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

A REPORT TO CONGRESS FOR 1990/1991

The U.S. Agency for International Development
Washington, D.C. 20523

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A REPORT TO CONGRESS FOR 1990/1991

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Washington, D.C. 20523

Office of the Administrator

MAR 30 1993

The Honorable Thomas S. Foley
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 1990/91 on the implementation of this provision.

Seventeen countries are 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 is determined to be ruled out for assistance as a result of Section 620(s) considerations.

Sincerely,

James H. Michel
James H. Michel
Acting Administrator

Enclosure: a/s

Agency for International Development
Washington, D.C. 20523

Office of the Administrator

MAR 30 1993

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

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Agency for International Development
Washington, D.C. 20523

Office of
the Administrator

MAR 30 1993

The Honorable Jesse A. Helms
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510

Dear Senator Helms:

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Acting Administrator

Enclosure: a/s

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Extract of FAA Legislation, Section 620(s)

Section 620(s) of the Foreign Assistance Act of 1961, as amended, 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 funds) 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.

Preface

Section 620(s) of the Foreign Assistance Act (FAA) of 1961, as amended, requires the President to report annually to the Speaker of the House of Representatives and the Senate Foreign Relations Committee on his actions in carrying out this requirement. The President's authority to administer this provision has been delegated through the Secretary of State 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 nature of military expenditures by countries receiving assistance under the economic aid programs described herein.

In implementing Section 620(s), the executive agencies involved, including A.I.D., the 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 1989, the most recent year for which the most complete statistics were available for preparing the 1990/91 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.

The report for 1990/91 cites seventeen countries which appeared to have exceeded the norm for military expenditures, as compared to other countries regionally and worldwide (we have not included Afghanistan as there is insufficient and incomplete data available on which to base a report). 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.

INTRODUCTION

The end of the Cold War has provided the opportunity for foreign aid donors and multilateral financial institutions to focus more of their attention on arms control and the huge costs of military conflict. The international community is beginning to recognize that, in addition to being a threat to world peace, excessive military expenditures divert resources away from development needs. In July 1991, the United States and its Group of Seven (G-7) partners encouraged all donors to take account of disproportionate military expenditures when providing economic assistance. A.I.D. is currently looking at ways to improve the data and strengthen the analysis of military spending in developing countries.

620(s) Countries

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

Africa	Asia	Near East	Europe
*Angola	India	Egypt	*Bulgaria
*Ethiopia	Pakistan	Israel	Poland
Mozambique		Jordan	*Yugoslavia
		Oman	
		Yemen	

Latin America
*Bolivia
*El Salvador
*Honduras
*Nicaragua

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COUNTRY SUMMARIES

Section 620(s) of the Foreign Assistance Act
of 1961, as amended

Africa

Angola

Military expenditures had declined significantly since the signing of the Angola Peace Accords, but may now be on the rise due to escalating conflict throughout the country. The Accords bind both the National Union for the Total Independence of Angola (UNITA) and the Popular Movement for the Liberation of Angola (MPLA) to assemble their troops in designated containment areas, demobilize the majority and designate the remainder to be trained for the neutral national armed force. The Accords also bind both UNITA and MPLA to avoid further importation of lethal military equipment into Angola and, thus far, both parties are abiding by that provision.

Implementation of these agreements proceeded slowly but steadily through the multi-party elections of September 29-30, 1992. However, renewed violence following those elections has delayed the required run-off presidential election and threatened the full implementation of the Accords. Negotiations continue between the two sides to halt confrontations and get the peace process back on track. The outcome of these negotiations cannot be predicted at present.

Ethiopia

The Transitional Government of Ethiopia (TGE) has committed itself to democratic principles and processes and to economic reforms and freedoms. There has been a discontinuance of major military purchases and a demobilization of the larger part of the armed forces. Therefore, the 1989 data for Ethiopia are no longer applicable.

Mozambique

Since 1978, Mozambique has been experiencing military turmoil. Italian-mediated peace talks between the Mozambican Government and the Mozambique National Resistance (RENAMO) guerrillas have been underway since mid-1990. On October 4, 1992, a comprehensive set of Peace Accords was signed. The Mozambican Government is seeking to reduce military outlays and hopefully will be able to do so once the demobilization process is completed under the Peace Accords.

Asia

India Long-standing border tensions with Pakistan and China and a lengthy coastline present serious security concerns for India. Policy-makers in India believe that the country must be able to defend itself, and have pursued a policy of military self-reliance as insurance against an arms embargo, such as was imposed during one of its wars with Pakistan. Nevertheless, India's expenditures on arms have declined markedly over the past two years as a percentage of GNP and of central government spending.

Pakistan Pakistan also faces serious security concerns as a result result of tensions with India over Kashmir. Border tensions continue between Pakistan and India over Kashmir. Despite continued pressure from the military against reducing defense spending, the Government has committed itself to an ambitious Social Action Plan which will increase the proportion of the Government budget going to the social sectors.

Near East

Egypt

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 the country. As we saw with the Gulf crisis, Egypt's ability to respond effectively to outside force is a necessary condition for security in that region. Even with substantial U.S. aid, Egypt's efforts to modernize its armed forces place a heavy financial burden on its government.

Israel

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 requirements. The United States commitment to Israel's security has been a cornerstone of our Middle East policy since the creation of the State of Israel in 1948. The USG is committed to maintaining Israel's qualitative edge over any likely combination of aggressors.

Jordan

Jordan is situated on major air and land routes to the Persian Gulf oil-producing countries. Jordan has prevented attacks against Israel over its border, the longest of any of Israel's Arab neighbors. Its military resources have been stretched in an attempt to prevent armed cross-border attacks by extremists. Jordan is now facing a serious economic crisis as a result of the Gulf crisis which it has faced squarely. Its economic situation is difficult as it faces a substantial balance of payments gap in 1993.

Oman

Oman has had a close military relationship with the United States since the implementation of the Access Agreement in 1980. The Iran-Iraq conflict posed direct risk to Oman. Iraq's invasion of Kuwait and the subsequent Gulf War only served to heighten Oman's awareness of its vulnerability. There has been no military assistance under Foreign Military Financing (FMF) since 1986, and International Military Education and Training (IMET) has been maintained at a minimal level since Oman continues to benefit from increased security derived from the 1980 Access Agreement.

Republic of Yemen

In May 1990, the Yemen Arab Republic and Marxist People's Democratic Republic of Yemen (PDRY) succeeded in uniting. Historically a poor but economically progressive country, North Yemen had contributed to regional stability. United Yemen is one of the poorest Arab countries and the most populous on the Arabian Peninsula. Deteriorating relations with Saudi Arabia because of Gulf crisis policy differences have led to a cut-off of Saudi aid and the departure of at least 750,000 Yemenis from Saudi Arabia, with a concomitant severe loss of worker remittances.

EUROPE

Bulgaria

Because of its strategic location, Bulgaria was virtually drawn into participation in regional defense organizations. Now, because of the collapse of the Soviet Union, defense and security expenditures have been drastically altered and Bulgaria is eligible for up to $394 million in loans under the current International Monetary Fund (IMF) Stand-By arrangement.

Poland

Poland's location, like that of Bulgaria, dictated participation in regional defense organizations. Poland contributed heavily to regional defense expenditures. Since this time, 1989, Poland has resolved to undertake massive budget cuts to reduce its budget deficit to 5 percent of gross domestic product (GDP). The military budget will not be immune to this decision.

Yugoslavia

The economic and development situations vary widely among the former Yugoslav republics. Varying funding levels and types of development assistance are being considered for Slovenia, Croatia, and Macedonia of the former Yugoslav republics. Assistance contemplated for these republics reflects the individual needs, movement on reform, support of peace and progress on human rights.

Latin America

Bolivia

U.S. national interests in Bolivia are the continued support and strengthening of democracy, support for economic reforms which will eventually lead to a stronger economy, and combatting international narcotics trafficking. Bolivia's Armed Forces (BAF) duty is to protect the country's territory from external threats. It has been supportive of the Government of Bolivia's (GOB) efforts to reform the economy even though these reforms have forced cuts in the BAF's budget.

El Salvador

El Salvador has had to continue to face the challenges of open civil war, not only militarily but economically. There has been repeated sabotage of its economic infrastructure and disruption of the local level political processes. U.S. economic assistance has helped to stop the economic slide and supported policy reforms which have restructured the economy toward reliance on market forces and the private sector. Economic recovery, however, remains fragile. The signing of the Peace Accord, in which the Government of El Salvador (GOES) and the Farabundo Marti National Liberation Front of El Salvador (FMLN) agreed to end the armed conflict, promote the democratization of the country, guarantee respect for human rights, demobilize the FMLN, downsize the military by approximately 50 percent, and reunify the Salvadoran society marks an historic turning point after nearly 12 years of war.

Honduras

Following the resolution of the Nicaraguan civil war and continued progress in peace in El Salvador, the military in Honduras faced a substantially lowered threat in 1990-91. Consequently, the military budget was cut drastically. The Armed Forces has moved steadily towards acceptance of civilian authority. Since then, the road to economic recovery and stable growth has taken place in a context of suddenly reduced regional tensions and a decreased role for the military.

Nicaragua

The United States has no military assistance program with Nicaragua. On the economic side, with assistance from the United States and the International Monetary Fund (IMF), the Government of Nicaragua has implemented a highly successful stabilization program which has brought hyperinflation under control, stabilized the cordoba, liberalized the trade and investment regime, and begun a process of privatization of parastatals. Seven new private banks have been authorized and five are currently operating. Meanwhile, A.I.D.'s assistance program has enabled macroeconomic stabilization and recovery and is laying the foundation for broad-based, sustainable growth while it supports the consolidation of democracy and the improvement of Nicaraguan health, education and well-being.

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COUNTRY NARRATIVES

Section 620(s) of the Foreign Assistance Act
of 1961, as amended

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AFRICA

Angola

During the last sixteen years, a bloody civil war raged between the Luanda regime, under the control of the Popular Movement for the Liberation of Angola (MPLA), and the National Union for the Total Independence of Angola (UNITA). On May 31, 1991, after two years of effort to reach consensus, the MPLA and UNITA signed a peace agreement in Lisbon, Portugal. Implementation of this agreement proceeded slowly but steadily through the multi-party election of September 29-30, 1992. However, renewed violence following the election has delayed the required run-off presidential election and threatened the full implementation of the Accords. In recent weeks, the civil war has intensified. While negotiations are taking place between the two sides in Addis Ababa to halt the confrontation and to get the process back on track, the outcome of these negotiations cannot be predicted at present.

The country's economy remains shattered. The U.S. Government has provided approximately $104 million in humanitarian and emergency assistance to Angola since FY 1989 ($34.5 million in FY 1991). Angola will require additional humanitarian and emergency assistance, as well as economic assistance, in the post-election era.

Angola is also experiencing major problems in its social sectors. For example, Angola's infant and child mortality rates are among the highest in the world. Over one million rural Angolans have left their homes and farms to escape the fighting. In addition, four consecutive years of drought in central and southern Angola have reduced agricultural production by 75 percent in the region, although crop production rebounded slightly in 1992. It is estimated that 1.9 million Angolans in southern and central Angola have been severely affected by the drought and civil war. It will take many years to rebuild the country and restructure the economy.

Military expenditures appear to have declined since the signing of the Angola Peace Accords prior to the September 30 elections. The Accords bind both UNITA and MPLA to avoid further importation of lethal military equipment into Angola. The accords also provide for both parties to assemble their troops in designated containment areas, demobilize the majority (up to 150,000) and designate the remainder to be trained for the new neutral national armed force. Implementation of these elements has been suspended pending resolution of the most recent outbreak of fighting.

On February 19, 1992, President Bush signed a Presidential Determination authorizing $14.5 million in direct assistance to Angola for FY 1992. The FY 1992 Continuing Resolution, signed by the President on April 19, 1992, removed prohibitions on direct or indirect assistance to Angola. None of the U.S. assistance has been provided directly to the MPLA, but rather through U.S. private voluntary organizations and non-governmental organizations.

In FY 1992, A.I.D. provided Angola $16.6 million in bilateral economic assistance and $17.9 million in food aid. Seven and one-half million dollars ($3.0 million from the Economic Support Fund and $4.5 million from the Development Fund for Africa) funded democratization/electoral activities in the transition period before the September 1992 elections. Ten million dollars in DFA resources were allocated to 1) the reintegration of MPLA and UNITA troops into civilian life, 2) the return and resettlement of dislocated persons and refugees displaced by the civil war, 3) provision of basic medical services and medicines for those in greatest need throughout the country, particularly children, and 4) other appropriate assistance to implement the Angola Peace Accords. Food assistance addresses food needs in three target populations: demobilized soldiers and their families, internally displaced persons and returning refugees.

In FY 1993, A.I.D. planned $15 million from the Development Fund for Africa and over $5.0 million of P.L. 480 Title II resources to continue supporting the rehabilitation and development of Angola. Due to the renewal of fighting and the ordered departure of U.S. Government personnel, including A.I.D. staff, A.I.D. is assessing the prospects for being able to resume implementation of its ongoing activities in Angola, as well as the climate for being able to carry out its planned FY 1993 program.

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

Ethiopia

The FY 1989 military expenditure data reflects the undesirable spending patterns of the Marxist Mengistu regime (Government of the People's Democratic Republic of Ethiopia - GPDRE). In 1989 this government, with the support of the Soviets, had been struggling for over a decade to win a widespread civil war by military means alone.

The military failure and collapse of the GPDRE during late 1990 - early 1991, culminating in the flight of Mengistu and the political succession of the Transitional Government of Ethiopia (TGE) between May and July 1991, has resulted in a fundamental alteration of national priorities. In the relatively short time that the TGE has been in power, it has committed itself to democratic principles and processes and to economic reforms and freedoms. As a part of this change in orientation, major military purchases have been discontinued and the larger part of the armed forces have been demobilized. Data reflecting the situation in 1989, therefore, does not reflect current economic or political practices of the Government of Ethiopia.

The United States Government did not provide development assistance to the Mengistu regime. During these years, however, the U.S. Government was a major participant in the international community's emergency relief program for Ethiopia. For example, the U.S. Government contributed $172 million in FY 1990 and $128 million in FY 1991 toward this emergency program.

Conclusion: Considerations under Section 620(s) do not rule out assistance to the present Government of Ethiopia.

Mozambique

From 1978 until early October 1992, the Government of Mozambique faced a major armed uprising, involving Mozambique National Resistance (RENAMO) guerrillas. The insurgency resulted in the death of tens of thousands of innocent civilians, forced millions of others to flee their homes, and severely damaged the nation's economic and social infrastructure.

RENAMO's military strategy appeared to be to force political change by crippling the Mozambican economy and government. Over one hundred thousand Mozambicans were killed in the conflict. Three million have been displaced from their homes, and another million and a half have fled to neighboring countries as refugees. A massive international relief effort has been mounted to feed those facing food shortages caused by the war and the most serious drought to hit the southern Africa region in a century.

The nationwide insurgency has also led to the destruction of agricultural production and transportation and power distribution networks. In this context, the relatively high military expenditures of Mozambique have been described by the government as necessary to protect civilians, maintain national sovereignty and continue national development efforts.

To counter the active insurgency and restore stability, the Mozambican Government has fielded an army of approximately 67,000. Military salaries comprise almost 40 percent of defense expenditures. The bulk of military imports are relatively unsophisticated basic armaments purchased on commercial terms. Most Western military assistance is in the form of training. The small U.S. International Military Education and Training (IMET) program, $196,000 in FY 1992, funds professional military training for mid-level officers. A handful of Russian military technicians remain to maintain equipment purchased from the former Soviet bloc.

Italian-mediated peace talks between the Mozambican Government and RENAMO have been underway since mid-1990. On October 4, 1992, the Government of Mozambique and RENAMO signed a comprehensive set of Peace Accords to end their conflict, restore peace, and lead to future multi-party elections. Substantial demobilization of combatants on both sides is a central element of the Accords.

U.S. assistance to Mozambique has been focused on alleviating human suffering caused by the armed conflict and drought, promoting market-based economic reform and structural adjustment, improving transport infrastructure and enhancing agricultural production. Roughly three quarters of the estimated $200 million in FY 1992 assistance was in food aid.

The U.S. Government's policy of constructive relations with Mozambique and our bilateral humanitarian and development assistance have bolstered the Mozambican Government's resolve to pursue a peaceful settlement with RENAMO and pursue difficult internal political and economic reforms.

Mozambican military expenditure levels are not unreasonable in view of the destructiveness of the insurgency. The Mozambican Government is seeking to reduce military outlays and hopefully will be able to do so once the demobilization process is completed under the Peace Accords.

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

India

The 1987 data used for the 1989-90 620(s) Report to Congress ranked India at 32 in the world with defense expenditures equaling 3.9 percent of its GNP, and 26 with defense receiving 16.9 percent of central government spending. The 1989 data used for this report shows that India now ranks 40 and 41, respectively, as defense expenditures have dropped to 3.1 percent of GNP and 13.6 percent of central government expenditures. While India's ratio of military imports to total imports has remained high due to a prohibition on consumer goods imports, it has still improved from 19.1 percent to 17.1 percent in the two-year period.

India's improved statistics are significant in light of all the serious security concerns India faces. India's long coastline requires investment in a sizeable navy to patrol its borders. Tensions remain on the borders with Pakistan and China where numerous skirmishes and wars have occurred since Independence. The stakes have been raised substantially as all three countries now have nuclear programs. Pakistan and China significantly outrank India in both the military expenditures to GDP and defense to central government expenditures categories. On a per capita basis, India's defense expenditures are just over half those of China and only a third of those of Pakistan.

Policy makers in India are united in the belief that India must be militarily strong, and able both to defend itself and to project its military influence within the region. Having experienced an arms embargo during one of its wars with Pakistan, India now has a declared policy of becoming militarily self-sufficient.

India's development record since independence has been impressive. India is now virtually self-sufficient in food production, and vital social indicators have been improved substantially. Life expectancy has increased by 33 percent, literacy by 90 percent, and infant mortality has declined by 38 percent. India has developed a diversified industrial base. In its most recent five-year plan, India budgeted $273 billion for the country's development, of which more than 90 percent was financed from domestic resources. However, India remains one of the world's poorest countries with 40 percent of its population living in poverty and a population growth rate of over 2 percent that substantially dilutes the benefits of economic growth.

In mid-1991 India initiated a series of major economic policy changes that are moving the economy away from socialism and towards the free market. These momentous changes promise to accelerate the pace of economic growth from the 5 percent rate of the 1980s, and to bring about lasting improvements in the standard of living over the longer term. Planned future reforms are sure to encounter increased resistance from entrenched interests. The Indian government will need to maintain both internal and external support to continue the momentum of the transition to a liberalized economy.

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

Pakistan

Although a relatively poor country, Pakistan has had a real growth of gross domestic product averaging 6.2 percent over the decade of the 1980s, with moderate inflation of 6 percent. Despite this generally satisfactory performance, Pakistan's economy continued to exhibit key structural weaknesses, which included continued price controls, subsidies, and government ownership; a trade regime that distorted domestic resource allocation and discouraged export growth; a poorly administered tax system; an underdeveloped financial sector which relied chiefly on public ownership and directed credit; and a growing fiscal burden of servicing the Government's public debt. By FY 1988, Pakistan's macroeconomic balance had worsened significantly. This worsening economic condition accelerated due to deteriorating terms of trade and remittances which declined drastically during the Gulf War.

Reacting to the deteriorating economic conditions, the Government under Prime Ministers Bhutto and Sharif committed itself to reform programs designed to address structural weaknesses, improve macroeconomic balances, and increase the overall efficiency in the economy. Throughout 1989, 1990, and 1991, reform efforts remained largely on track, with such measures as the reduction of non-tariff barriers, broadening of the tax base, improved fiscal discipline, and an aggressive privatization program. These efforts went forward despite ethnic riots, deterioration in the country's terms of trade, and a decline in foreign exchange remittances. During this period, GDP growth fell from 7.6 percent to 6.5 percent. Inflation rose slightly from 9.3 percent to 10.7 percent. The budget deficit rose slightly from 8.6 percent of GNP to 8.8 percent. Exports rose from 11.4 percent of GDP to 12.9 percent of GDP. The balance of payments current account deficit went from 4.3 percent of GNP to 4.6 percent of GNP. At the end of FY 1991, foreign exchange reserves stood at $492 million, and the trade deficit stood at $2.0 billion, down from the $2.6 billion in the previous year. Indications for the first half of FY 1992, however, are that export growth has most recently begun to slow, while imports are expanding at a fast pace.

Though there are continuing tensions between Pakistan and India over Kashmir, and the military resists efforts to reduce defense spending, the Government has committed itself to an ambitious Social Action Plan, which will increase the proportion of the Government budget going to the social sectors. In 1991, defense consumed 29 percent of the government expenditures, development 28 percent and debt-servicing 22 percent.

Since October 1, 1990, the U.S. Government has been unable to certify, as required by the Pressler Amendment, that Pakistan does not possess a nuclear explosive device. Pakistan has therefore received no new U.S. Government economic and military assistance since that time. However, recent amendments to the Foreign Assistance Act allows some development assistance through non-governmental organizations and P.L. 480 food sales.

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

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NEAR EAST

Egypt

Military spending as a percentage of GDP over the past three years has averaged in the five percent range. Projections for the next five years put military expenditures at about 5 percent of GNP.

Egypt's strategic location and its willingness to assume the role of a stabilizing force in the region place a heavy defense burden upon it. As we saw with the Gulf crisis, Egypt's ability to respond effectively to outside force is deemed necessary for the security of the region. Egypt has long worked to promote moderation and mutual security amongst regional states. A possible threat exists from a hostile Libyan Government on its western border, although efforts have been made to stabilize political relations. A potential 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 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 level of imports of military equipment from the United States.

As a result of events in the Middle East, the United States forgave $7.0 billion in military debt, which will save Egypt approximately $1.6 billion in payments of interest and arrears that were due in FY 1991 and a further $700 million to $1 billion in yearly debt service for a number of years to come. Arab creditors have written off nearly $7 billion in Egypt's debt which had not been actively serviced. Lesser amounts were also written off by smaller creditors. While extraordinary aid and debt relief have greatly eased the government's foreign exchange position, providing resources which will continue to be used to help cushion stress from adjustment, they have not substantially alleviated the short-term economic stress on the private sector and the average Egyptian as a result of the Gulf crisis.

The government is embarked on a wide-ranging program to reform its economic policies. One set of reforms, formulated in consultation with the International Monetary Fund (IMF), is designed to deal with the macroeconomic imbalances in the economy - to correct inflationary fiscal and monetary policies and to allow interest rates and exchange rates to respond to market forces - thus improving the viability of the balance of payments. A second set of policies, planned in collaboration with the World Bank, and reinforced by A.I.D.'s policy-based assistance programs, is designed to achieve a more dynamic and efficient market economy, reducing the controls that produce wasteful distortions, stifle incentives, and discourage private sector expansion.

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

Israel

Israel's high level of defense expenditures reflects its concern over a continuing regional threat. The United States shares with Israel concerns related to the security of the Eastern Mediterranean and stability in the Middle East.

Israel's economy grew rapidly until the early 1970s. Through high levels of investment and with a highly skilled labor force, Israel developed a modern industrial state whose citizens enjoy a standard of living comparable to that of southern Europe. Israel's boom ended in the mid-1970s in the face of higher oil prices and in the wake of the 1973 war when a major share of the country's resources were diverted to defense.

From early in the 1980s, high levels of defense spending coupled with high levels of private consumption led to increased demand for goods and services. This, in turn, led to major fiscal deficits and to triple-digit inflation. Faced with an economic crisis that threatened to wipe out its foreign exchange reserves the Government of Israel, in 1985, launched an Economic Stabilization Program which, with stringent controls, resulted in the reversal of the balance of payments current account from a $1.5 billion deficit in 1984 to a $1.5 billion surplus in 1986. Despite deficits in the combined goods and services accounts, sizeable external transfers from the U.S. Government, German reparations, and private individual and institutional sources have produced current account surpluses in most years of the late 1980s.

In 1990, the balance-of-payments situation deteriorated significantly and this reversal continued into 1991. While exports continued to increase, they were outstripped by the increase in imports brought on by higher oil prices and rising military expenditures during the Gulf Crisis combined with surging capital and consumer goods imports brought about by the demands of immigrant absorption. As a consequence of the Gulf War, the current account (particularly tourism earnings) deteriorated further and the balance of payments is likely to continue to be a problem as the need to cope with immigration continues. Financing these external deficits will require an increase in foreign borrowing and an increase in Israel's external debt.

The long-term health of the Israeli economy will depend upon success in continuing implementation of structural adjustment reforms aimed at improving the country's international competitiveness and long-term growth prospects; further progress in controlling inflation; maintaining a realistic exchange rate; steady improvements in the private investment and savings climate, reduced regulatory impediments to private investment, and continued progress in the privatization of public enterprises.

Israel also faces economic challenges with the influx of up to one million immigrants, primarily from Eastern Europe and the former Soviet Union. Even though the flow of immigrants has slowed significantly from earlier projections, the trend could reverse.

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 requirements. Since FY 1986, the combined amounts of Foreign Military Financing grant funds and economic assistance have been maintained at $3 billion annually. An additional $650 million was provided in FY 1991 to offset costs incurred during the Gulf Crisis. Beginning in FY 1985, all such assistance has been provided as grants. In 1988, $4.75 billion of Foreign Military Financing debt was refinanced, saving the Government of Israel more than $100 million in annual interest payments. U.S. assistance, however, cannot substitute for the continuation and strengthening of the reform 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 represents a force for moderation and stability in the Middle East. Jordan serves as a key player in the search for progress towards resolution of the Arab-Israeli conflict, despite its withdrawal from most administrative ties with the West Bank in July 1988. Price riots in April 1989 prompted Jordan to hold its first parliamentary election in 22 years. The elections were free and open. In 1989, the government took several steps toward further political liberalization, such as freeing up the press and releasing persons charged with crimes committed in pursuit of political goals. Martial law has been lifted and parliament has legalized political parties. Jordan has entered the front ranks of countries in the Arab world moving toward a more democratic representative government.

Jordan has prevented attacks against Israel from its border, the longest of any of Israel's Arab neighbors. Jordan's defensive capability relative to Syria has declined dramatically during the last decade.

Jordan's military resources have been stretched in an attempt to keep the Jordanian-Israeli border quiet and prevent cross-border attacks by extremists. Jordan must maintain sufficient defensive strength to deter threats by those opposing its moderate policies. Jordan's military must also be prepared to cope with civil disturbances which could be a long or short-term result of the Gulf crisis.

Jordan's economy suffered severely in recent years, and future prospects for growth are limited given the current situation in the Gulf. Its principal sources of foreign exchange have declined: Gulf-based workers' remittances, Arab and other donor aid flows, and phosphate export earnings. Moreover, the Gulf crisis has imposed an unexpected hardship on Jordan's economy due to the impact of 300,000 refugees from the Gulf states. Unemployment now ranges to 26 percent, and the labor force is expanding at 4-5 percent a year. GNP growth was only about 3 percent in 1991, implying continued loss in real per capita income as population grows at 3.6 percent a year. Moreover, the economy's growth in 1991 may prove to be the temporary result of the capital infusion provided by the 300,000 returnees.

Thus far, Jordan has faced its economic difficulties squarely. It has worked hard to replace the markets which were lost to it as a result of the Gulf Crisis. During a particularly difficult winter it reduced fuel subsidies (February 1992), a precondition to the IMF Stand-by arrangement approved in March. With this reform program in place, Jordan went to the Paris Club in March 1992, and continued to take steps to regularize its relations with its creditors. Jordan's economic future remains problematic as it faces a substantial balance of payments gap in coming years.

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

Oman

Oman's economy is closely linked to the energy industry, which provided about 75 percent of government revenues and about 45 percent of GDP in 1990-91. The government budget has been in deficit since 1982. To cover the budget shortfall, Oman has borrowed from abroad. By 1991, total external debt was projected to exceed $2.7 billion with annual debt service requirements equal to 15 percent of export earnings. Oman's new Five-Year Plan (1991-1995) decreed no new foreign borrowing for the period of the plan.

After experiencing a severe recession in 1986, brought on by a decline in oil prices and cuts in government spending, Oman has sought to restore business confidence by maintaining spending at a level which will encourage moderate steady growth. The Omani economy remains highly dependent on the public sector. This dependency has created an inefficient llocation of resources. The Five-Year Plan aims for a larger role for the private sector and an added emphasis on non-oil exports. Oman's GDP was projected to grow at a 5 percent rate in 1991 to reach over $10 billion, with a per capita GDP of $7,000.

Regional and national security concerns have been the driving force behind Oman's security expenditures in the past. The current instability in the Persian Gulf works against effecting a change in Oman's existing defense expenditure patterns. The Iran-Iraq conflict posed direct risk to Oman, given the proximity to Iran and the vulnerability of crucial oil infrastructure and shipping. Iraq's invasion of Kuwait and the subsequent Gulf War only served to heighten Oman's awareness of its vulnerability.

The United States has had a close military relationship with Oman since the implementation of the Access Agreement in 1980. Although no military assistance under Foreign Military Financing (FMF) was provided between FY 1986 and FY 1991 and International Military Education and Training (IMET) has been maintained at a minimal level, Oman continues to benefit from increased security derived from the 1980 Access Agreement.

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 high-priority activities in water resources, fisheries, and educational development. National economic development is clearly the top priority of the Omani Government. Security expenditures rose in response to overt external threats and instability in the region. Given the continuing insecurity in the region, military expenditures are not expected to lessen in the short term.

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

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ASIA

Republic of Yemen

Yemen occupies a strategic position at the entrance to the Red Sea and shares borders with Saudi Arabia and Oman. The Yemen Arab Republic (North) and the People's Democratic Republic of Yemen (PDRY) unified on May 22, 1990. Security concerns in Yemen are derived in part from historical internal friction. Since the overthrow of the theocratic regime of the Imamate in 1962, two of North Yemen's five presidents have been overthrown and two were assassinated. The Yemeni Government has not had total authority over fiercely independent tribal factions in the north. In the past, the unstable relationship with the Marxist regime in PDRY resulted in a number of armed clashes. Maintenance of a strong defensive capability is likely to remain a high priority in Yemen over the near term because of a significant deterioration in relations with Saudi Arabia since the Gulf crisis. Negotiations on defining the Yemeni-Saudi border are currently underway.

The Republic of Yemen is faced with formidable economic problems which have recently reached near-crisis proportions in terms of foreign exchange reserves and the ability to make debt payments. Yemen's difficulties are exacerbated by unification and the return of at least 750,000 Yemenis from Saudi Arabia, with a concomitant severe loss of worker remittances. Though the Yemen Arab Republic began exporting oil at the end of 1987, oil income has been modest and has not come close to offsetting declines in other sources of foreign exchange. The result has been a severe shortage of foreign exchange, growing current account deficits and increased inflationary pressure. Yemen's halting movement toward an outwardly oriented economic development process has left the country with a substantial lack of modern economic and social infrastructure and the economic problems mentioned above, which, coupled with a high population growth rate, have slowed the modernization of the country.

Despite these problems, Yemen has made substantial progress in addressing its social and physical infrastructure requirements. Yemen's national planners have demonstrated an increasingly sophisticated appreciation of the priorities for economic development and of the role of the private sector as the primary engine for stimulating growth. The expanded role of elected representatives to the North Yemeni parliament following elections in mid-1988 has provided an additional forum for discussion of national development priorities. Multi-party parliamentary elections for unified Yemen are scheduled for April 1993.

Security concerns will likely result in continued emphasis on national defense, although defense expenditures are not expected to rise as a percent of overall expenditures in the future. The military is currently trying to merge the defense forces of the former North and South Yemens. Despite the relatively high level of military expenditures, Yemen has tried to minimize the budgetary impact by negotiating to extend or forgive military assistance loans. Future fiscal austerity measures will have an impact on both defense and economic development budgets, but it is clear that Yemen is placing a high priority on devoting budgetary resources, especially scarce foreign exchange, to development efforts.

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

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EUROPE

Bulgaria

Defense and security expenditures in Bulgaria have been drastically altered since the collapse of the former Soviet Union in 1991. The 1989 data reflected Bulgaria's obligations under the Warsaw Pact. Bulgaria's strategic location, on the southern front along the Black Sea, and the former Soviet Union's port facilities into the Mediterranean, dictated participation in regional defense organizations. Under the Warsaw Pact, Bulgaria was obligated to contribute heavily to regional defense expenditures, including costs for supporting Soviet troops stationed in Bulgaria.

Statistical data for 1989 showed that Bulgaria spent 11.9 percent of its GNP on defense. Preliminary figures for 1991 indicate a noticeable drop in expenditures with 7 percent for defense against total expenditures and 3.7 percent of defense against the GDP. Considering a 400 percent inflation rate, real growth (or loss) is seen to be a **negative** 41.5 percent in these sectors.

Bulgaria's economic conditions have worsened since the putsch in 1991, reflecting limited financial resources available to continue such a level of military expenditures as seen in previous years. In 1991, the Bulgarian government began the process of inclusion into world markets and the stabilization of its own economic situation. We saw in late 1991, after a decisive victory on the part of the Union of Democratic Forces, a great effort to work with the IMF, which has resulted in various stabilization measures. Bulgaria is now eligible for loans of up to $394 million under the current IMF Stand-By Agreement.

U.S. assistance to Bulgaria was initially supported through the Support for East European Democracy (SEED) Act of 1989, which included Bulgaria beginning in 1990. The SEED Act has supported substantive steps toward institutionalizing political democracy and economic pluralism in Eastern Europe. In view of strategic U.S. considerations, the movement toward democracy and free market economic policies in Bulgaria is of significance to the political stability of the Balkans, and therefore Europe, the end of the cold war and ultimately world peace.

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

Poland

The statistical data from 1989 showed that Poland spent 23.4 percent of its central budget on defense. This was equivalent to 8.9 percent of GNP. Approximately 2.6 percent of the country imports were for military expenditures.

In previous years, military expenses were obligations under the Warsaw Pact. Poland's location, as a buffer between the former Soviet Union and Western Europe and its inclusion in the former Soviet Bloc, dictated participation in regional defense organizations. Under the Warsaw Pact, Poland was obligated to contribute heavily to regional defense expenditures, including costs for supporting Soviet troops stationed in Poland.

A defense industry was created to respond to such obligations. Poland is now undergoing the transformation from a central-planned economy to a market-oriented economy. During this transition, these industries are receiving budget subsidies to keep running until such time that these plants can be privatized and converted from manufacturing defense equipment to commercial equipment. For example, industries that once produced MIGs are attempting to convert to production of commercial aviation equipment.

To this end, a project, under the Support for East European Democracy (SEED) Act of 1989, specifically deals with the conversion of this industry from one of defense orientation to one serving commercial interests. Three advisors are now in Poland working with former defense industries to help them through the conversion and privatization process.

Poland's negotiations with the former Soviet Union included a provision that Poland would help the displaced troops with housing. A small minority of these returning troops have a home to which they may return. Part of the deal was that Poland would help locate housing in the former Soviet Union for these returnees. Where Poland will get these military housing resources is unclear, especially in light of Poland's shrinking defense budget. Poland is presently working with the International Monetary Fund (IMF) to resume a stand-by program. To do this, Poland has agreed to reduce its budget deficit to 5 percent of GDP. In achieving this figure, Poland is undertaking massive budget cuts. The military budget is not immune to Poland's stringent expenditure reductions.

U.S. assistance to Poland was initially supported through the SEED Act of 1989. This Act supports substantive steps toward institutionalizing political democracy and economic pluralism in Eastern Europe. In view of strategic U.S. considerations, the movement toward democracy and free-market economic policies in Poland is of significance to the political stability of Europe and, ultimately, to world peace.

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

Yugoslavia (Former)

As a result of civil conflict, The Socialist Federal Republic of Yugoslavia (SFRY) as constituted in 1990/91 no longer exists. In March/April 1992, the U.S. Government recognized the independent states of Slovenia, Croatia, and Bosnia-Herzegovina. Other republics have requested but not received U.S. recognition.

The economic and development situations vary widely among the former Yugoslav republics with Slovenia relatively well-off but needing some technical assistance to help its transition to democracy and a market economy, whereas Bosnia-Herzegovina and Croatia have suffered considerable damage and dislocation from the civil conflict on their territory. Macedonia's relatively less developed economy has suffered from refugees and the effects of economic sanctions.

As of the time the military expenditure data was compiled (1989), the former Socialist Federal Republic of Yugoslavia ranked particularly high on the "World Ranks" chart. The high percentage of the former SFRY central budget spent on defense can be explained partly because many non-defense expenditures were handled through the budgets of the individual republics. By other measures, the former SFRY ranked near the middle. The former national Yugoslav army has largely become an instrument of the Serbia/Montenegro alliance.

Future U.S. Government economic assistance will be under the SEED legislation. Current U.S. assistance to the republics of former Yugoslavia is primarily humanitarian although additional economic assistance to selected republics is presently under consideration. Assistance to Serbia/Montenegro is not being considered.

Conclusion: Considerations under 620(s) do not rule out assistance to the independent states.

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LATIN AMERICA

AND

THE CARIBBEAN

Bolivia

Bolivia's economy has been recovering from the economic crisis of 1985 when the Government of Bolivia was forced to implement a crash economic recovery program. The Government, working closely with the International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank (IDB), fired thousands of public sector employees, reformed the tax code, freed the foreign exchange regime, and liberalized rules for foreign investment. The reforms implemented in 1985 laid the foundation for Bolivia's current economic growth.

Bolivia's gross domestic product (GDP) grew by 4.1 percent in 1991, the first time since 1977 that the growth in GDP substantially outpaced the growth in the population rate. The growth in Bolivia's GDP meant that Bolivia's economy surpassed the 1977 GDP level, previously the highest in Bolivia's history. The inflation rate has been below 20 percent since 1985, and was 14.5 percent in 1991, a far cry from 1985 when inflation hovered at 24,000 percent. Exports in 1991 were valued at $849 million, of which 49 percent were mineral sales, and 25 percent were natural gas sales to Argentina. The Bolivian government has reduced its foreign debt by over $1.9 billion. The remaining $3.5 billion in foreign debt, or about $550.00 per capita, is now held by multinational development banks or foreign governments, at concessional terms.

The Government of Bolivia was able to remain in compliance with the IMF Enhanced Structural Adjustment Program, although the 1991 budget deficit reached 3.6 percent, exceeding IMF guidelines. However, the IMF and the Government of Bolivia have reached an agreement extending the IMF program for a fourth year.

Despite nearly five years of financial stability and slow, but steady economic growth, the Bolivian economy still faces some serious problems. With an estimated population of 6.3 million people, according to the preliminary results of the June 1992 census, Bolivia's GDP per capita is around $950.00, one of the lowest in South America. Bolivia also has the worst figures for infant mortality, life expectancy, and literacy in South America. Bolivia's infrastructure is also one of the region's most underdeveloped.

Bolivia's Armed Forces (BAF) consist of an Army, an Air Force and a Navy. The total number of active duty military personnel is approximately 34,000. The BAF's duty is to protect Bolivia's territory from external threats. It has no internal police duties. The BAF, a traditionally dominant force in Bolivian politics, have been supportive of the Government's efforts to reform the economy even though these reforms have forced cuts in BAF's budget. In order to fulfill their mission on a reduced budget, the Armed Forces have resorted to cost-cutting measures such as the early release of recruits, reducing benefits for armed forces personnel, laying off civilian workers, foregoing training, and delaying the purchase of equipment.

Since the 1989 data on military expenditures were compiled, such spending has dropped. Although the Bolivian central administration budget grew by 13 percent in 1991, the Bolivian Armed Forces (BAF) budget grew by only 4 percent in 1991. The BAF's 1991 budget continued the Government's trend of devoting fewer resources to national defense even while the overall national budget is growing. The BAF budget for 1989 totalled $121 million or 25.3 percent of the national budget. In 1990, the BAF's budget was $118 million or 17 percent of the national budget, and the BAF's 1991 budget was $123 million or 16 percent of the national budget. As a percentage of GDP, the budgets for 1989, 1990 and 1991 are 4.3 percent, 2.1 percent and 2 percent, respectively.

United States national interests in Bolivia include the continued support and strengthening of democracy, support for economic reforms which will eventually lead to a stronger economy, and combatting international narcotics trafficking.

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

El Salvador

El Salvador is a small country (8,260 square miles) with a population density of 250 people per square kilometer, the highest in continental America. About 50 percent of the 5.4 million population is urban. An estimated one million Salvadorans live outside the country, more than 500,000 in the United States.

During the period covered by this report, 1990/1991, El Salvador continued to face the challenges of open civil war, including the aftermath of a major offensive by the Farabundo Marti National Liberation Front (FMLN) in November 1989. In addition to direct military conflict over much of the national territory, El Salvador suffered from the repeated sabotage of its economic infrastructure (e.g., destruction of bridges, electric distribution lines, etc.) and disruption of local level political processes (e.g., coercion and sometimes murder of locally elected mayors). Despite substantial U.S. economic assistance, the civil war exacted a heavy social and economic cost. The diversion of resources from social services to support the war, continuous repair of infrastructure and a decade of decreased economic growth all limited improvements in the social and economic well-being of the people. As the United Nations mediated peace negotiations progressed through 1991, the Government of El Salvador (GOES) increased financing for social services. For example, the budget approved in late 1991 (for 1992) increased funding for health and education services, respectively, by 31 percent and 23 percent.

El Salvador's military expenditures were high during this period due to the cost of fighting the civil war. The military's total manpower (now beginning a period of drastic reduction) stood at over 60,000. U.S. military assistance played a key role in supporting the Salvadoran military and in transforming it to a more effective and disciplined fighting force. The assistance played a key role in the U.S. successful endeavor to improve the military's human rights record and to make it subservient to the country's elected leaders. U.S. support of the military's helicopter wing helped increase the military's mobility and greatly contributed to its military successes against the guerrillas.

U.S. economic assistance helped brake the economic slide and supported policy reforms which restructured the economy toward reliance on market forces and the private sector. Economic reforms stimulated progress in the Salvadoran economy. After several years of slow growth, real GDP grew at a respectable

3.4 percent in 1990 and 3.5 percent in 1991, the highest rates achieved since 1978. Quantitative restrictions and price controls were removed and the subsidy on public utilities was adjusted. El Salvador signed Stand-By Agreements with the International Monetary Fund (IMF) in August 1990 and January 1992, rescheduled a portion of its debt to the Paris Club in September 1990, and received a World Bank Structural Adjustment Loan in March 1991.

Economic recovery, however, remains fragile. Exports in 1991, $621 million, were far below the 1979-80 average of $1,104 million, especially in real terms. Private investment only recovered to 10.1 percent of GDP in 1991, compared to 17.6 percent in 1978. Per capita GDP still is 25 percent below that of 1978. The current account deficit in 1991 was 5.5 percent of GDP and the fiscal deficit was 5.1 percent of GDP. World prices for El Salvador's principal export, coffee, are extremely low, and the country continues to suffer the effects of a drought which has forced electricity rationing to be extended to eight hours per day.

The signing of the Peace Accord on January 16, 1992, marks an historic turning point after nearly 12 years of war. The GOES and FMLN agreed to end the armed conflict, promote the democratization of the country, guarantee respect for human rights, demobilize the FMLN, downsize the military by approximately 50 percent, and reunify Salvadoran society.

Peace brings with it increased pressure for government expenditures, e.g., to expand social services to and employment opportunities in previously conflictive zones, and to implement the provisions of the Peace Accord such as the establishment of a new civilian police force.

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

Honduras

Honduras remains one of the poorest countries in Latin America. Two-thirds of the work force is engaged in agriculture, mainly at the subsistence level. GDP in 1991 was $2.5 billion, and grew at a 2 percent rate. The 1991 real per capita GDP was estimated at $516. Agriculture accounted for 26 percent and industry for 15 percent of GDP in 1991.

Rafael Leonardo Callejas was elected president in November 1989 and began his four-year term in January 1990. During the period covered by this report, Callejas oversaw an ambitious economic reform program which addressed the overvalued exchange rate and major structural barriers to investment. His program began with a significant liberalization of trade and prices and clearance of some $246 million in arrears to international financial institutions. In 1990, the government paid out nearly $100 million more to these institutions than it received in assistance and loans. In recognition of Honduran seriousness in implementing an economic reform program, the U.S. Government in 1991 provided some $435 million in debt relief. Forgiveness of this debt helped the Callejas government continue its program despite internal opposition to the necessary but painful economic measures.

The needed reforms of the 1990-91 period produced short-term negative effects of high inflation and increased unemployment. However, great strides were made towards restoring a balance-of-payments equilibrium and establishing a solid productive base. Trade was liberalized, the lempira devalued, pricing and marketing restrictions removed, and the fiscal deficit reduced. These structural reforms laid the foundation for future long-term economic growth.

During the 1980s, Honduras built up its defense capabilities in response to instability and turmoil in the region. The dramatic increase in Nicaraguan military capability and size in the 1980s increased Honduran concern with security on its southern border. Honduras' opposition to radical leftist forces in the area also made it a target for subversive and terrorist attacks. Throughout the 1980s, Honduras remained a staunch ally of the United States, and was the recipient of considerable bilateral economic aid, including Foreign Military Financing.

Following the resolution of the Nicaraguan civil war with elections in 1990 and continued progress towards peace in El Salvador, the military in Honduras faced a substantially lowered threat in 1990-91. This, in turn, led the civilian government to slash the military budget in 1990/91. The

24,000-man Honduran Armed Forces has moved steadily towards acceptance of civilian authority. The Honduran Armed Forces accepted the severe budget cuts and played an important role in ensuring the success of Callejas' program to repatriate political exiles.

Callejas has taken a strong leadership role in the region on issues of regional integration and demilitarization. Honduras, in July 1991, proposed a plan to revitalize the Central American Security Commission (CASC) treaty on arms control in the region. The armed forces continue to maintain vigilance in locating and stopping arms smugglers from using Honduran territory as a transit point. The civilian and military authorities in Honduras are developing ways to cooperate with their counterparts in El Salvador and Nicaragua to coordinate investigations and exchange of information. Their actions are indicative of Honduran support for the Esquipulas accords, which specifically raise arms trafficking as a priority issue for the region. Honduras also has been active in launching Partnership for Democracy and Development programs and initiatives.

The road to economic recovery and stable growth in 1990-91 took place in a context of suddenly reduced regional tensions and a decreased role for the military. Both government and military spending were reduced considerably: the official government defense budget for 1990 and 1991 was frozen at the equivalent of 5.9 percent of the government's budget, and at 1.5 percent of Honduras' gross domestic product (GDP). This contrasts with 1989 military expenditures which were 15.5 percent of all government expenditures. Honduras has had three successive peaceful democratic transitions of power in the last decade and remains committed to the democratic process. Peace and prosperity have been the twin goals of the Callejas government, expressing Honduran commitment to the idea that the future of Latin America lies with free governments and free markets.

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

Nicaragua

During the reporting period, President Chamorro's recently elected government faced the challenge of restoring Nicaragua's shattered economy and strengthening its nascent democratic institutions based on a policy of national reconciliation. This challenge was particularly daunting given the economic disintegration and political polarization inherited from eleven years of Sandinista rule and civil war.

President Chamorro's primary challenge has been to return Nicaragua to a peacetime ethos, including the demobilization and reintegration of combatants into civilian society. National reconciliation has been the guiding principle of the Nicaraguan Government (GON) over the past two years. The Government oversaw a reduction of the size of the Sandinista People's Army (EPS) from a reported high of 97,000 to under 20,000 active duty forces. Similarly, more than 22,000 resistance fighters have been demobilized. The Government also sponsored an arms buy-back program, removing an estimated 11,500 weapons from circulation.

The EPS has been employed recently to oust mostly Frente de Liberacion Nacional (FSLN) squatters from occupied farms and factories, steps that the Government was previously reluctant to take. EPS forces also have begun to assume significant, non-military roles in Nicaragua and the region, such as relief efforts following the recent Cerro Negro volcanic eruption in Nicaragua. Importantly, the Government's expenditures on military and police have fallen from 40 percent of the public budget in 1990 to 15.3 percent in 1992. This has made funds available for social programs and productive investment in infrastructure. It is also important to note that the extremely high level of external military imports as a percentage of GNP during this period reflected Nicaragua's client relationship with the former Soviet Union, East Germany and Cuba--all of which have changed drastically in the intervening two years. The expected levels of military imports from these sources are nil.

Notwithstanding its reduction in size, the EPS and police force remain a source of concern for the United States because of continued FSLN ideological influence on their members. Senior security positions are held by FSLN leaders and past inaction by the EPS and police in response to Sandinista-sponsored civil disruptions contributes to social uncertainty and creates a major disincentive to new investment. The past involvement of at least some EPS officials in continued arms trafficking to the FMLN and other irregular groups in neighboring countries continues to be a cause of U.S. concern.

Because of these and other U.S. concerns, the U.S. has no military assistance program with Nicaragua.

On the economic side, President Chamorro's cabinet has taken firm control of macroeconomic policy and is pursuing appropriate recovery measures. With assistance from the United States and the International Monetary Fund (IMF), the Nicaraguan Government has implemented a highly successful stabilization program which has brought hyperinflation under control, stabilized the cordoba, liberalized the trade and investment regime, and begun a process of privatization of parastatals. Seven new private banks have been authorized and five are currently operating. In addition, the Chamorro government has negotiated favorable debt forgiveness and rescheduling agreements with its most important creditors--the U.S., Paris Club members, and certain Latin American neighbors (Mexico, Colombia and Venezuela). They also benefitted from an international effort that cleared $316 million in arrears to the World Bank and the Inter-American Development Bank, paving the way for renewed lending from the international financial institutions.

Now that macroeconomic reforms have opened the Nicaraguan economy to international participation, economic growth will depend heavily on a solution to stubborn and complex property rights issues and the reorganization of the police into a professional, apolitical institution. In the meanwhile, A.I.D.'s assistance program has enabled macroeconomic stabilization and recovery and is laying the foundation for broad-based, sustainable growth while it supports the consolidation of democracy and the improvement of Nicaragua's health, education and well-being.

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

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 percentages 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 1988 or 1989, the latest years for which the most complete statistics were available for preparing the 1990-91 report.

SOURCE

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 Transfers, 1990.

DEFINITION OF DATA ELEMENTS

Defense Expenditures

Data on North Atlantic Treaty Organization (NATO) country military expenditures (defense expenditures) are based on NATO definitions. In summary, civilian-type expenditures of each NATO defense ministry are excluded and military-type expenditures of other ministries are included, grant military assistance is included in the expenditures of the d8onor country; and purchases for credit are included at the time the debt is incurred, not at the time of payment. For other non-communist countries, data are generally the expenditures of the ministry of defense. When these are known to include the costs of internal security, an attempt is made to remove these expenditures. It should be recognized that the data are of uneven accuracy and completeness. There are indications that the military expenditures reported by some countries consist mainly or entirely of recurring or operating expenditures, including arms purchases. In the case of several countries -- Algeria, Cuba, Ecuador, Egypt, Honduras, Iraq, Iran, Jordan, Libya, and Syria -- special note of this possibility is made in Table I of ACDA's 1990 World Military Expenditures Report (see Source).

Gross National Product	Gross National Product (GNP) represents the total output of goods and services produced by residents of a country and valued at market prices.
Central Government Expenditures	Central Government Expenditures (CGE) include current and capital (developmental) expenditures plus net lending to government enterprises, by central (or federal) governments. It should be noted that for the Soviet Union, China, Iran, Jordan and possibly others, the ratio of military expenditures to central government expenditures may be overstated, inasmuch as the estimate for military expenditures is obtained at least in part independently of nominal budget or government expenditure data, and it is possible that all estimated military expenditures do not pass through the nominal central government budget.
Military	Arms transfers (military imports) represent the international transfer (under terms of grant, credit, barter or cash) of military equipment, usually referred to as "conventional," including weapons of war, parts thereof, ammunition, support equipment, and other commodities designed for military use. Excluded are foodstuffs, medical equipment, petroleum products, and other supplies. Military services such as construction, training, and technical support are included for countries other than the United States. The statistics are estimates of the value of goods actually delivered during the reference year, in contrast both to the value of programs, agreements, contracts, and orders which may result in future deliveries, and to payments made during the period. Because countries may not include their arms imports or exports in their trade statistics, "total" import and exports may be understated; in this event, ratios such as (estimated) arms imports to "total" imports will be overstated and may even exceed 100 percent.

*All definitions are taken from the Statistical Notes of ACDA's World Military Expenditures and Arms Transfers, 1990.

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

*Angola

*Bolivia

*Bulgaria

Egypt

*El Salvador

*Ethiopia

*Honduras

India

Israel

Jordan

Mozambique

*Nicaragua

Oman

Pakistan

Poland

Yemen

*Yugoslavia

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

AFRICA 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
ANGOLA	.	.	.	.	30.0	2
BENIN	2.0	15	19.4	5	0.0	21
BOTSWANA	2.8	9	6.0	23	.	.
BURKINA FASO 2/	2.1	14	17.5	6	2.0	14
BURUNDI	2.6	11	14.2	9	5.3	9
CAMEROON	1.3	20	6.6	21	.	.
CAPE VERDE	.	.	.	.	4.5	10
CENTRAL AFRICAN REP.	1.7	16	6.6	21	0.0	21
CHAD	.	.	.	.	.	.
CONGO	.	.	.	.	0.0	21
COTE D'IVOIRE 2/	2.0	15	9.2	16	0.0	21
EQUATORIAL GUINEA	.	.	.	.	.	.
ETHIOPIA	12.8	1	30.4	2	97.3	1
GAMBIA, THE	0.7	23	2.0	29	0.0	21
GHANA 2/	0.4	25	3.1	27	2.2	13
GUINEA 2/	1.2	21	5.1	25	3.9	11
GUINEA-BISSAU	.	.	.	.	.	.
KENYA	2.7	10	9.5	15	0.5	17
LESOTHO	.	.	.	.	0.0	21
LIBERIA	4.8	4	13.3	13	0.0	21
MADAGASCAR	1.5	18	28.9	3	.	.
MALAWI	2.3	12	8.2	18	1.0	16

AFRICA 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
MALI 2/	2.3	12	7.9	19	13.6	4
MAURITANIA	4.3	6	13.4	12	.	.
MAURITIUS	0.2	26	0.9	30	0.4	18
MOZAMBIQUE 2/	9.6	2	40.7	1	20.9	3
NIGER 2/	1.0	22	4.2	26	1.1	15
NIGERIA	0.5	24	2.4	28	0.1	20
RWANDA 2/	1.6	17	10.0	14	0.0	21
SAO TOME & PRINCIPE 2/	.	.	.	.	0.0	21
SENEGAL	2.0	15	6.3	22	0.4	18
SIERRA LEONE 2/	0.7	23	7.0	20	0.0	21
SOMALIA 2/	.	.	.	.	8.5	6
SOUTH AFRICA	4.4	5	13.5	11	0.5	17
SUDAN	2.2	13	.	.	5.8	8
SWAZILAND	1.7	16	5.5	24	0.0	21
TANZANIA	4.1	7	10.0	14	3.1	12
TOGO	3.3	8	16.3	7	.	.
UGANDA 2/	1.6	17	20.9	4	10.1	5
ZAIRE 2/	2.6	11	14.1	10	0.3	19
ZAMBIA	1.4	19	8.4	17	6.5	7
ZIMBABWE	6.7	3	15.0	8	.	.

[1]All data from 1989 unless otherwise noted.

[2]1988.

ASIA 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
AFGHANISTAN	.	.	.	.	.	.
BANGLADESH	1.6	8	15.1	3	3.3	3
CAMBODIA	.	.	.	.	.	.
FIJI 2/	2.4	5	8.8	7	0.0	7
INDIA	3.1	3	13.6	4	17.1	1
INDONESIA	1.7	7	8.2	8	0.5	6
MONGOLIA	.	.	.	.	.	.
NEPAL	1.2	9	6.2	9	0.0	8
PAKISTAN	6.8	1	24.5	1	6.4	2
PHILIPPINES	2.2	6	12.1	5	0.6	5
SRI LANKA	3.2	2	10.2	6	0.5	6
THAILAND	2.7	4	17.7	2	1.0	4

[1]All data from 1989 unless otherwise noted.

[2]1988.

NEAR EAST 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
EGYPT	5.0	7	10.7	6	8.1	3
ISRAEL	12.8	3	25.2	4	5.0	4
JORDAN	12.7	4	32.7	2	8.9	2
LEBANON	.	.	.	.	0.4	8
MOROCCO	5.5	6	.	.	0.7	6
OMAN	20.3	1	41.4	1	2.7	5
TUNISIA	2.8	8	7.4	7	0.5	7
YEMEN (ADEN) 2/3/	17.3	2	24.9	5	63.5	1
YEMEN (SANAA)3/	9.1	5	29.8	3	.	.

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[1]All data from 1989 unless otherwise noted.

[2]1988.

[3]The two Yemens unified in 1990.

EUROPE 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
ALBANIA 2/	5.1	7	11.4	9	.	.
BULGARIA	11.9	1	29.7	3	1.9	4
CYPRUS	0.9	12	3.0	12	1.7	5
CZECHOSLOVAKIA	6.8	4	21.7	5	3.5	2
HUNGARY	6.3	5	20.1	6	0.2	8
IRELAND	1.6	11	3.7	11	0.0	9
POLAND	8.9	3	23.4	4	2.6	3
PORTUGAL	3.3	10	7.5	10	0.3	7
ROMANIA	6.1	6	16.9	8	.	.
RUSSIA 3/	11.7	2	45.7	2	0.8	6
TURKEY	4.1	8	17.2	7	7.0	1
YUGOSLAVIA	3.6	9	53.4	1	0.8	6

[1] All data from 1989 unless otherwise noted.

[2] 1988.

[3] Former Soviet Republics.

LATIN AMERICA & CARIBBEAN 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
ARGENTINA 2/	3.5	3	22.1	3	1.0	10
BARBADOS	0.6	15	1.8	16	0.0	16
BOLIVIA	4.3	1	25.3	2	1.3	8
BRAZIL 2/	1.3	12	2.3	14	2.2	6
CHILE 2/	4.0	2	12.7	7	1.9	7
COLOMBIA	2.1	7	16.4	4	3.0	5
COSTA RICA	0.5	16	1.6	17	0.0	16
DOMINICAN REPUBLIC	0.8	14	5.0	11	0.2	14
ECUADOR	1.7	9	11.6	9	1.1	9
EL SALVADOR	4.0	2	37.3	1	6.4	3
GUATEMALA	1.6	10	13.0	6	0.6	11
GUYANA	2.7	6	3.6	13	.	.
HAITI	1.9	8	12.4	8	.	.
HONDURAS	3.2	5	15.5	5	3.1	4
JAMAICA 2/	1.1	13	2.2	15	0.0	16
MEXICO	0.5	16	2.3	14	0.1	15
NICARAGUA	.	.	.	.	78.2	1
PANAMA	3.4	4	.	.	0.5	12
PARAGUAY	1.4	11	.	.	0.0	16
PERU	.	.	.	.	7.5	2
TRINIDAD AND TOBAGO	1.6	10	4.4	12	0.0	16

LATIN AMERICA & THE CARIBBEAN 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
URUGUAY 2/	2.1	7	8.1	10	0.4	13

[1]All data from 1989 unless otherwise noted.

[2]1988.

WORLD RANKS: ALL COUNTRIES 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
AFGHANISTAN	.	.	.	.	.	.
ALBANIA 2/	5.1	24	11.4	51	.	.
ALGERIA 2/	3.8	33	9.5	55	11.6	17
ANGOLA	.	.	.	.	30.0	8
ARGENTINA 2/	3.5	36	22.1	22	1.0	47
BAHRAIN	6.5	16	13.1	45	1.8	43
BANGLADESH	1.6	53	15.1	37	3.3	34
BARBADOS	0.6	63	1.8	85	0.0	56
BELIZE	.	.	.	.	.	.
BENIN	2.0	50	19.4	27	0.0	56
BOLIVIA	4.3	29	25.3	15	1.3	45
BOTSWANA	2.8	43	6.0	69	.	.
BRAZIL 2/	1.3	56	2.3	82	2.2	40
BULGARIA	11.9	8	29.7	12	1.9	42
BURKINA FASO 2/	2.1	49	17.5	31	2.0	41
BURMA 2/	3.0	41	24.6	18	8.2	21
BURUNDI	2.6	45	14.2	39	5.3	29
CAMBODIA	.	.	.	.	.	.
CAMEROON	1.3	56	6.6	66	.	.
CAPE VERDE	.	.	.	.	4.5	31
CENTRAL AFRICAN REP.	1.7	52	6.6	66	0.0	56

WORLD RANKS: ALL COUNTRIES 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
CHAD	.	.	.	.	.	.
CHILE 2/	4.0	31	12.7	47	1.9	42
CHINA	3.7	34	19.1	28	0.2	54
COLOMBIA	2.1	49	16.4	34	3.0	37
CONGO	.	.	.	.	0.0	56
COSTA RICA	0.5	64	1.6	86	0.0	56
COTE D'IVOIRE 2/	2.0	50	9.2	56	0.0	56
CUBA	3.9	32	10.2	53	14.8	14
CYPRUS	0.9	60	3.0	80	1.7	44
CZECHOSLOVAKIA	6.8	14	21.7	23	3.5	33
DOMINICAN REPUBLIC	0.8	61	5.0	73	0.2	54
ECUADOR	1.7	52	11.6	50	1.1	46
EGYPT	5.0	25	10.7	52	8.1	22
EL SALVADOR	4.0	31	37.3	7	6.4	27
EQUATORIAL GUINEA	.	.	.	.	.	.
ETHIOPIA	12.8	6	30.4	9	97.3	1
FIJI 2/	2.4	46	8.8	57	0.0	56
GABON	4.5	27	12.4	48	3.2	35
GAMBIA, THE	0.7	62	2.0	84	0.0	56
GHANA 2/	0.4	65	3.1	79	2.2	40
GREECE	5.9	20	13.4	43	12.4	16
GRENADA	.	.	.	.	.	.
GUATEMALA	1.6	53	13.0	46	0.6	50
GUINEA 2/	1.2	57	5.1	72	3.9	32
GUINEA-BISSAU	.	.	.	.	.	.

WORLD RANKS: ALL COUNTRIES 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
GUYANA	2.7	44	3.6	78	.	.
HAITI	1.9	51	12.4	48	.	.
HONDURAS	3.2	39	15.5	36	3.1	36
HUNGARY	6.3	17	20.1	25	0.2	54
INDIA	3.1	40	13.6	41	17.1	11
INDONESIA	1.7	52	8.2	59	0.5	51
IRAN	.	.	.	.	12.4	16
IRAQ	.	.	.	.	15.8	12
IRELAND	1.6	53	3.7	77	0.0	56
ISRAEL	12.8	6	25.2	16	5.0	30
JAMAICA 2/	1.1	58	2.2	83	0.0	56
JORDAN	12.7	7	32.7	8	8.9	19
KENYA	2.7	44	9.5	55	0.5	51
KOREA, DEM. REP. 2/	20.0	2	.	.	32.3	7
KOREA, REP. OF	4.3	29	23.8	20	0.6	50
KUWAIT	6.2	18	19.9	26	7.8	23
LAOS	.	.	.	.	45.7	6
LEBANON	.	.	.	.	0.4	52
LESOTHO	.	.	.	.	0.0	56
LIBERIA	4.8	26	13.3	44	0.0	56
LIBYA	14.9	5	29.2	13	15.7	13
MADAGASCAR	1.5	54	28.9	14	.	.
MALAWI	2.3	47	8.2	59	1.0	47
MALAYSIA	2.9	42	10.0	54	0.3	53
MALI 2/	2.3	47	7.9	61	13.6	15

WORLD RANKS: ALL COUNTRIES 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
MALTA	1.1	58	2.4	81	0.0	56
MAURITANIA	4.3	29	13.4	43	.	.
MAURITIUS	0.2	66	0.9	87	0.4	52
MEXICO	0.5	64	2.3	82	0.1	55
MONGOLIA	.	.	.	.	.	.
MOROCCO	5.5	21	.	.	0.7	49
MOZAMBIQUE 2/	9.6	11	40.7	5	20.9	10
NEPAL	1.2	57	6.2	68	0.0	56
NICARAGUA	.	.	.	.	78.2	2
NIGER 2/	1.0	59	4.2	75	1.1	46
NIGERIA	0.5	64	2.4	81	0.1	55
OMAN	20.3	1	41.4	4	2.7	38
PAKISTAN	6.8	14	24.5	19	6.4	27
PANAMA	3.4	37	.	.	0.5	51
PAPUA NEW GUINEA	1.4	55	4.0	76	2.6	39
PARAGUAY	1.4	55	.	.	0.0	56
PERU	.	.	.	.	7.5	24
PHILIPPINES	2.2	48	12.1	49	0.6	50
POLAND	8.9	13	23.4	21	2.6	39
PORTUGAL	3.3	38	7.5	62	0.3	53
QATAR	.	.	.	.	0.0	56
ROMANIA	6.1	19	16.9	33	.	.
RUSSIA 3/	11.7	9	45.7	3	0.8	48
RWANDA 2/	1.6	53	10.0	54	0.0	56
SAO TOME & PRINC. 2/	.	.	.	.	0.0	56

WORLD RANKS: ALL COUNTRIES 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
SAUDI ARABIA	16.0	4	38.5	6	21.2	9
SENEGAL	2.0	50	6.3	67	0.4	52
SIERRA LEONE 2/	0.7	62	7.0	65	0.0	56
SINGAPORE	5.1	24	18.9	29	0.2	54
SOMALIA 2/	.	.	.	.	8.5	20
SOUTH AFRICA	4.4	28	13.5	42	0.5	51
SRI LANKA	3.2	39	10.2	53	0.5	51
SUDAN	2.2	48	.	.	5.8	28
SURINAME	3.0	41	7.2	64	.	.
SWAZILAND	1.7	52	5.5	70	0.0	56
SYRIA	11.6	10	69.8	1	47.7	5
TAIWAN	5.4	22	30.3	10	0.8	48
TANZANIA	4.1	30	10.0	54	3.1	36
THAILAND	2.7	44	17.7	30	1.0	47
TOGO	3.3	38	16.3	35	.	.
TRINIDAD AND TOBAGO	1.6	53	4.4	74	0.0	56
TUNISIA	2.8	43	7.4	63	0.5	51
TURKEY	4.1	30	17.2	32	7.0	25
UGANDA 2/	1.6	53	20.9	24	10.1	18
UNITED ARAB EMIRATES	5.3	23	40.7	5	8.5	20
URUGUAY 2/	2.1	49	8.1	60	0.4	52
VENEZUELA	1.0	59	5.2	71	1.0	47
VIETNAM 2/	.	.	.	.	60.0	4
YEMEN (ADEN) 2/4/	17.3	3	24.9	17	63.5	3
YEMEN (SANAA)4/	9.1	12	29.8	11	.	.

WORLD RANKS: ALL COUNTRIES 1/

	Defense Expenditures as a % of Gross National Product		Defense Expenditures as a % of Central Government Expenditures		Military Imports as a % of Total Imports	
	Pct.	Rank	Pct.	Rank	Pct.	Rank
YUGOSLAVIA	3.6	35	53.4	2	0.8	48
ZAIRE 2/	2.6	45	14.1	40	0.3	53
ZAMBIA	1.4	55	8.4	58	6.5	26
ZIMBABWE	6.7	15	15.0	38	.	.

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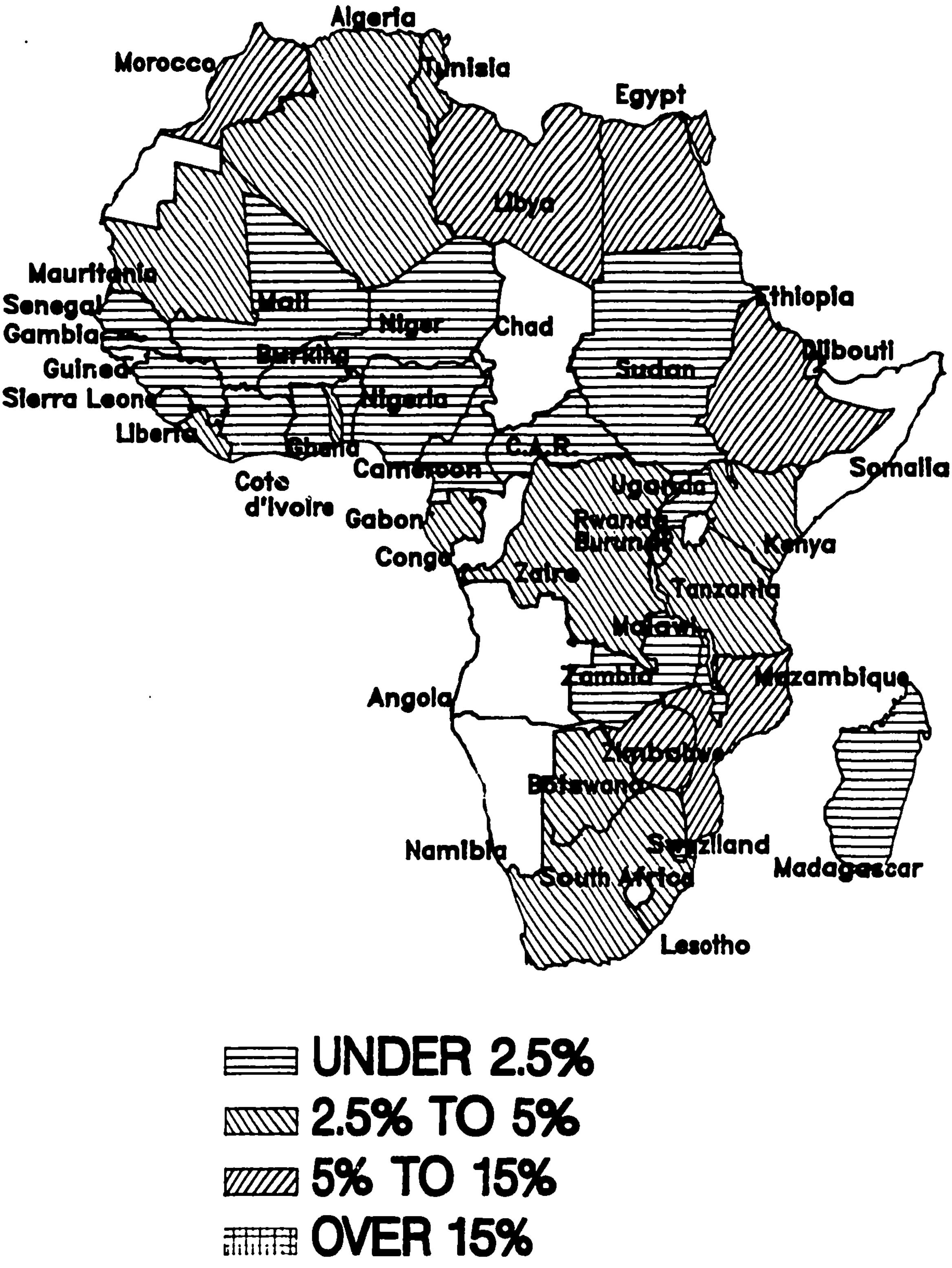
[1] All data from 1989 unless otherwise noted.

[2] 1988.

[3] Former Soviet Republics.

[4] The two Yemens unified in 1990.

DEFENSE EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT



1989 DATA

BLANKS INDICATE NO DATA OR COUNTRY NOT INCLUDED IN REPORT

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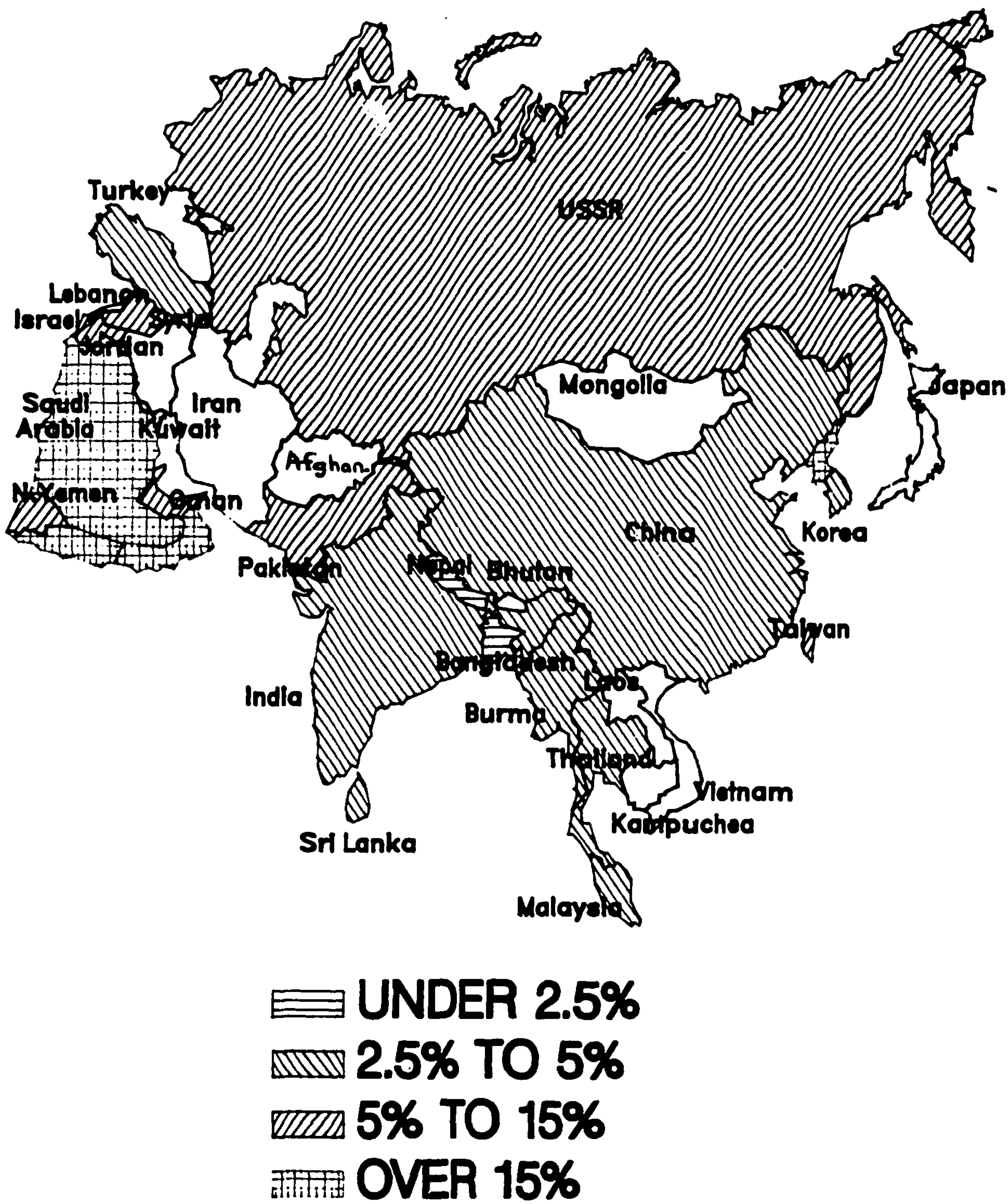

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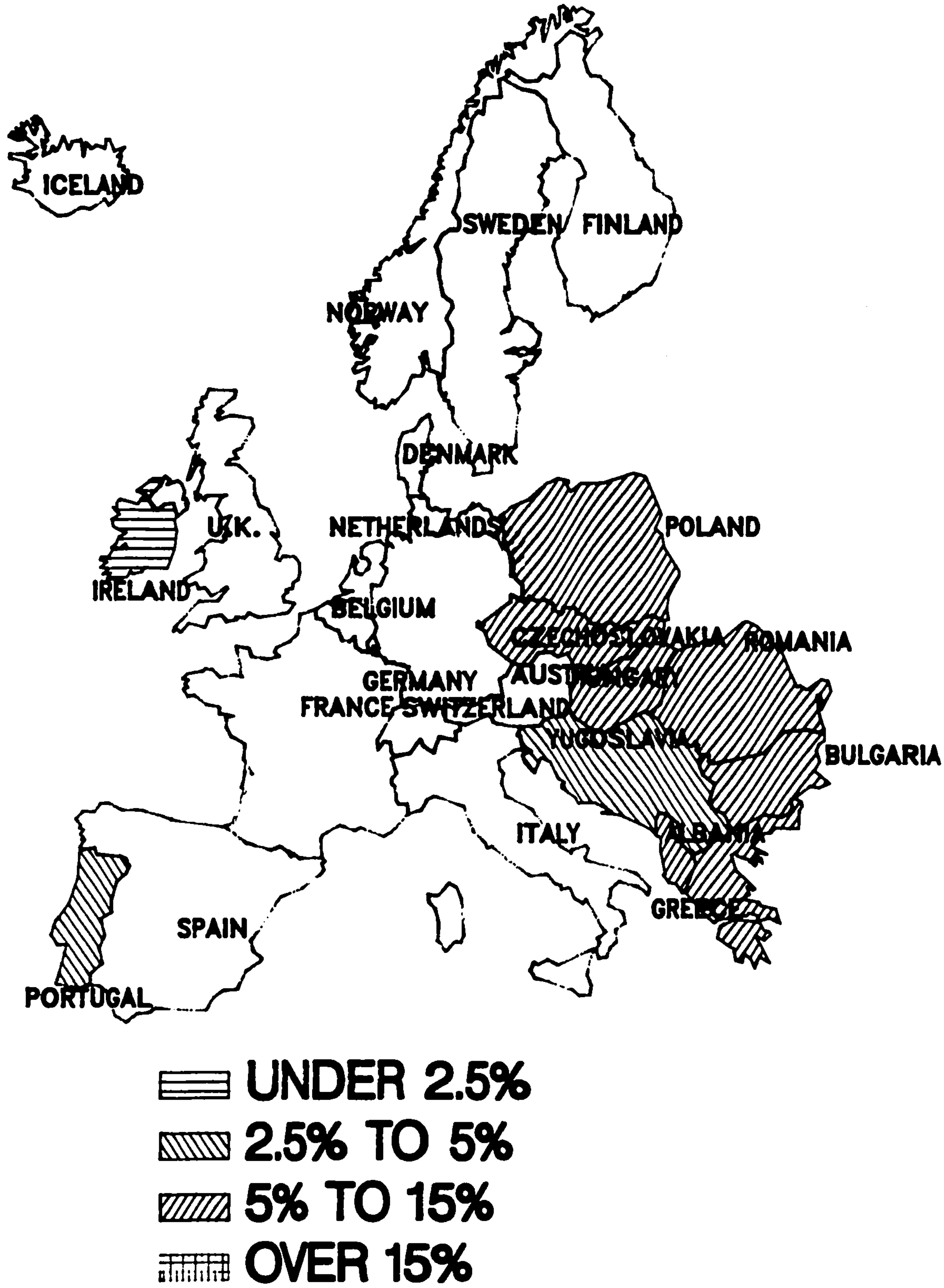

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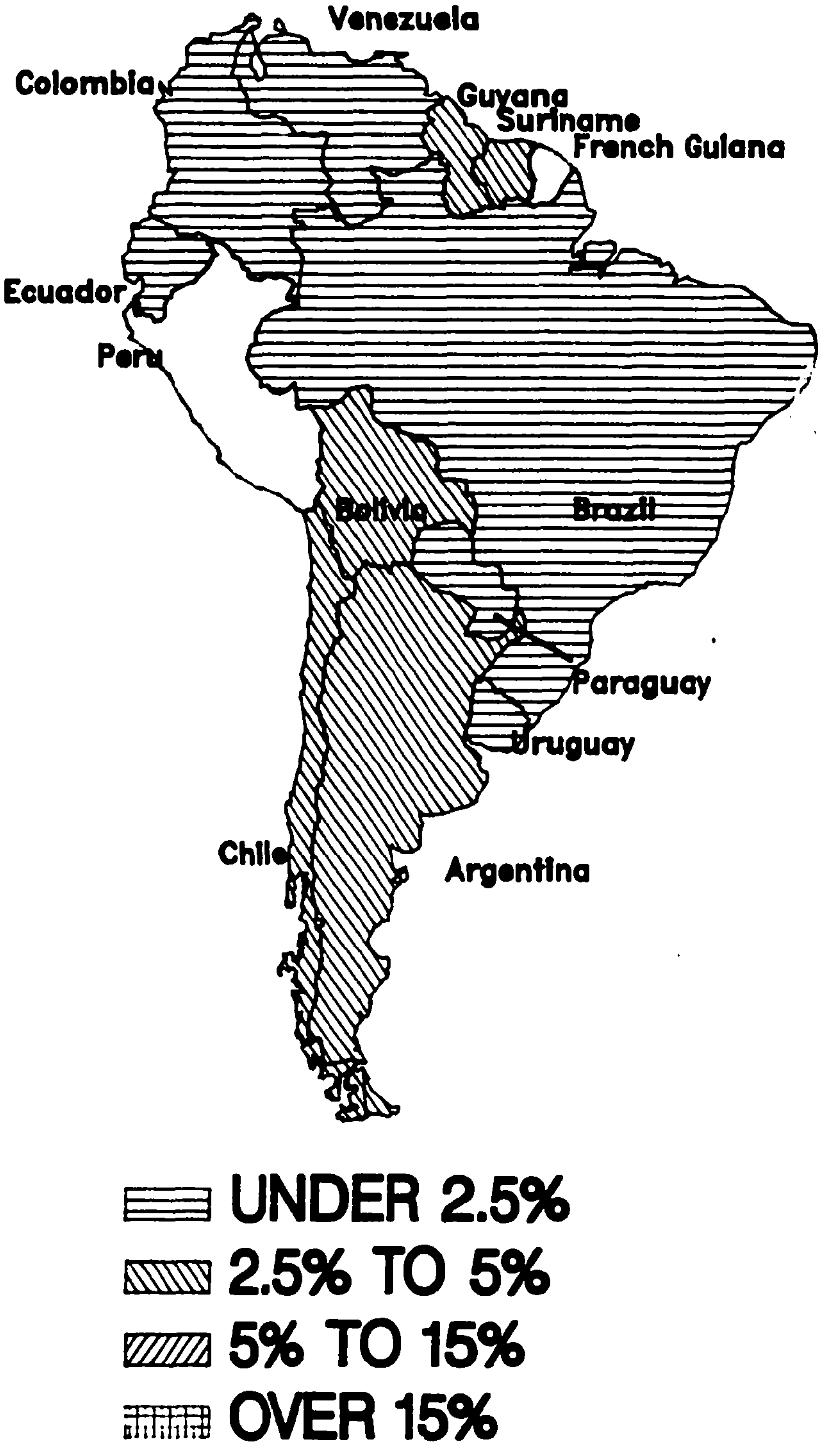

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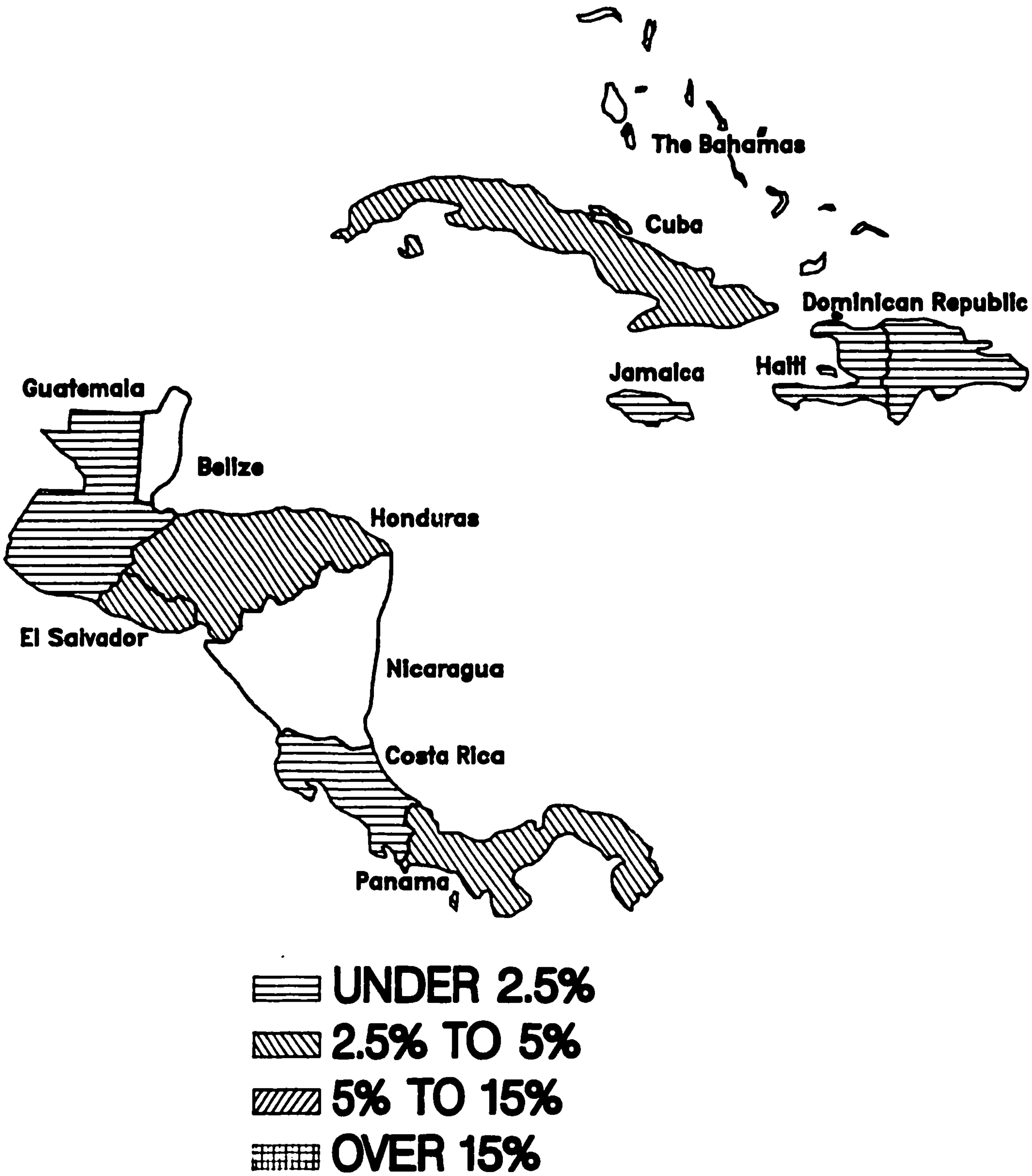

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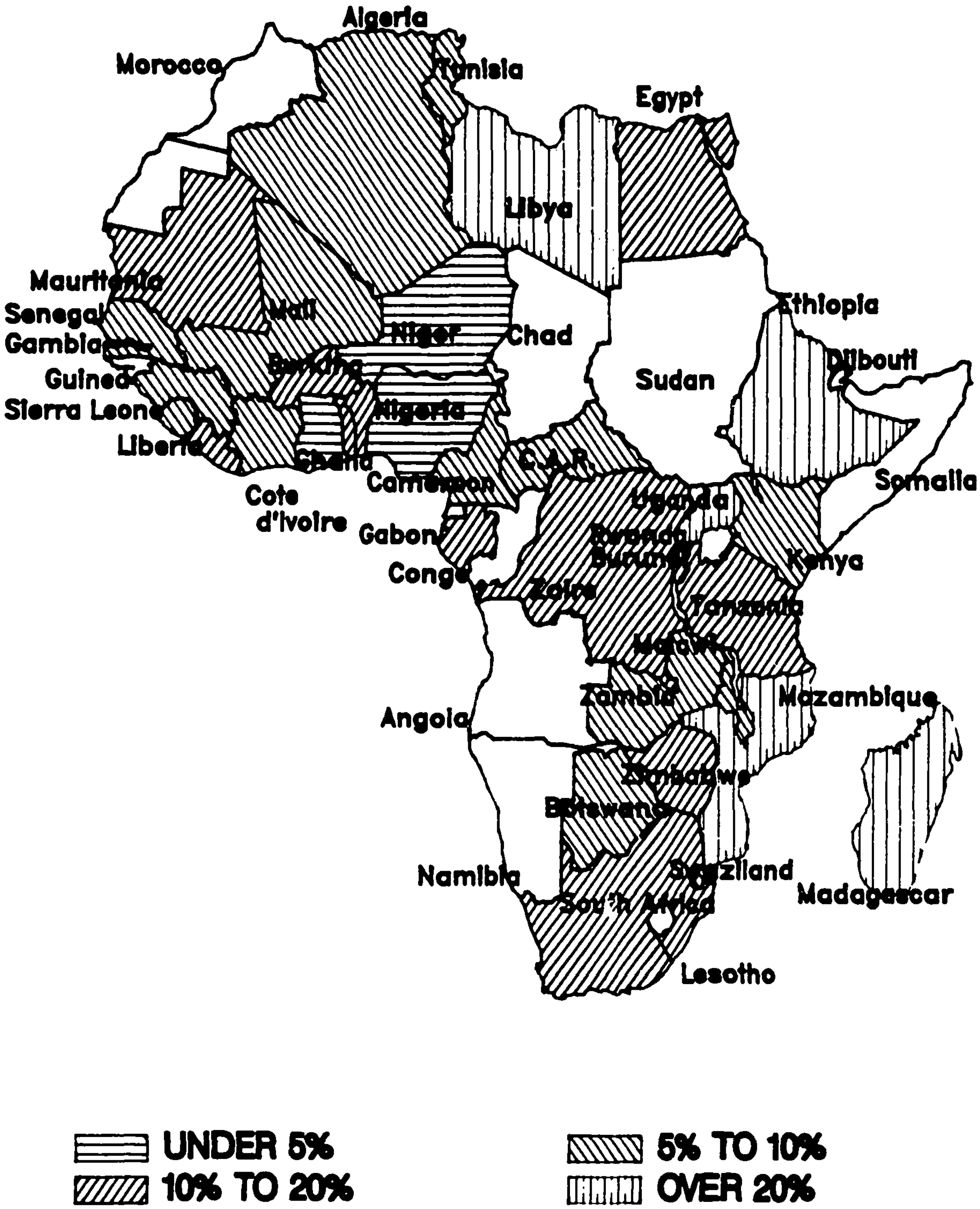

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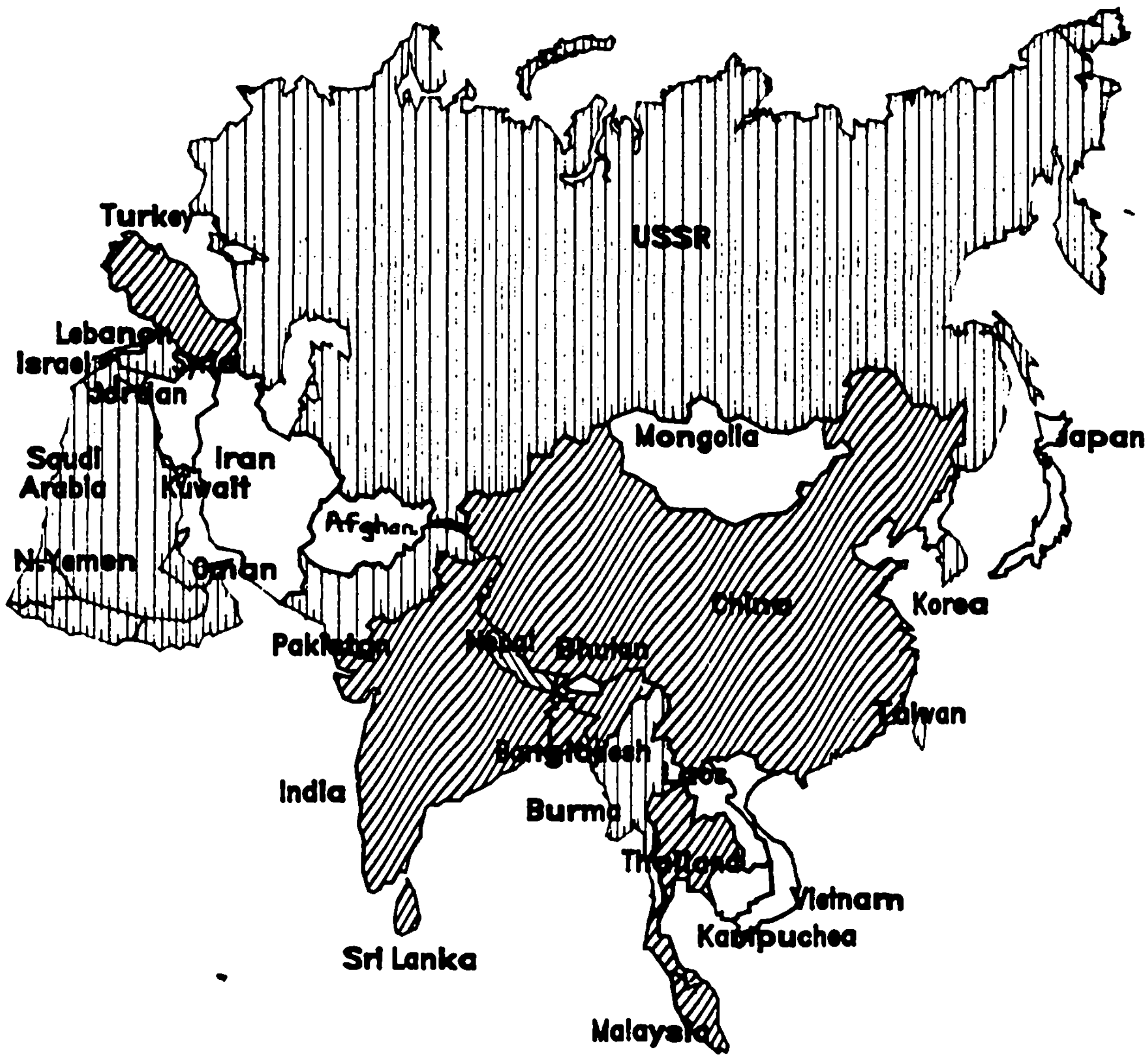

UNDER 5%
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10% TO 20%
OVER 20%

1989 DATA

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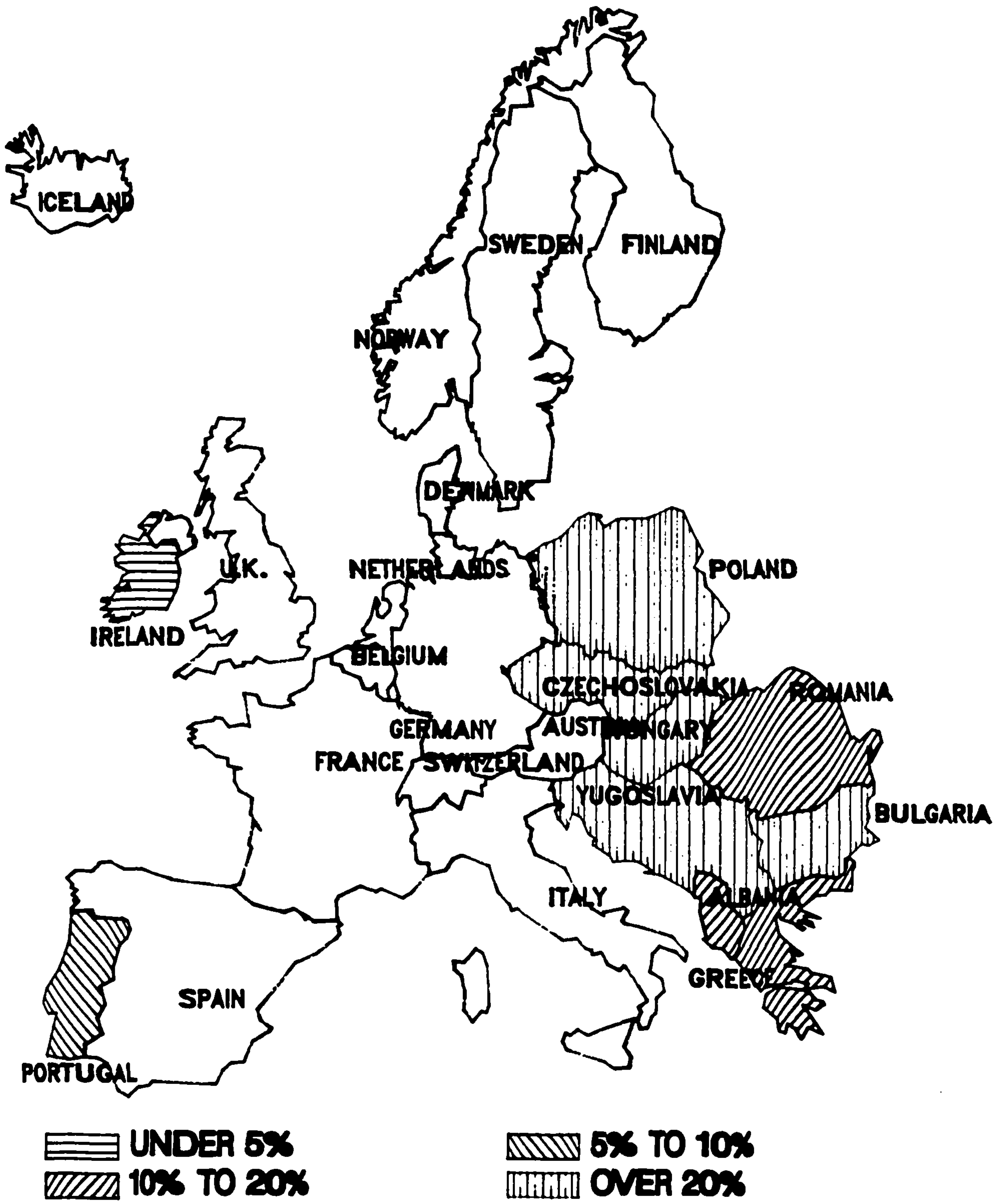

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DEFENSE EXPENDITURES AS A PERCENT OF CENTRAL GOVERNMENT EXPENDITURES

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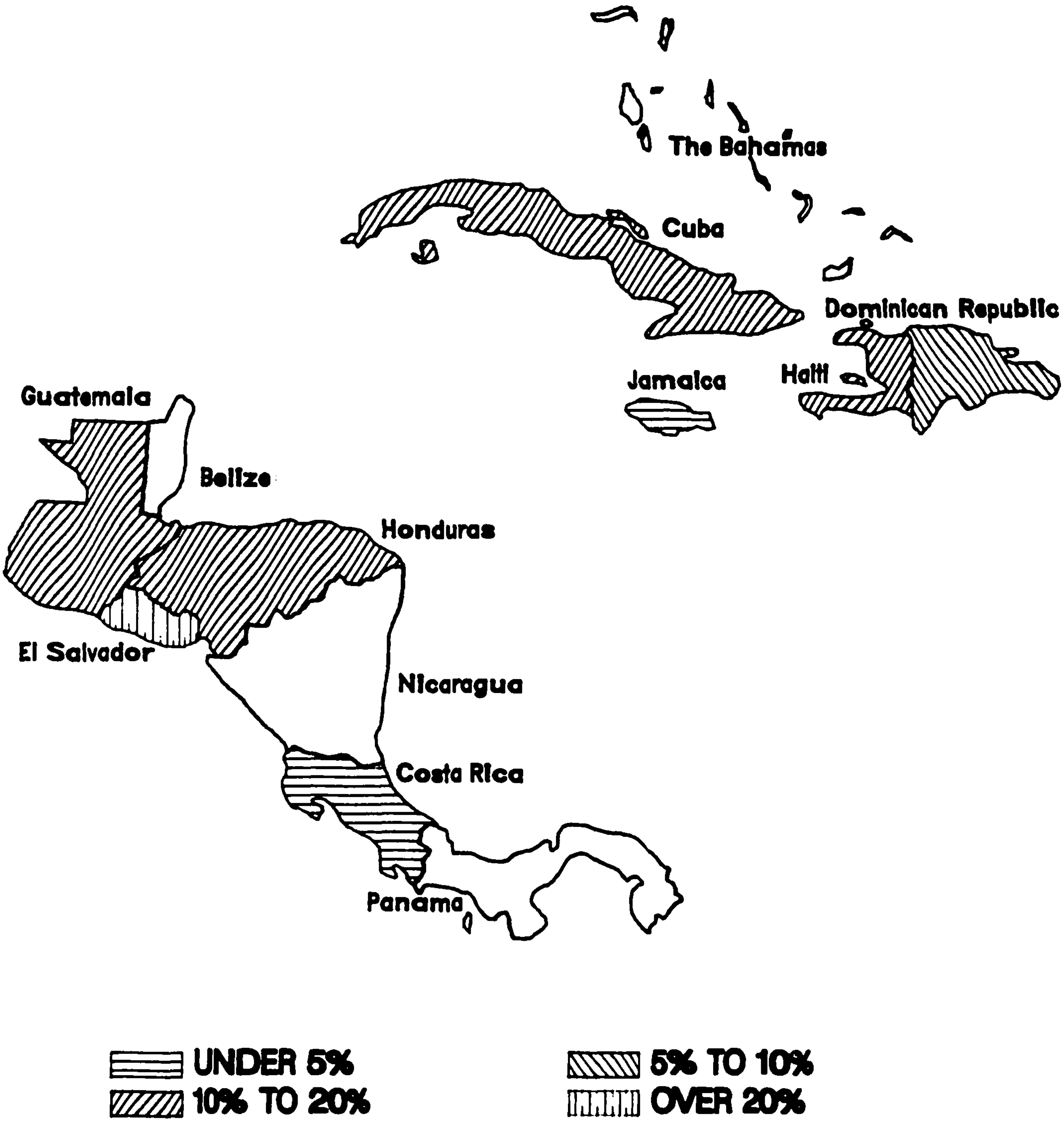

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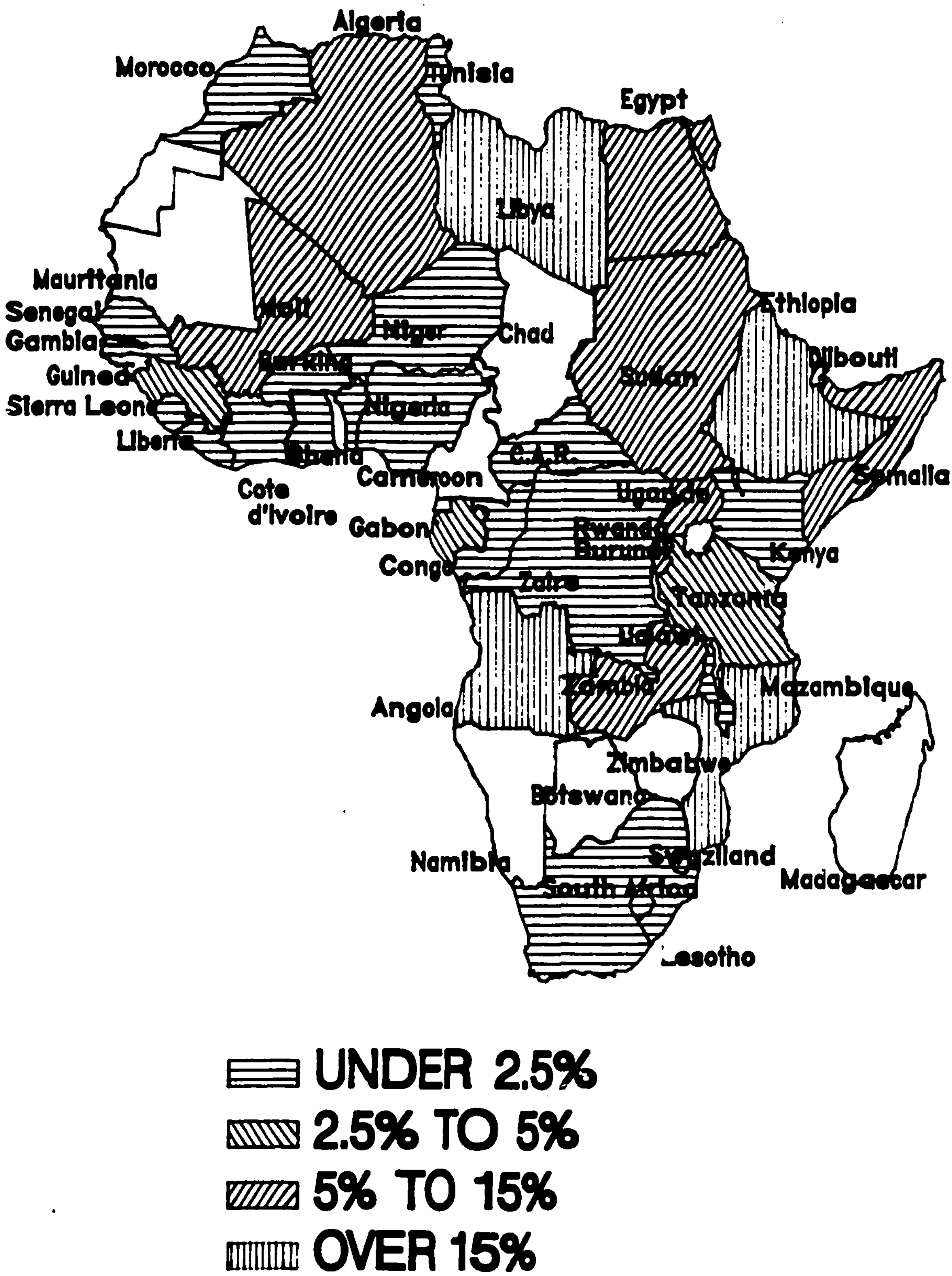
MILITARY IMPORTS AS PERCENT OF TOTAL IMPORTS



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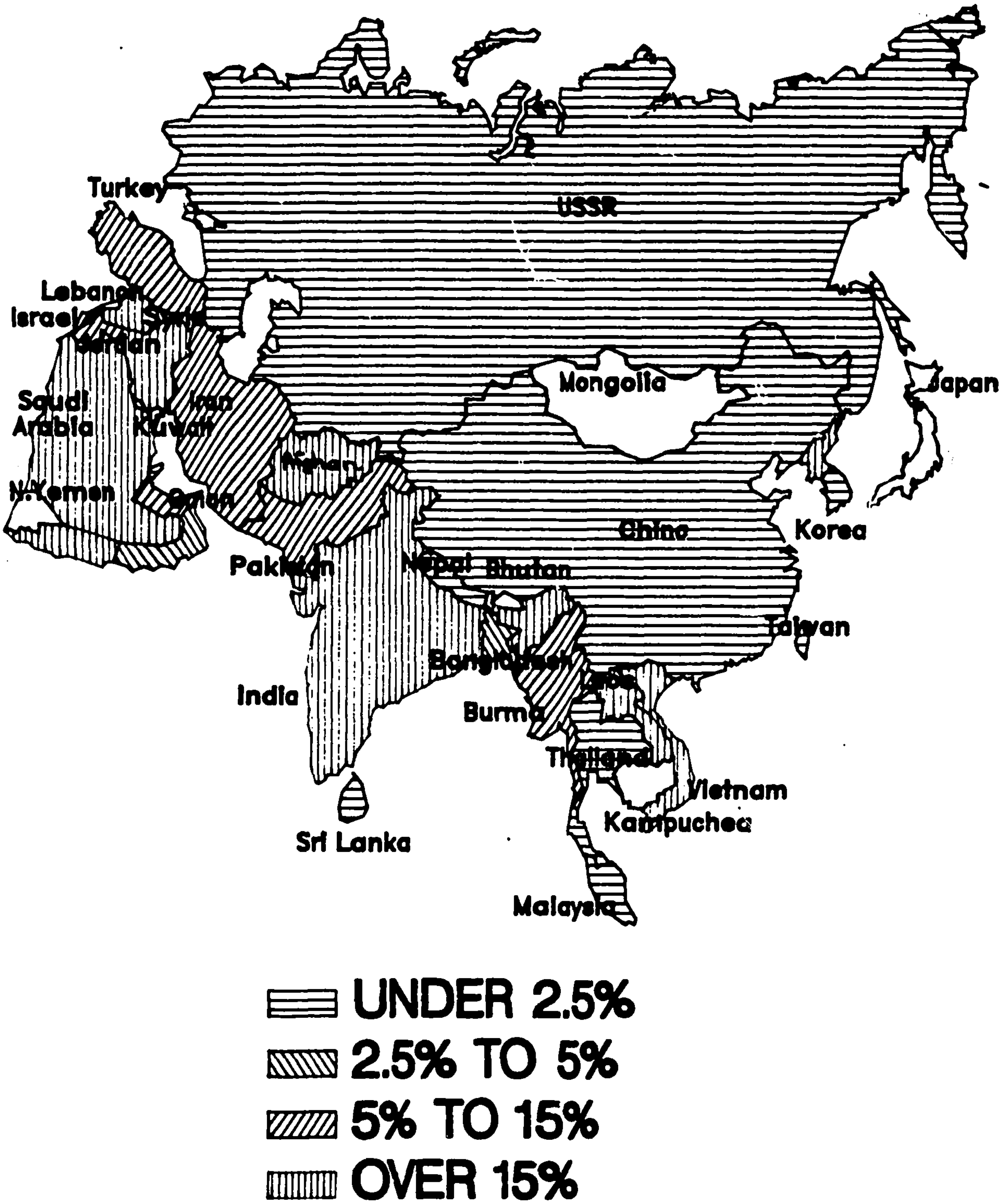

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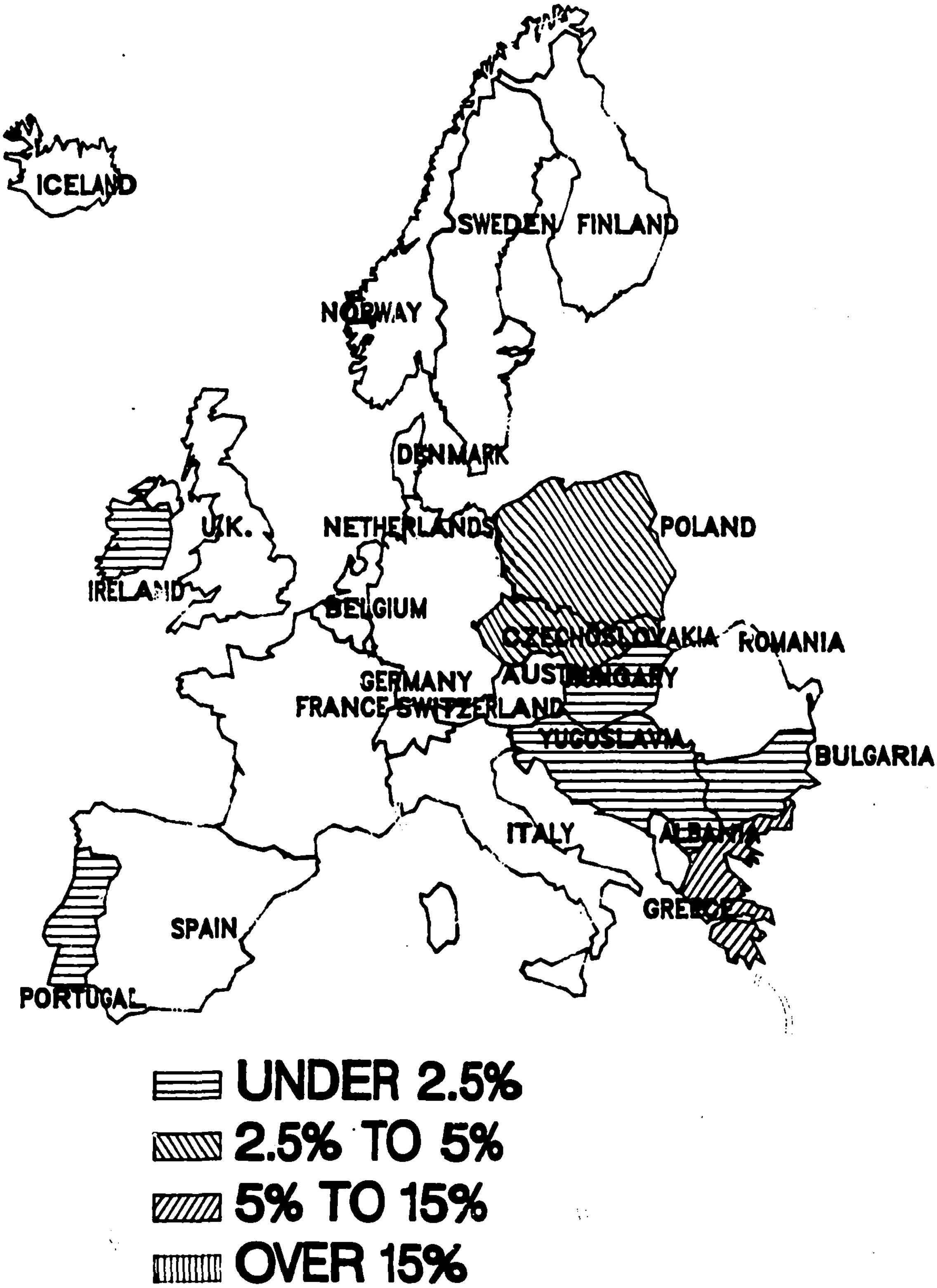

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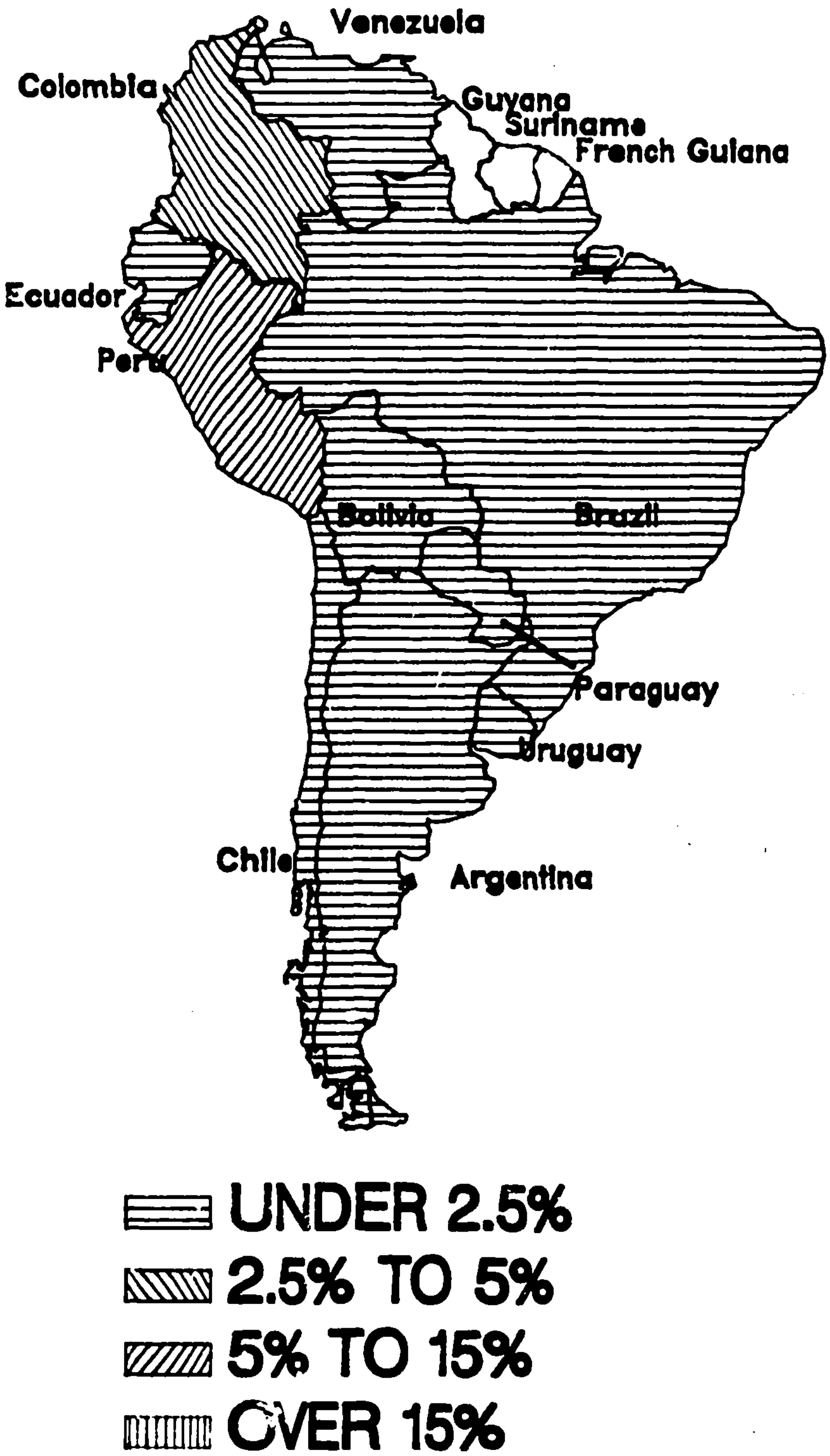

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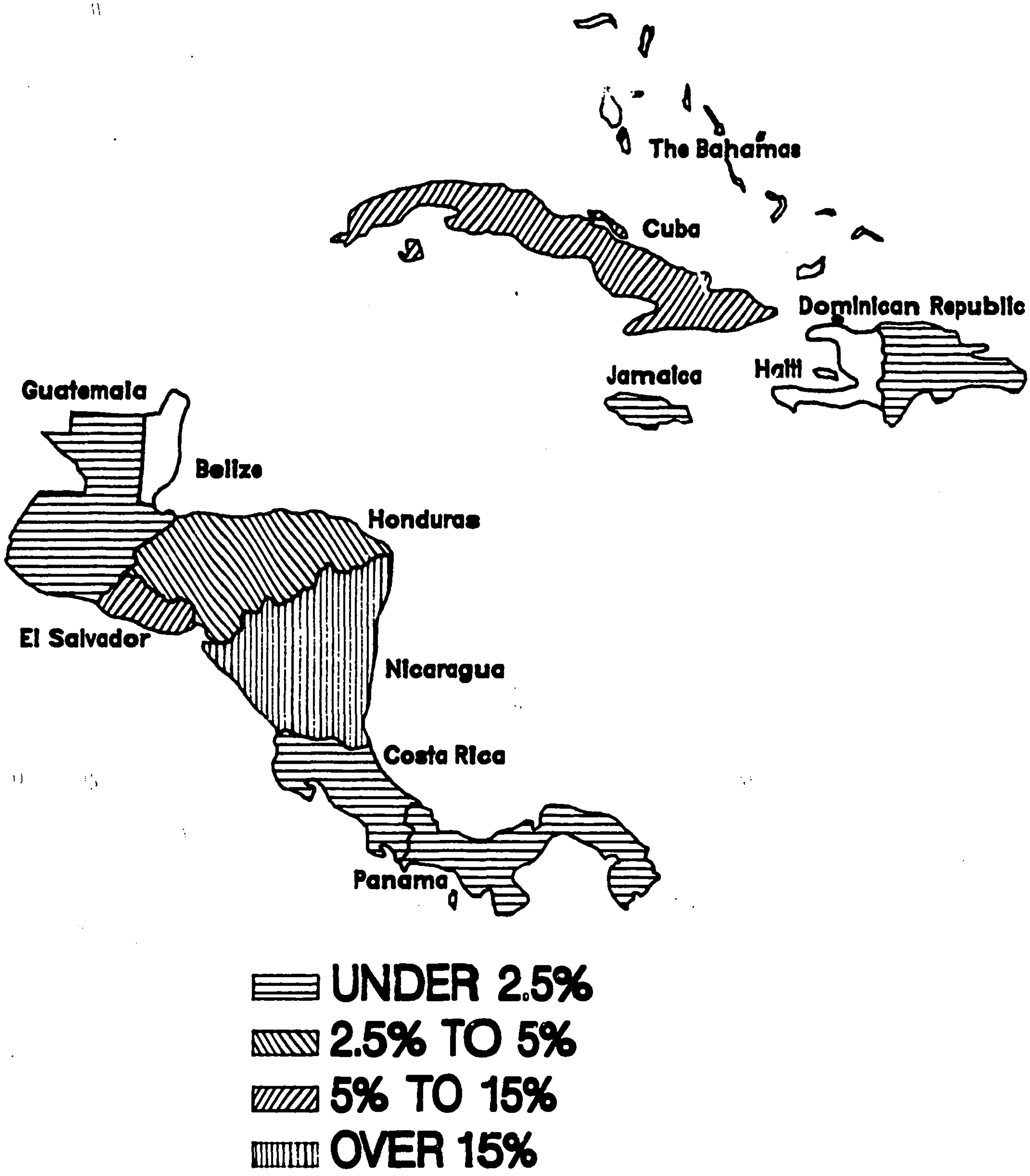

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