from 3.5% to 6.6% 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.

In FY 1984, Pakistan's economic performance suffered a setback. Adverse weather conditions 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.

During FY 1985-1986 the overall economy resumed steady growth at a 6.9% annual rate, but the budget deteriorated markedly due to tax revenue shortfalls and higher outlays for wheat, edible oil subsidies, and defense. This was in spite of windfall gains from lower international prices for petroleum and edible oils. The budget deficit now stands at 8.8% of GDP. A slow recovery in output led to an agricultural growth rate of 3.9% in FY 1986. The overall balance of payments deficit for FY 86 remains $1 billion.

Pakistan (continued)

The growth of public domestic indebtedness is accelerating and debt service is absorbing a rising share of government expenditures. The growing debt is expected to adversely affect a number of large projects requiring large amounts of both foreign and domestic resources.

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 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.

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

Yemen Arab Republic

The Yemeni economy has strong linkages to the petroleum industry in the Gulf. Remittances from Yemeni expatriate oil field workers, as well as donor aid from the Arab oil exporting countries, are important sources of revenue which have dwindled considerably with the sharp declines in the oil industry. These losses will only partially be offset by Yemen's entry in the oil exporting arena in 1988. Government revenues from oil are expected to reach between $500 and $700 million next year. Relatively low estimates of oil reserves and the high population growth rate in Yemen, together with significant infrastructure development requirements, indicate a modest impact of the increased oil income on per capita GDP.

Yemen is a country faced with unusual security concerns. The Central Government exercises a poorly consolidated control over tribal factions and faces active antagonism and interference from the neighboring Marxist government of the People's Democratic Republic of Yemen. Since the overthrow of the medieval regime of the Imamate in 1962, two of the country's five presidents have been overthrown, and two were assassinated.

Despite persistent economic and social problems, Yemen has made some important progress in addressing social and physical infrastructure requirements. A.I.D. assistance has been directed to support major programs in agriculture, education, health and water resources. The YARG has approached the expected increases in oil revenues cautiously and hopes to use this wealth to diversify the economy with a view towards the post-oil era.

The security concerns of Yemen are likely to result in continued emphasis on national defense, given the persistent instability in the region and the ongoing friction with South Yemen. The defense budget accounted for 32 percent of government expenditures and 15.6 percent of GDP in 1983. The increased oil revenues in 1988 are expected to provide some additional flexibility to better support economic development programs.

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

LATIN AMERICA AND CARIBBEAN

El Salvador

El Salvador is still engulfed in a bitter civil conflict which showed few signs of abating during 1987. However, the country under President Jose Napoleon Duarte has made progress in strengthening human rights, conducting the war and building a viable democracy. Unfortunately, the economy has made less progress. The Salvadoran economy suffered a major turndown in the early 1980s, began to stabilize through 1983-1985, slipped in 1986 and continues to drift in late 1987. Unemployment is estimated as high as 33 percent.

On October 10, 1986, an earthquake struck the heart of San Salvador, killing some 1,000 people, causing over $1 billion in damage, and further limiting the prospects for economic growth.

In spite of a large fiscal deficit which has fueled inflation, the GOES believes it can achieve or exceed its 1987 GDP growth target of 2.2 percent. However, some observers believe that the GDP growth will be only 0-1 percent. The economic outlook during the Parliamentary Assembly and Presidential election period (1988-mid 1989) is very low GDP growth.

Communist guerrilla economic sabotage has contributed to the decline of the Salvadoran economy. Guerrilla leadership has correctly identified the destruction of key infrastructure targets as a potentially effective means to achieve economic and political destabilization. Sabotage of electrical power and communications facilities, roads, bridges, and railroads has steadily risen, and the total cumulative cost for this damage during 1979-1985 is estimated to exceed $1.2 billion.

Because of the ongoing guerrilla insurgency, the Government of El Salvador is required to devote 6.1 percent of its GNP and around 30 percent of government revenues to defense expenditures. These expenditures are essential to defend the democratic government and Salvadoran people against an insurgency that remains committed to taking power. The insurgents are following a strategy of "prolonged popular war," involving destruction of economic infrastructure, military attrition, and acts of terrorism against the population. Given the continuing threat posed by the insurgency and the necessity of the government to combat this threat, the defense expenditures of the Government of El Salvador are justified.

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 was somewhat abated in 1986 by a short-term economic program which lowered the inflation rate. Some progress has also been made in improving the welfare of the people during Garcia's first two years in office by increasing employment. Inflation has returned during 1987 and is currently greater than 100%. Few reforms having long term beneficial effects have been implemented. Per capita income is lower than it was 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 the 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 and World Bank.

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 policy reforms are necessary if self-sustained growth is to be achieved.

Peru's high level of military expenditure is driven by several external and domestic factors. An important historical impetus for military procurement is Peru's concern for regional security, which is rooted in border disputes with Ecuador and

Peru (continued)

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 expenditures. The new Minister of Defense is reported to want to re-direct Peru's military expenditures towards the internal terrorist threat, which may imply a reduction in such expenditures. 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 in 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. Between the civilian government and the military of the GOP, 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 GOP has also initiated an effort in Latin America for a regional agreement limiting expenditures on armaments in Latin America. This effort has not yet led to concrete results.

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 on one hand and overall fiscal measures and the requirements of economic stabilization on the other 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.

Conclusion: 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

CHAD

EGYPT

EL SALVADOR

ISRAEL

JORDAN

LESOTHO a/

OMAN

PAKISTAN

PERU

SOMALIA

YEMEN (SANAA) NORTH

ZAMBIA

a/ Lesotho does not receive DA loans, ESF or PL 480, Title I; therefore, no narrative is required.

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

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					16.6	11
ALGERIA	6.5	65	2.7	53	3.0	46
ANGOLA					25.9	6
ARGENTINA	17.2	27	3.7	38	3.9	39
AUSTRALIA	9.3	55	2.9	48	2.7	49
BAHRAIN	10.2	50	3.6	40	0.3	83
BANGLADESH	9.7	52	1.9	70	0.0	107
BARBADOS	2.9	90	1.0	93	0.0	107
BELIZE						
BENIN	10.2	50	2.6	57		
BOLIVIA	5.4	75	2.2	63	0.0	107
BOTSWANA					0.0	107
BRAZIL	2.8	91	0.8	96	0.1	87
BURKINA FASO	17.6	26	2.7	53	9.5	20
BURMA	19.1	24	2.9	48	7.1	25
BURUNDI	14.2	37	3.5	42	2.6	50
C. AFRICAN REP.					0.0	107
CAMEROON	7.9	60	1.9	70	6.3	29
CAPE VERDE						
CHAD	22.0	19	1.6	79	23.4	8
CHILE	11.9	42	4.2	34	0.7	72
COLOMBIA	10.0	51	1.4	82	15.0	12
COMOROS						
CONGO	5.2	77	2.6	57	3.2	44
COSTA RICA	4.0	88	1.0	93	1.8	56
CUBA			5.9	24	9.3	22
CYPRUS	4.7	82	1.5	81	0.4	79
DJIBOUTI						
DOMINICAN REP.	8.3	59	1.2	88	0.3	83
ECUADOR	11.3	44	1.6	79	1.2	67
EGYPT	25.0	17	13.5	9	11.0	18
EL SALVADOR	30.6	7	6.1	22	9.4	21
EQUATORIAL GUINEA						
ETHIOPIA	25.1	16	8.9	13	39.3	3
FIJI	4.6	83	1.3	84	0.0	107
GABON	4.9	78	2.1	66	14.8	13
GAMBIA, THE					0.0	107
GHANA	5.8	69	0.6	99	1.7	58
GREECE	16.8	29	7.2	16	2.7	49
GRENADA						
GUATEMALA	14.9	35	1.9	70	0.9	69
GUINEA					1.2	67
GUINEA-BISSAU						
GUYANA			4.8	30	0.0	107

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

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
HAITI	8.9	57	1.6	79		
HONDURAS	16.4	31	4.2	34		
HUNGARY	7.6	62	4.1	35	0.2	85
INDIA	15.6	32	3.6	40	13.0	16
INDONESIA	12.4	41	2.6	57	0.6	74
IRAN	29.9	8	7.2	16	6.9	26
IRAQ			42.5	1	19.9	9
ISRAEL	26.1	15	27.1	3	7.4	24
ITALY	4.7	82	2.7	53	0.1	87
IVORY COAST	4.4	85	1.3	84	1.1	68
JAMAICA	2.1	94	0.8	96	0.4	79
JAPAN	5.4	75	1.0	93	0.6	74
JORDAN	36.5	6	18.5	6	13.9	15
KAMPUCHEA						
KENYA	12.6	40	3.4	43	0.3	83
KOREA, REP. OF	26.6	14	5.4	26	1.2	67
KUWAIT	11.7	43	5.3	28	4.4	37
LAOS	21.3	20	10.5	12		
LEBANON					1.8	56
LESOTHO	28.5	11	6.5	20	0.0	107
LIBERIA	7.0	64	2.3	61	3.1	45
LIBYA	40.0	5	17.8	7	24.0	7
MADAGASCAR	10.3	48	2.6	57	5.7	32
MALAWI	5.7	71	1.7	74	1.7	58
MALAYSIA	10.3	48	3.8	37	3.7	40
MALI			2.1	66	2.4	52
MALTA	2.6	93	1.0	93	0.0	107
MAURITANIA					0.0	107
MAURITIUS	0.9	95	0.3	100	0.0	107
MEXICO	2.6	93	0.7	98	0.2	85
MOROCCO	14.9	35	5.0	29	3.4	42
MOZAMBIQUE					48.2	1
NEPAL	6.3	66	1.2	88	0.0	107
NEW ZEALAND	4.5	84	1.9	70	0.8	71
NICARAGUA	17.1	28	13.4	10	14.1	14
NIGER	4.2	87	0.8	96		
NIGERIA	9.0	56	1.7	74	4.4	37
OMAN	46.6	2	27.7	2	11.3	17
PAKISTAN	27.0	13	5.9	24	6.6	27
PANAMA	3.8	89	2.4	60	0.4	79
PAPUA NEW GUINEA	4.7	82	1.7	74	2.7	49
PARAGUAY	14.5	36	1.7	74	1.2	67
PERU	47.3	1	7.1	17	4.4	37
PHILIPPINES	9.5	53	1.2	88	0.5	75
POLAND	22.4	18	5.7	25	3.2	44

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

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
PORTUGAL	9.4	54	3.5	42	1.4	62
QATAR					17.4	10
RWANDA					1.8	56
SAO TOME & PRINCIPE						
SAUDI ARABIA	29.0	10	21.3	5	7.7	23
SENEGAL	8.3	59	2.7	53	0.0	107
SEYCHELLES						
SIERRA LEONE	4.2	87	0.7	98	0.0	107
SINGAPORE	20.9	22	5.3	28	0.3	83
SOMALIA	27.5	12	6.5	20	26.8	5
SOUTH AFRICA	13.2	38	4.2	34	0.0	107
SPAIN	7.7	61	2.2	63	0.4	79
SRI LANKA	4.7	82	1.5	81	1.5	61
SUDAN	11.2	45	2.1	66	5.2	34
SURINAME	5.4	75	2.4	60	5.8	30
SWAZILAND	5.6	72	1.6	79	0.0	107
SYRIA	41.7	3	22.4	4	36.4	4
TANZANIA	12.8	39	3.3	44	2.0	53
THAILAND	19.8	23	3.9	36	1.5	61
TOGO	6.2	67	2.5	58	0.0	107
TRINIDAD AND TOBAGO	6.0	68	2.7	53	0.0	107
TUNISIA	7.5	63	3.2	45	10.9	19
TURKEY	17.6	26	4.5	31	3.5	41
U.A.E.	40.2	4	7.4	14	0.8	71
UGANDA	16.6	30	1.1	89	1.3	63
URUGUAY	10.9	46	2.9	48	0.0	107
VENEZUELA	5.7	71	1.6	79	4.0	38
VIETNAM					43.9	2
YEMEN- SOUTH			17.0	8	6.5	28
YEMEN NORTH	29.0	10	12.7	11	5.7	32
ZAIRE	5.2	77	1.2	88	2.5	51
ZAMBIA	20.9	22	6.6	18	1.5	61
ZIMBABWE	15.0	33	6.2	21	5.3	33

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AID REGION: AFRICA

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
ALGERIA	6.5	23	2.7	15	3.0	18
ANGOLA					25.9	4
BENIN	10.2	17	2.6	18		
BOTSWANA					0.0	41
BURKINA FASO	17.6	7	2.7	15	9.5	9
BURUNDI	14.2	11	3.5	9	2.6	19
C. AFRICAN REP.					0.0	41
CAMEROON	7.9	20	1.9	24	6.3	10
CAPE VERDE						
CHAD	22.0	5	1.6	28	23.4	6
COMOROS						
CONGO	5.2	29	2.6	18	3.2	16
DJIBOUTI						
EQUATORIAL GUINEA						
ETHIOPIA	25.1	4	8.9	2	39.3	2
GABON	4.9	30	2.1	23	14.8	7
GAMBIA, THE					0.0	41
GHANA	5.8	25	0.6	34	1.7	25
GUINEA					1.2	28
GUINEA-BISSAU						
IVORY COAST	4.4	31	1.3	29	1.1	29
KENYA	12.6	14	3.4	10	0.3	30
LESOTHO	28.5	2	6.5	5	0.0	41
LIBERIA	7.0	22	2.3	20	3.1	17
LIBYA	40.0	1	17.8	1	24.0	5
MADAGASCAR	10.3	16	2.6	18	5.7	11
MALAWI	5.7	26	1.7	26	1.7	25
MALI			2.1	23	2.4	21
MAURITANIA					0.0	41
MAURITIUS	0.9	34	0.3	35	0.0	41
MOROCCO	14.9	10	5.0	7	3.4	15
MOZAMBIQUE					48.2	1
NIGER	4.2	33	0.8	32		
NIGERIA	9.0	18	1.7	26	4.4	14
RWANDA					1.8	23
SAO TOME & PRINCIPE						
SENEGAL	8.3	19	2.7	15	0.0	41
SEYCHELLES						
SIERRA LEONE	4.2	33	0.7	33	0.0	41
SOMALIA	27.5	3	6.5	5	26.8	3
SOUTH AFRICA	13.2	12	4.2	8	0.0	41
SUDAN	11.2	15	2.1	23	5.2	13
SWAZILAND	5.6	27	1.6	28	0.0	41
TANZANIA	12.8	13	3.3	11	2.0	22
TOGO	6.2	24	2.5	19	0.0	41
TUNISIA	7.5	21	3.2	12	10.9	8
UGANDA	16.6	8	1.1	31	1.3	27
ZAIRE	5.2	29	1.2	30	2.5	20
ZAMBIA	20.9	6	6.6	3	1.5	26
ZIMBABWE	15.0	9	6.2	6	5.3	12

AID REGION: ASIA

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					16.6	2
AUSTRALIA	9.3	12	2.9	9	2.7	8
BANGLADESH	9.7	10	1.9	12	0.0	19
BURMA	19.1	6	2.9	9	7.1	4
FIJI	4.6	17	1.3	15	0.0	19
INDIA	15.6	7	3.6	7	13.0	3
INDONESIA	12.4	8	2.6	10	0.6	14
JAPAN	5.4	14	1.0	18	0.6	14
KAMPUCHEA						
KOREA, REP. OF	26.6	2	5.4	3	1.2	11
LAOS	21.3	3	10.5	1		
MALAYSIA	10.3	9	3.8	6	3.7	6
NEPAL	6.3	13	1.2	17	0.0	19
NEW ZEALAND	4.5	18	1.9	12	0.8	12
PAKISTAN	27.0	1	5.9	2	6.6	5
PAPUA NEW GUINEA	4.7	16	1.7	13	2.7	8
PHILIPPINES	9.5	11	1.2	17	0.5	15
SINGAPORE	20.9	4	5.3	4	0.3	16
SRI LANKA	4.7	16	1.5	14	1.5	10
THAILAND	19.8	5	3.9	5	1.5	10
VIETNAM					43.9	1

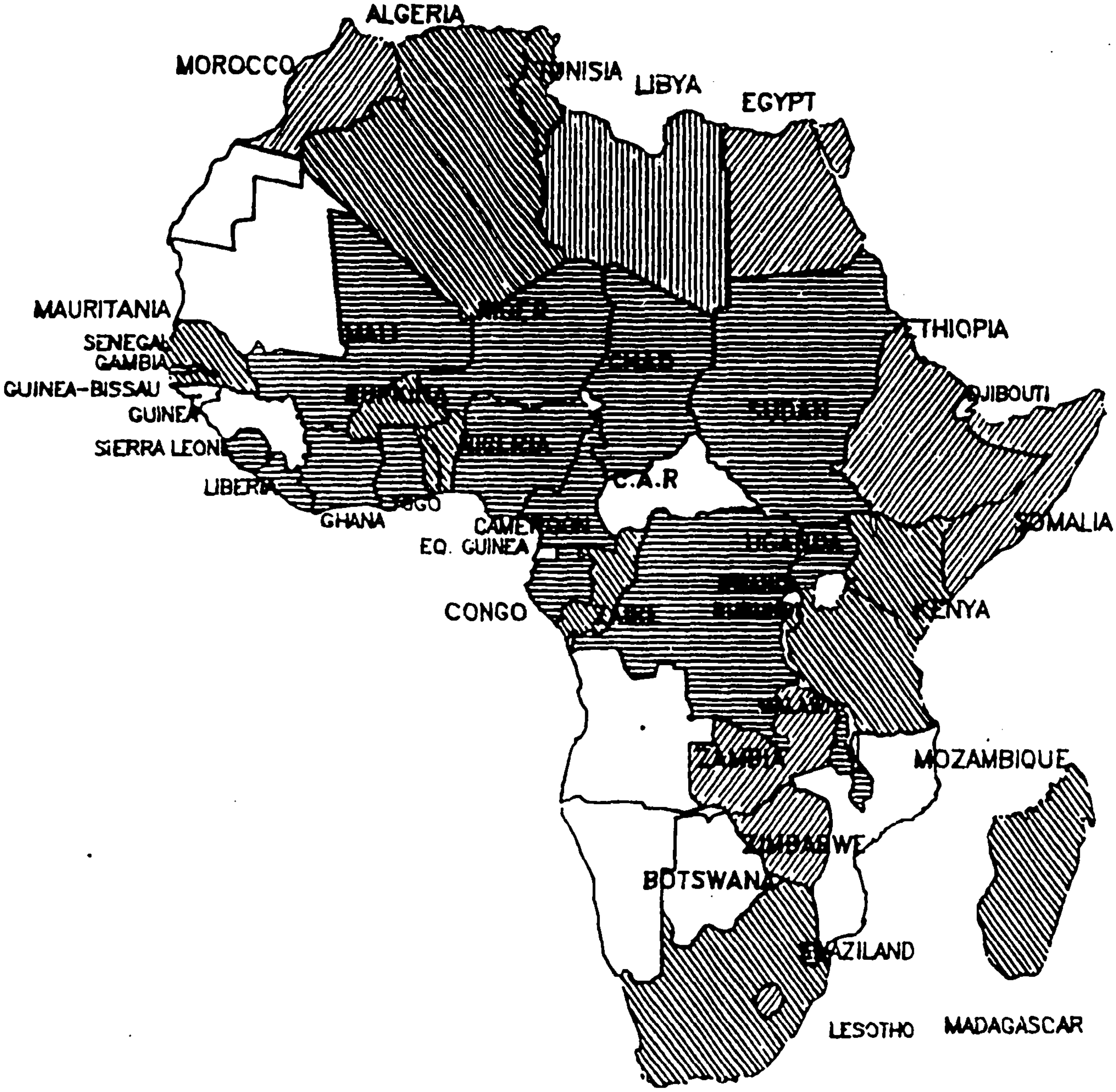
AID REGION: NEAR EAST

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
BAHRAIN	10.2	14	3.6	17	0.3	21
CYPRUS	4.7	19	1.5	21	0.4	20
EGYPT	25.0	9	13.5	8	11.0	6
GREECE	16.8	12	7.2	12	2.7	15
HUNGARY	7.6	17	4.1	16	0.2	22
IRAN	29.9	5	7.2	12	6.9	9
IRAQ			42.5	1	19.9	2
ISRAEL	26.1	8	27.1	3	7.4	8
ITALY	4.7	19	2.7	19	0.1	23
JORDAN	36.5	4	18.5	6	13.9	4
KUWAIT	11.7	13	5.3	14	4.4	12
LEBANON					1.8	16
MALTA	2.6	20	1.0	22	0.0	24
OMAN	46.6	1	27.7	2	11.3	5
POLAND	22.4	10	5.7	13	3.2	14
PORTUGAL	9.4	15	3.5	18	1.4	17
QATAR					17.4	3
SAUDI ARABIA	29.0	7	21.3	5	7.7	7
SPAIN	7.7	16	2.2	20	0.4	20
SYRIA	41.7	2	22.4	4	36.4	1
TURKEY	17.6	11	4.5	15	3.5	13
U.A.E.	40.2	3	7.4	10	0.8	18
YEMEN SOUTH			17.0	7	6.5	10
YEMEN NORTH	29.0	7	12.7	9	5.7	11

AID REGION: LAC

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	17.2	3	3.7	8	3.9	8
BARBADOS	2.9	20	1.0	22	0.0	23
BELIZE						
BOLIVIA	5.4	17	2.2	13	0.0	23
BRAZIL	2.8	21	0.8	24	0.1	18
CHILE	11.9	8	4.2	7	0.7	13
COLOMBIA	10.0	11	1.4	19	15.0	1
COSTA RICA	4.0	18	1.0	22	1.8	9
CUBA			5.9	4	9.3	4
DOMINICAN REP.	8.3	13	1.2	20	0.3	16
ECUADOR	11.3	9	1.6	18	1.2	11
EL SALVADOR	30.6	2	6.1	3	9.4	3
GRENADA						
GUATEMALA	14.9	6	1.9	14	0.9	12
GUYANA			4.8	5	0.0	23
HAITI	8.9	12	1.6	18		
HONDURAS	16.4	5	4.2	7		
JAMAICA	2.1	23	0.8	24	0.4	15
MEXICO	2.6	22	0.7	25	0.2	17
NICARAGUA	17.1	4	13.4	1	14.1	2
PANAMA	3.8	19	2.4	12	0.4	15
PARAGUAY	14.5	7	1.7	15	1.2	11
PERU	47.3	1	7.1	2	4.4	6
SURINAME	5.4	17	2.4	12	5.8	5
TRINIDAD AND TOBAGO	6.0	14	2.7	10	0.0	23
URUGUAY	10.9	10	2.9	9	0.0	23
VENEZUELA	5.7	15	1.6	18	4.0	7

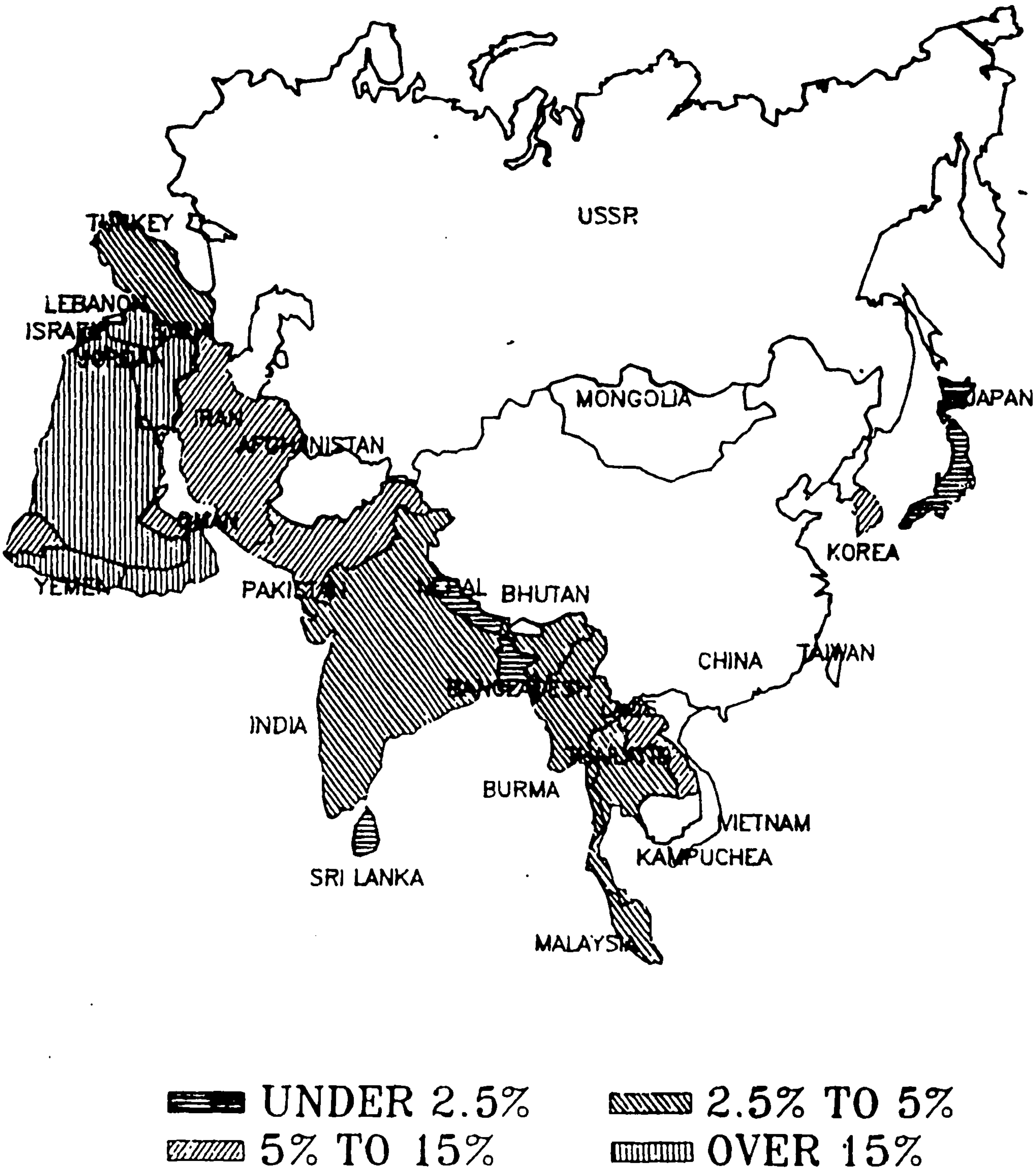
DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



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

1984–85 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



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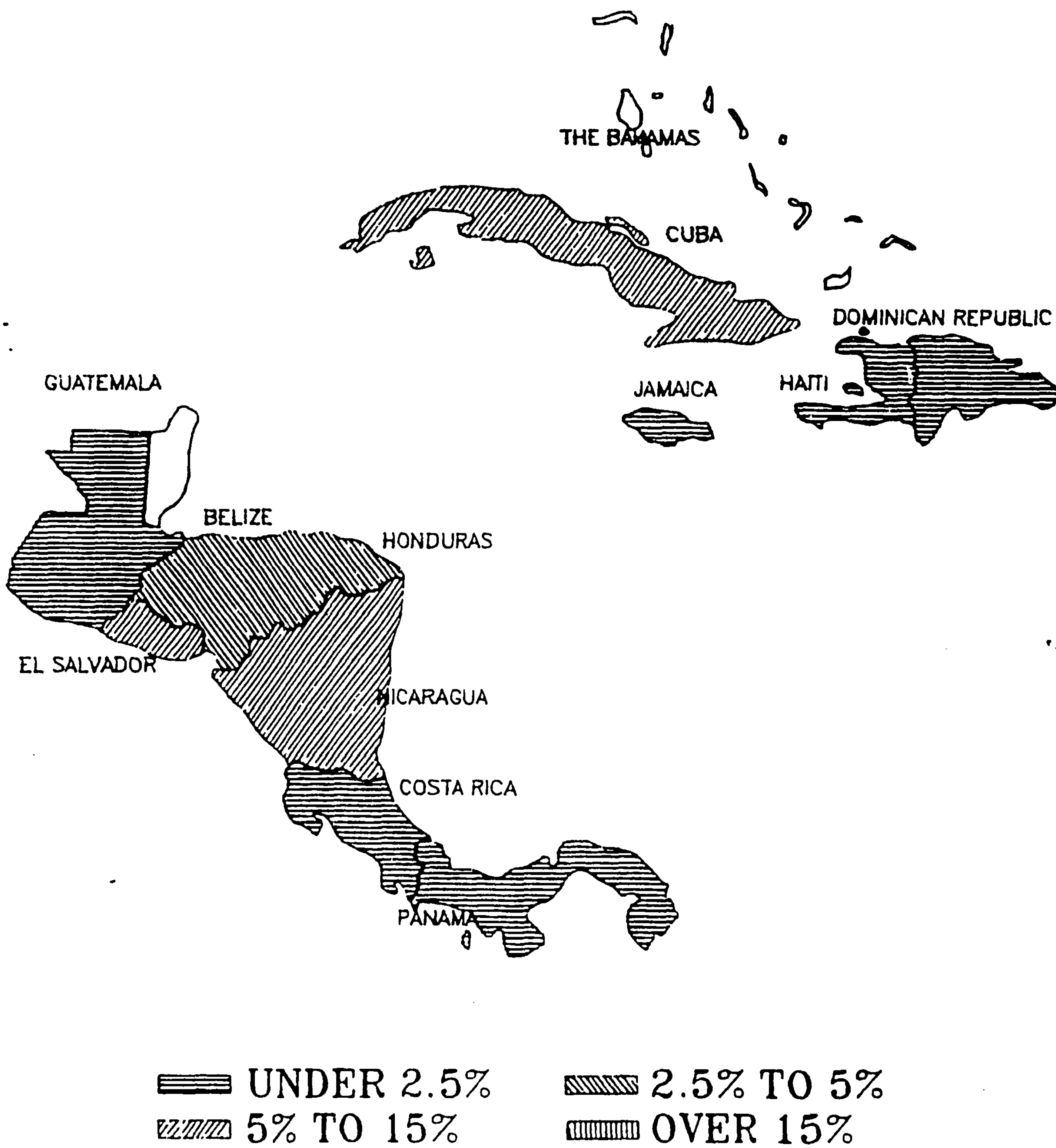

1984–85 DATA
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DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT

1984-85 DATA
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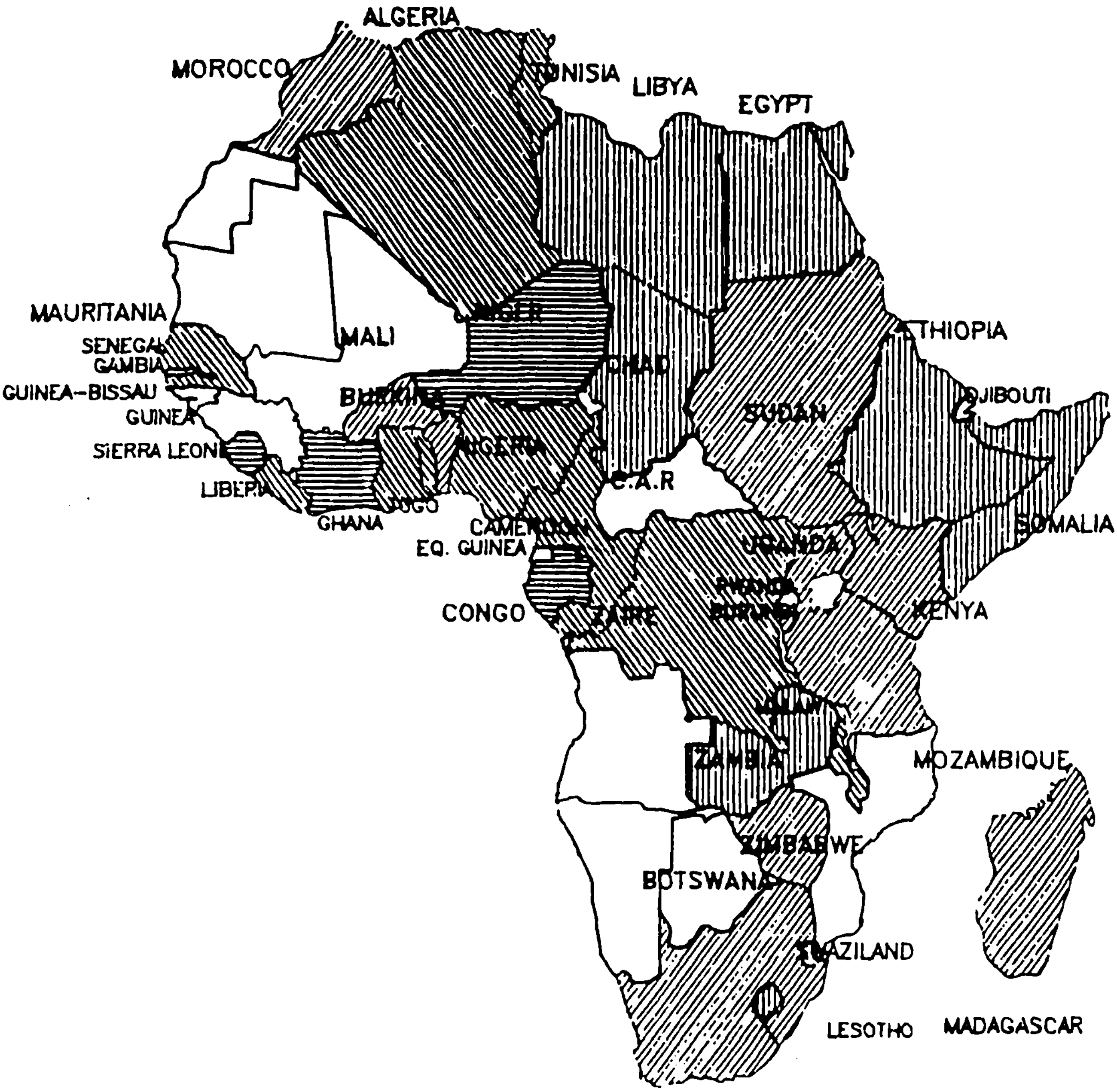
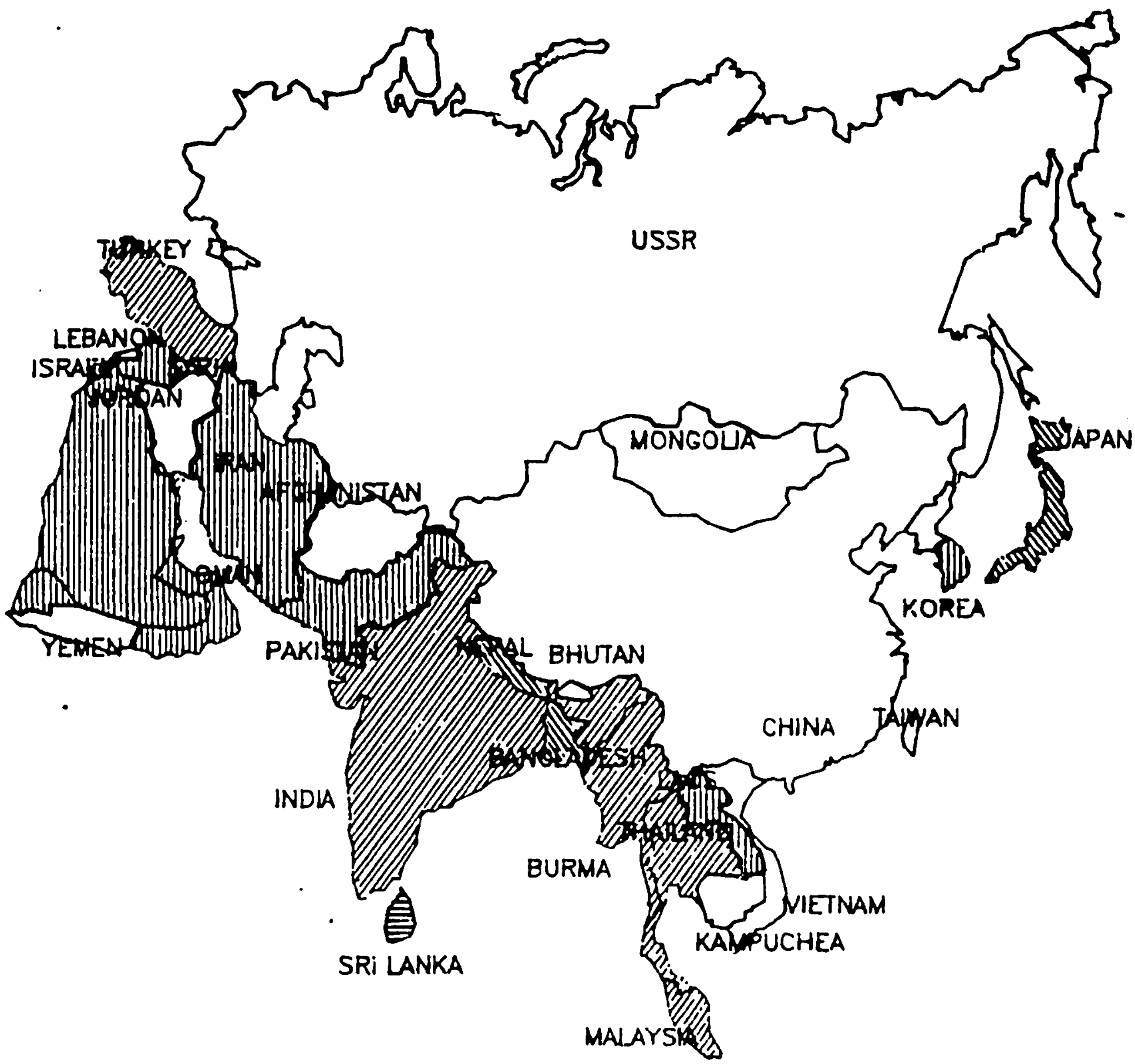
DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



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

1984–85 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

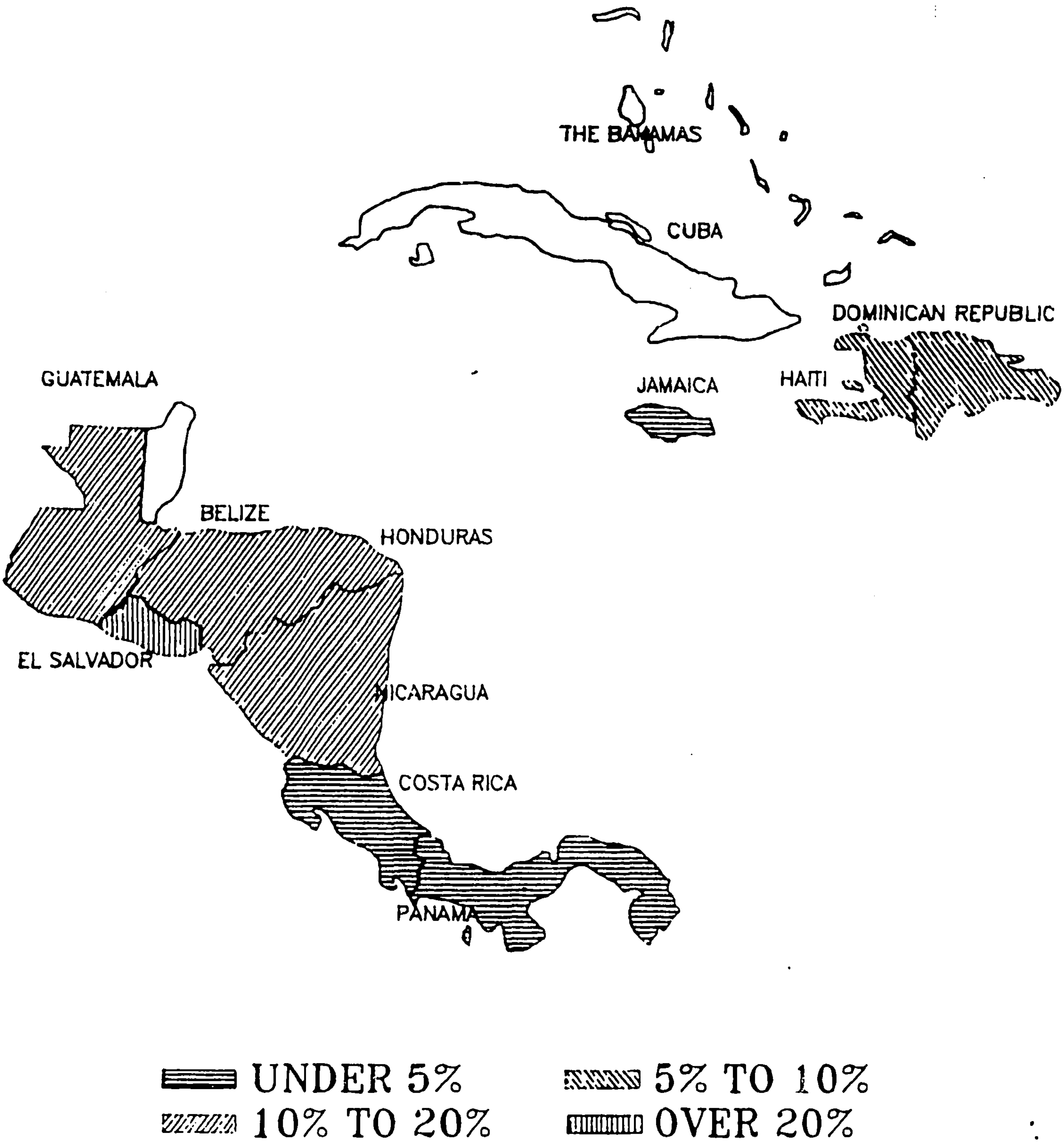
DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



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

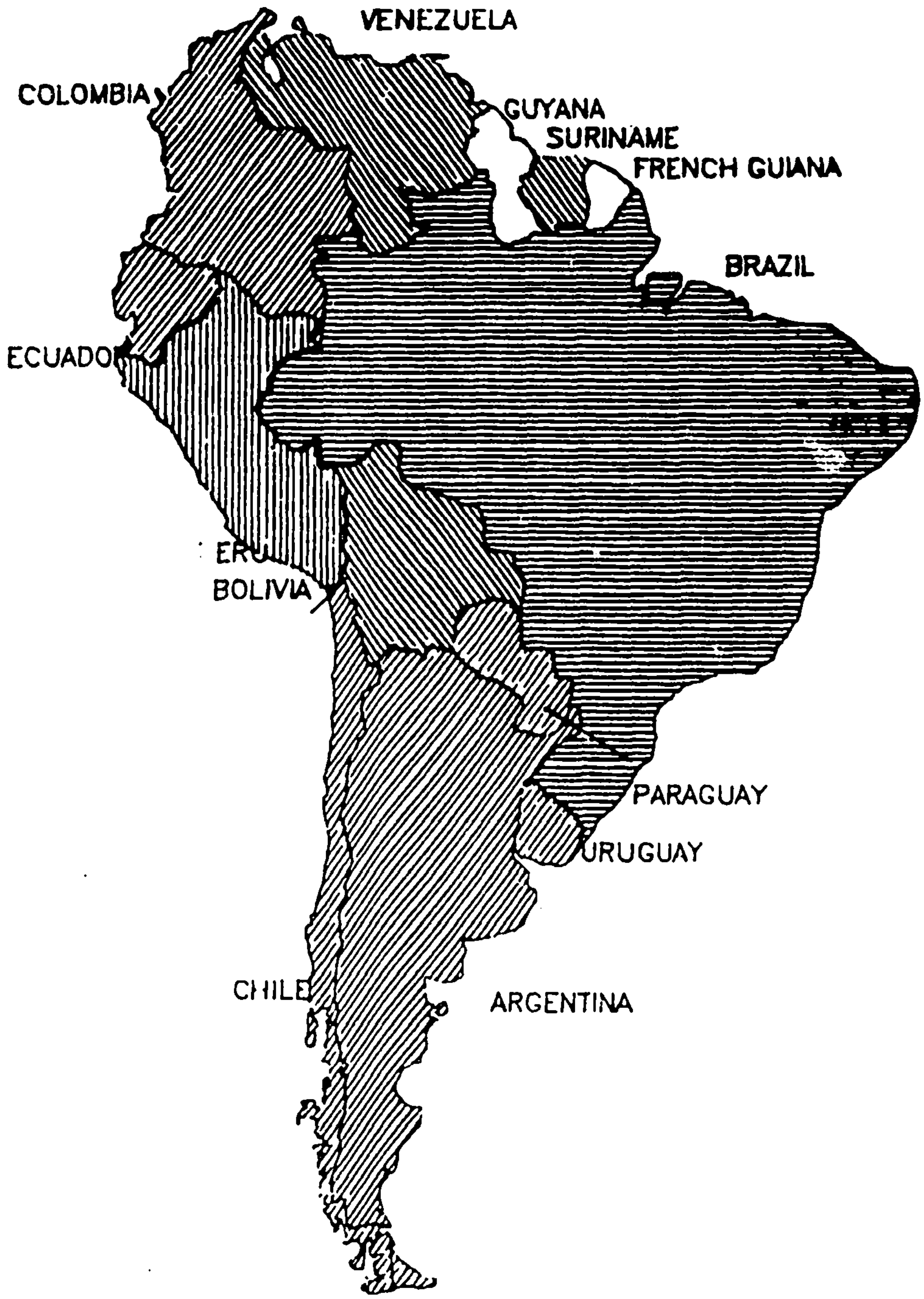
1984–85 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



1984–85 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

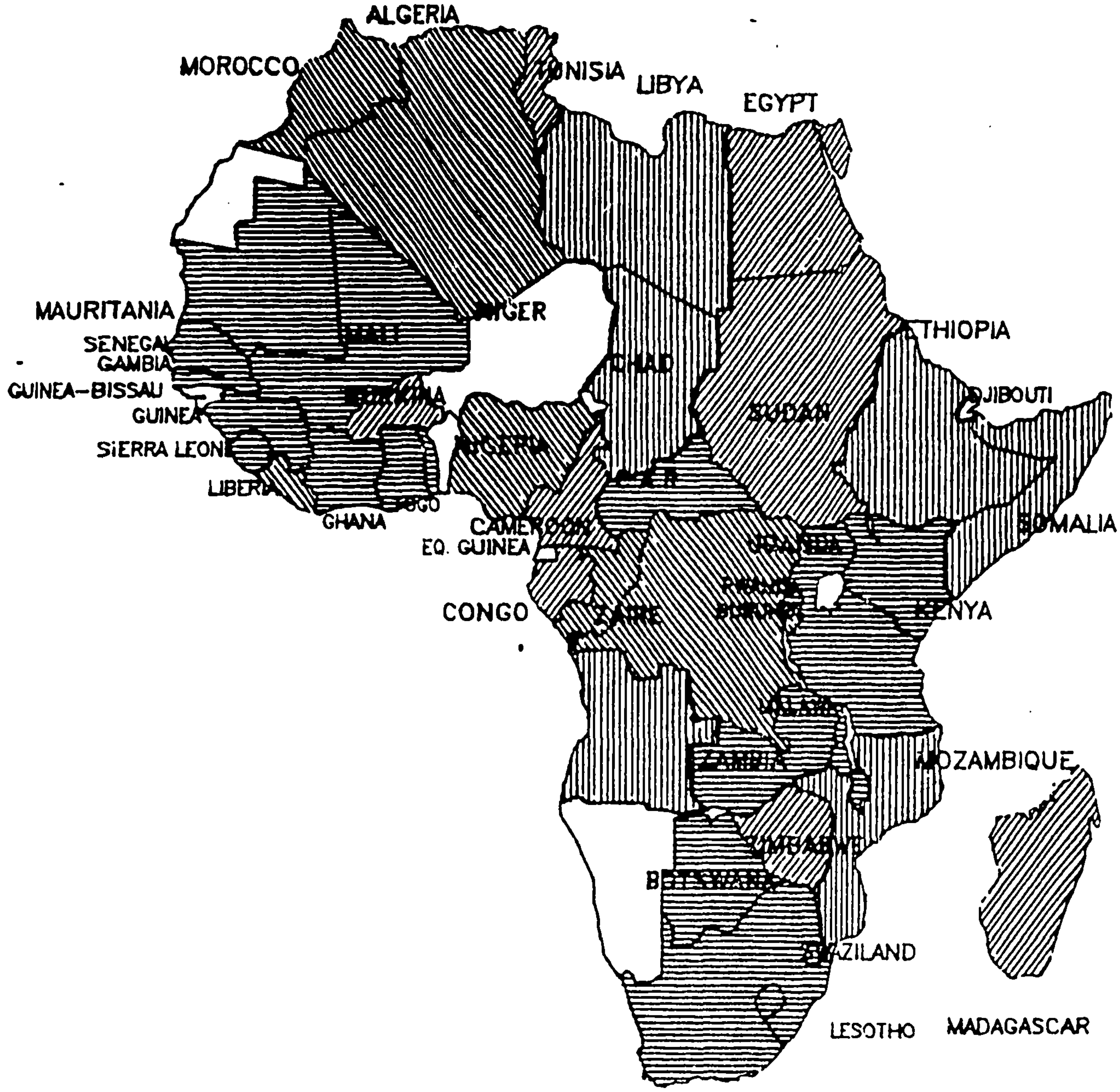
DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES



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

1984–85 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS

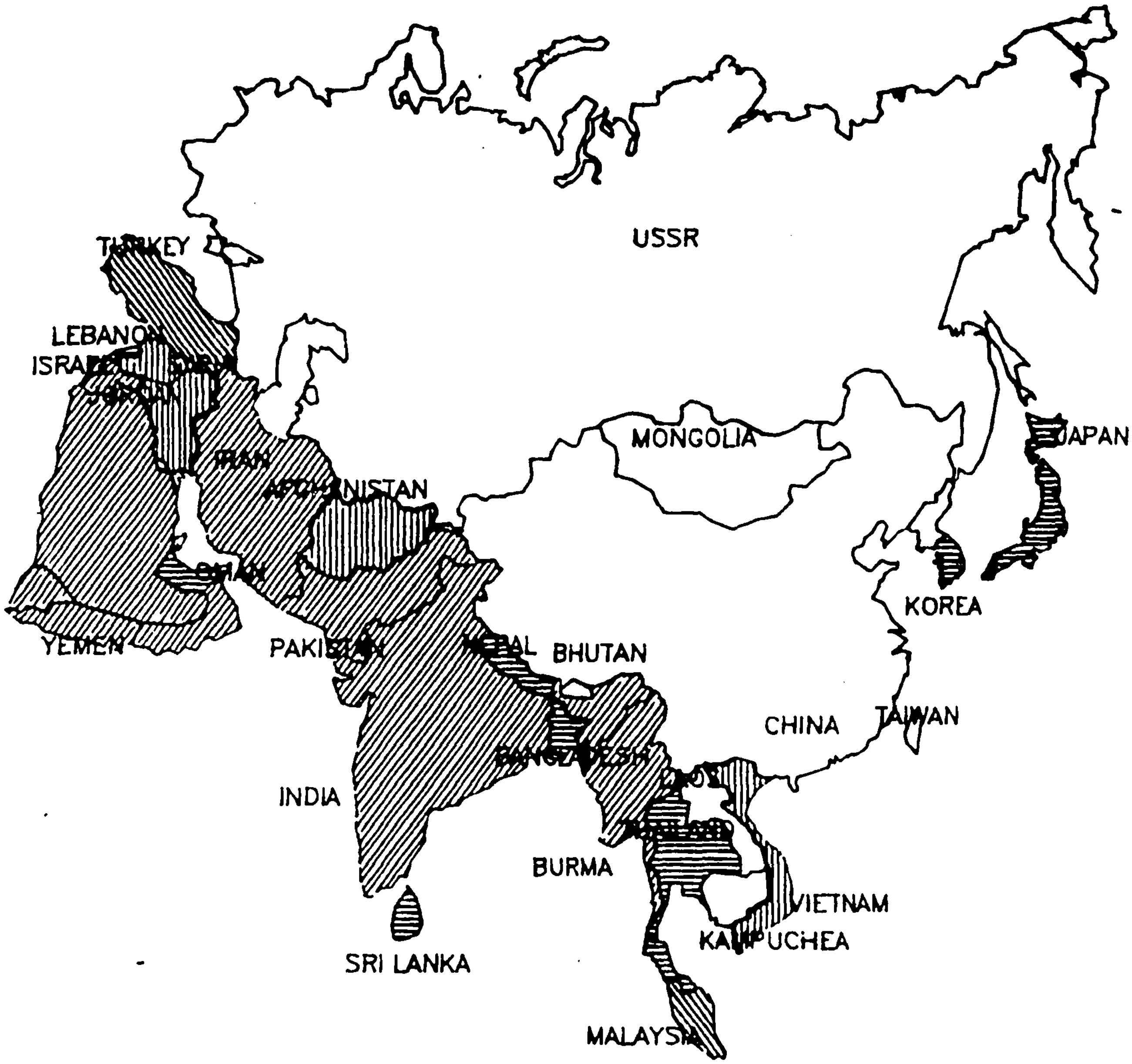


UNDER 2.5% — 2.5% TO 5%

5% TO 15% — OVER 15%

1984–85 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

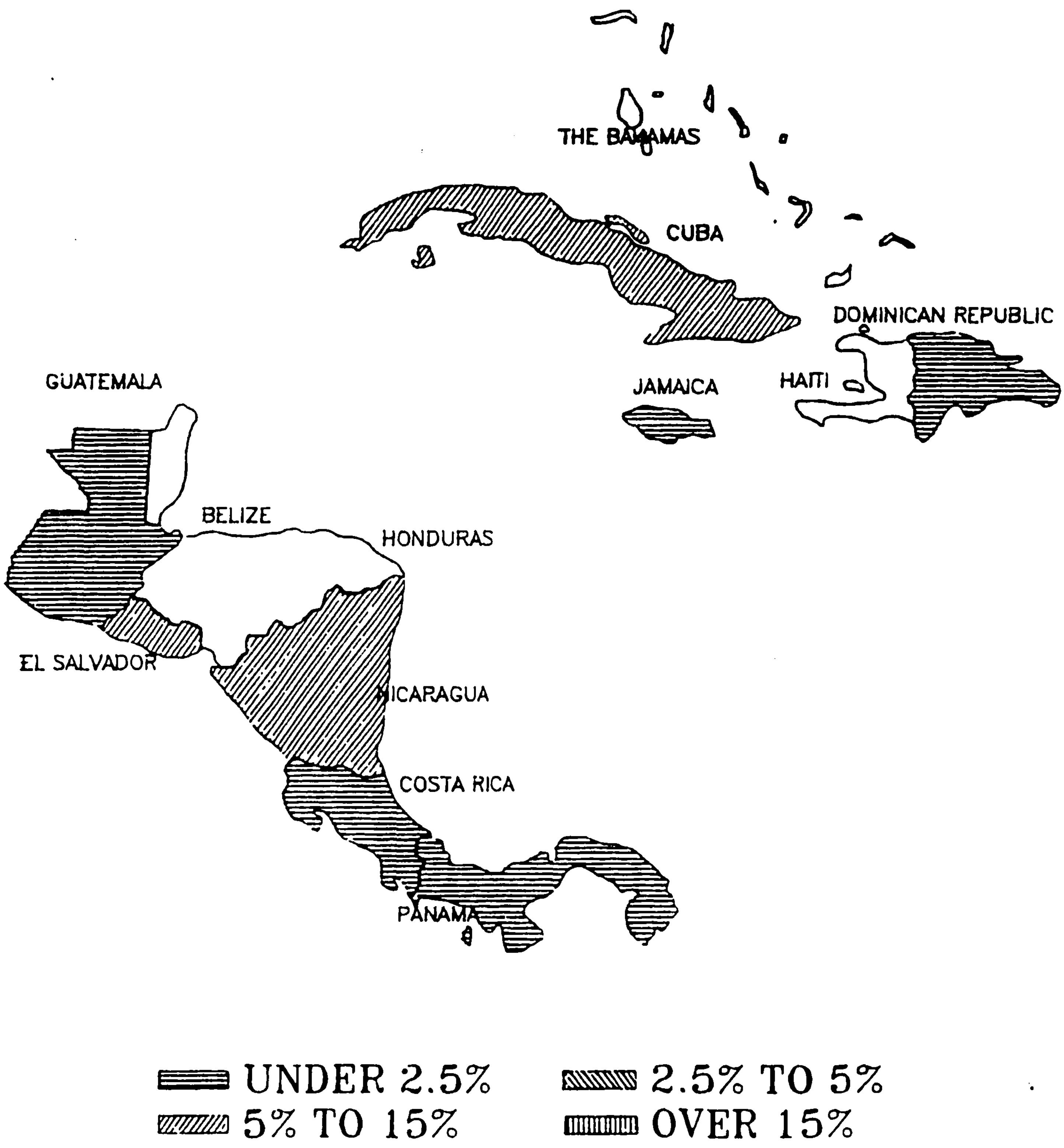
MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS



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

1984–85 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS



1984–85 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS

1984–85 DATA
BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

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 1984 or 1985, the latest years for which the most complete statistics were available for preparing the 1986-87 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 nonresidents 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.

Total Central Government Expenditures

Total central government expenditure figures include net lending.. Expenditures include all nonrepayable 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.

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 source of data used throughout this report is the U.S. Arms Control and Disarmament Agency (ACDA), as reported in its publication, World Military Expenditures and Arms Transfer, 1986.

Total Imports

Total imports include goods and services reported. This figure includes freight, insurance, interest, and dividend payments.

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.